

January 26, 2015

To: City of Bangor Finance Committee, acting as Audit Committee  
Debbie Cyr, Finance Director, City of Bangor, Maine  
Alan Kochis, Director of Business Services, Bangor School Department

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Bangor, Maine (the City) as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Bangor, Maine's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Bangor, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Bangor, Maine's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

During our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. They have been identified on the attached schedule as "Other Comments".

City of Bangor Finance Committee, acting as Audit Committee  
Debbie Cyr, Finance Director, City of Bangor, Maine  
Alan Kochis, Director of Business Services, Bangor School Department  
January 26, 2015

We wish to express our appreciation for the cooperation and assistance we received from the officials and employees of the City of Bangor, Maine, including the School Department, during the course of our audit. We will review the status of these comments during our next audit engagement. We have already discussed these issues with various City and School personnel, and we will be pleased to discuss them in further detail at your convenience, or to assist you in implementing the recommendations.

This communication is intended solely for the information and use of management of the City and School Department, the City Council and School Committee, and others within the City of Bangor, Maine, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, reading "Remya Kristen Ouellette". The signature is written in a cursive style with a large initial 'R'.

CITY OF BANGOR, MAINE  
Schedule of Comments  
June 30, 2014

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**OTHER COMMENTS**

**Segregation of Duties (repeat)**

***Treasurer's Office***

In the Treasurer's Office, mail receipts are opened and processed in certain circumstances by the same individual. Ideal segregation of duties provides for separation of functions by different individuals and, therefore, would have mail receipts opened by an employee different from the person processing the receipts. This practice provides for verification of receipts processed and prevents receipts from being diverted for unauthorized purposes. We recommend that the City consider establishing a system requiring that a person different from the employee opening the mail process all mail receipts.

***Code Enforcement***

In Code Enforcement, the same individual that receives payments also reconciles cash received to permits issued. Ideal segregation of duties provides for separation of functions by different individuals and, therefore, would have payments received by an employee other than the employee reconciling such receipts. This practice would provide for verification of permits issued and prevents receipts from being diverted for unauthorized purposes.

***Assessor's Office***

In the Assessor's Office, any employee may accept payment and any employee may perform a reconciliation of such receipts. Furthermore, cash outs occur once a week and all employees in the office have access to the cash box. Ideal segregation of duties provides for separation of functions by different individuals and, therefore, would have payments received by an employee other than the employee performing reconciliations. We also recommend that access to the cash box be restricted to one individual who has sole responsibility for its safeguard and cash outs be performed daily.

***Police Department***

In the Police Department, any one of three employees may accept payments and process the payments on the cash register. In addition, the same employee who opens the mail also processes payments for parking tickets and cashes out the register at the end of the day. Ideal segregation of duties provides for separation of functions by different individuals and, therefore, would have payments received by an employee other than the employee responsible for daily cash outs. We also recommend that access to the register be restricted to one individual who has sole responsibility for its safeguard.

***Public Works***

In the Public Works Department, the employee who has custody of the materials inventory is the same employee who updates the software for inventory usage. To improve internal controls over inventory, an employee who does not have physical access to the inventory should update the software counts.

***Management's response/corrective action plan:***

*Total segregation of duties is very difficult to achieve within our current operating environment. The City will be implementing new accounting software which may alleviate some of these issues, but it would be difficult to eliminate all such instances. Where appropriate and able, compensating controls are put into place to minimize risk.*

**OTHER COMMENTS, CONTINUED**

**Cross Insurance Center**

***Segregation of Duties***

During our review of the Center's box office cash receipts, we noted the Box Office Manager not only collects payments for ticket sales during the day but also does the cash up at the end of the day. We recommend that someone other than the Box Office Manager perform the daily cash up and reconciliation to mitigate the lack of segregation of duties.

***Payroll***

During our testing of payroll transactions, we noted several instances in which personnel files were lacking appropriate documentation, including Form W-4s for federal and state withholdings, Form I-9s and pay rate authorizations. We recommend that the Global Spectrum staff implement procedures to ensure compliance with all applicable payroll regulations and ensure controls over payroll transactions are sufficiently documented.

***Cash Disbursements***

During our testing of cash disbursements, we noted several instances in which documentation for disbursements was not approved by a department manager and not coded. Most of those instances were for event settlements. We also noted a few instances in which supporting documentation (e.g. invoices or receipts) could not be located. We recommend that the Center reinforce its policy that all disbursements be supported by sufficient documentation that has been approved by a department manager and coded appropriately.

***Related Parties***

As part of our audit of the Center's transactions, we reviewed transactions with Ovations, a company that is a related party to Global Spectrum and the vendor that supplies concessions and catering services. We were unable to obtain sufficient general ledger detail from Ovations to ensure that payments to Ovations did not reimburse food purchases as Ovations retained ownership of food and beverage inventory. In addition, we were unable to obtain further information on allegations of fraudulent activity by a former Ovations employee that affected the City's cash receipts. We recommend that management carefully review the structure of its agreement with Ovations to ensure that transactions between the City and Ovations are supported by sufficiently detailed and accurate reports. In addition, management should review Ovations' cash receipt procedures to ensure the alleged fraud committed by the former employee will not occur again.

***Management's response/corrective action plan:***

*Box Office cash handling procedures are segregated between the Box Office Manager and the Box Office Assistant. Two days per week, the Box Office Manager works without the Box Office Assistant, and on these days, management will designate someone other than the Box Office Manager to cash up. This will ensure that Global Spectrum's Box Office cash handling procedures are consistently followed and proper segregation of duties are in place to mitigate risks.*

*Global Spectrum's HR team reviewed all the new hire personnel files. The audit exceptions were found in files of former or transferred employees. Management will review all files of former and transferred employees to ensure they include all applicable documentation, including, but not limited to, Form W-4s for federal and state withholdings, Form I-9s and pay rate authorizations.*

CITY OF BANGOR, MAINE  
Schedule of Comments, Continued

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**OTHER COMMENTS, CONTINUED**

**Cross Insurance Center, continued**

*Management will ensure that Global Spectrum's cash disbursement policies and procedures are followed, including that which states that all disbursements be supported by sufficient documentation that has been approved by a department manager and coded appropriately. No disbursement will be issued without the appropriate documentation and manager approval.*

*Although it could not be confirmed, an Ovation's employee was suspected of supplanting the control mechanisms that were in place in relation to cash handling and misappropriating funds. Ovation's has made restitution for the suspected fraud and an additional step has been implemented on event cash deposits which requires the concessions manager to maintain an independent log of cash banks pre and post event. As of March 1, 2015, Ovation's will no longer be managing the food and beverage services. Effective immediately, management will ensure that Global Spectrum's cash handling procedures are followed to prevent any future fraud from occurring.*

**Inventory**

During our testing of Electrical Division inventory counts, we had a few instances in which our counts differed from those counted by the employees. In order to improve internal controls over inventory, the Division should label each inventory item with the assigned number from the inventory tracking software (e.g., 0011-0095) to ensure items are counted and reported accurately. In addition, the Division should ensure that inventory items are not removed from inventory or moved to another location between when the original count and the recount are performed.

*Management's response/corrective action plan:*

*Electrical division staff will label each inventory item with the assigned number. In addition, all items will be reviewed and organized to determine what are supplies or spare parts. Reclaimed items will be inspected to determine ultimate use. If no longer required, these items will be recycled or discarded in the appropriate manner.*

**Grant Journal Entries**

During our review of cash disbursements in the Women, Infant and Children Program (WIC), we noted that certain journal entries and vouchers are prepared and approved by one employee. In order to improve internal controls over cash disbursements and journal entries, the City should ensure that someone other than the person who prepares the journal entries is reviewing and approving the entries.

*Management's response/corrective action plan:*

*All journal entries will be approved by a supervisor.*

**CITY OF BANGOR, MAINE**  
**Schedule of Comments, Continued**

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**OTHER COMMENTS, CONTINUED**

**Title 1 Semi-Annual Certifications**

During our testing of the semi-annual certifications, we noted employees are signing the certificates at the beginning of the period covered by the certificates. According to State guidance, employees should only sign these certificates after they have performed the work. For example, if the certificate covers the period September 1, 2014 to December 31, 2014, the employee should sign the certificate after December 31, 2014. We recommend the School Department ensure that employees are signing the certificates only after they have performed the related work.

*Management's response/corrective action plan:*

*Staff will be instructed to complete certifications in December and June. This will eliminate this issue.*

**Title 1 Time Documentation**

During our testing of payroll procedures, we noted two instances in which the time documentation was dated prior to the period covered in the documentation. We also noted three instances in which an individual's time was split between the Title 1A program and the General Fund and the number of hours charged to the Title 1A program did not agree with the supporting time documentation. The School Department should ensure that the time charged to the Title 1A program is accurate based on the number of hours actually worked on the program. In addition, the School Department should ensure that all time documentation is appropriately completed.

*Management's response/corrective action plan:*

*This finding has been reviewed with the Title Director and Secretary. Staff has been told of this requirement and the secretary will review the time sheets on a weekly basis.*

**Federally Funded Assets**

As part of our testing of the Title 1A program, we obtained a list of the assets acquired with federal funds. Currently, the school department tracks its technology acquired with federal funds through its IT personnel. We recommend that the school department become familiar with the State guidance on tracking federally funded assets as the current database of assets is missing some of the required elements.

*Management's response/corrective action plan:*

*A review of the requirements has been done. The IT department will incorporate the missing elements into its program. In the event IT cannot incorporate all the elements, a separate program will be established and maintained in the Title Office.*

**School Cash Disbursements**

During our testing of school cash disbursements, we noted two instances in which reimbursements to employees for a conference and education fees were supported by a registration form and a request for professional development. In these instances, since the amounts are reimbursements to individuals for amounts already paid, the School Department should require that those individuals provide proof that the amounts have actually been paid and for the intended purpose.

**CITY OF BANGOR, MAINE**  
**Schedule of Comments, Continued**

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**OTHER COMMENTS, CONTINUED**

In addition, we noted several instances in which purchase orders were dated after the invoice date. On further inquiry, we learned that the invoices were primarily for training or services that had been previously approved. The purpose of using purchase orders is to document that appropriate approval was obtained prior to the disbursement. Dating the purchase orders after the goods or services have been acquired only undermines the purpose of the purchase orders. In order to improve internal controls over cash disbursements, approval for such disbursements should be properly documented and should be filed with the invoices as proof of approval. If purchase orders are going to be used, they should be generated ahead of time and signed by the appropriate administrators and amounts could be estimated. Otherwise, other documentation of approval should be filed with the appropriate invoices.

*Management's response/corrective action plan:*

*Proof of expenditures is usually obtained; however, the secretary will double check for documentation prior to asking for reimbursement.*

*A memo was sent to all directors, administrators and secretaries by the Business Director stating that purchase orders need to be completed at the time goods or services are purchased or arranged for. This will be monitored in the Business Office.*

**Activity Fund Records**

During our review of the detailed Doughty School activity accounts, we noticed that both student related activities and non-student related activities (e.g. flowers for staff) are going through the general Student Activities account. At the very least, the school should segregate receipts and disbursements related to specific student groups and teams from general receipts and disbursements. If the principal decides to contribute funds to one of the activity accounts, that can be done through a transfer between classes.

During our review of the High School and Doughty School activity funds we noted transactions were not being recorded in the accounting software in a timely manner. At the High School, transactions were only entered through April 30<sup>th</sup> even though we were performing our review at the end of June. At the Doughty School, no activity was recorded for the month of May. On further inquiry, we learned the Doughty School Secretary was waiting for the May bank statement before she recorded the activity. To ensure that transactions are recorded accurately and in a timely manner, they should be entered into the accounting software the day of the transaction. Schools can then use the accounting software to verify the accuracy of the bank statements and accurate information can be provided to the student groups.

*Management's response/corrective action plan:*

*School staff has been advised that non-student activities cannot be run through the General Student Activities Accounts. An account for non-student activities will be established. Furthermore, additional line items will be established to better differentiate the various accounts.*

*School secretaries have been instructed to enter activity into the accounting software when the activity occurs or on a weekly basis at a minimum.*

CITY OF BANGOR, MAINE  
Schedule of Comments, Continued

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OTHER COMMENTS, CONTINUED

**Activity Fund Cash Receipts**

During our testing of activity fund cash receipts, we noted instances at the Doughty and Cohen schools in which receipts were not made in a timely manner, with the gap between deposits anywhere from two weeks up to a month and a half. In addition, in some instances, the deposits were large amounts of cash. At the Doughty School, we noted many deposits made on July 1 for amounts collected in June or even earlier. In one instance, checks for the yearbook were deposited July 1 and the copies of the checks were dated as early as March 6, 2013. We also noted that \$7,125.51 was entered in the accounting software as deposits on July 1, 2013, when school was not in session.

We recommend the School Department amend its policy on activity funds to require that deposits be done on a timely basis (e.g., weekly) to reduce the risk of cash on hand. In addition, the Department should stress to the schools that deposits should be made more frequently when large amounts of cash are on hand.

*Management's response/corrective action plan:*

*Regulation DM cash in school buildings has been revised the read, "Deposits will be made the day of collection or at minimum on a weekly basis".*

**Activity Fund Cash Disbursements**

During our review of the High School activity fund cash disbursements, we noted two instances in which the use of start up cash was not sufficiently documented. The School Department currently does not require the documentation of the use of start up cash. In order to improve internal controls, we recommend that the School Department implement a policy related to start up cash. In particular, the person receiving start up cash should notate the amount received; the date received and signs for it. In addition, when the start up cash is returned, the person returning the cash should notate the amount being returned, the date and sign for it, as well as the person receiving the returned cash should sign verifying the returned deposit.

We also noted two instances in which the supporting documentation was insufficient (i.e. information copied into an email) or did not agree with the disbursement (i.e. partially supported by receipts). We recommend that the schools should not approve disbursements until sufficient, third-party documentation is received.

*Management's response/corrective action plan:*

*A document has been created to deal specifically with startup cash. The document notes the amount received by the person receiving the cash with a signature line. The second line notes the dollar amount returned, with a signature line and properly dated. The person receiving the returned funds will sign, verifying the amount and the date returned.*

*The need for proper documentation has been discussed with school staff associated with the activity accounts. This has also been discussed in previous years. The principal will periodically review documentation for compliance.*