

January 30, 2018

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, 2017, 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 other matters that are opportunities for strengthening internal controls and operating efficiency. The attached schedule summarizes our comments and suggestions regarding those matters. This letter does not affect our report dated January 30, 2018 on the financial statements.

The City of Bangor's responses to the comments identified in our audit are described in the accompanying schedule of comments and responses. The City of Bangor's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

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 Department 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 that reads "Raymond Weston Ouellette". The signature is written in a cursive style with a large initial 'R'.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses
June 30, 2017

OTHER COMMENTS

Segregation of Duties

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. Where appropriate and able, compensating controls are put into place to minimize risk.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued

OTHER COMMENTS, CONTINUED

Cross Insurance Center Inventory

During our review of the year-end inventory counts, we noted four instances out of a sample of forty items in which inventory items were miscounted. In two of those instances, the person counting the items mistook the amount of product in a case and therefore, calculated the wrong total of items in inventory. To ensure that the inventory's value is properly calculated, the staff performing the inventory counts should verify the quantity per case during the counting process. In addition, the person in charge of overseeing the inventory process should provide specific detailed instructions on counting inventory.

Management's response/corrective action plan: The appropriate manager will produce a written document and add it to the Inventory Procedures Manual. This section will be implemented and communicated to all Food and Beverage Staff and Head Cashier performing the monthly inventory counts. The document will include specific instructions on counting, possible areas for easy error, and how to clarify the actual quantity per case as the count is being processed, to ensure an accurate count is being done. The Food and Beverage Director will review the entire count for possible errors after the count is complete.

Airport Capital Assets

The City currently maintains the airport capital asset records in an Excel workbook, with depreciation calculations on 28 different tabs. During the audit, the City identified approximately \$43K in formula errors and the auditor detected another \$192K in formula errors in the depreciation calculation. In order to improve controls over the calculation of depreciation expense and ensure amounts are recorded and reported correctly, the City should consider restructuring the capital asset workbook so that it is simplified and less prone to error. The City should consider investing in a capital asset software module to track the capital assets, which would calculate the depreciation expense and ensure accuracy in the calculation.

Management's response/corrective action plan: The City's Accounting Manager at the Airport resigned after year-end and the position has been refilled with a transfer from the City Finance Department. The concerns of the Excel spreadsheet have been discussed with the new Accounting Manager who will review and where possible modify the information to prevent future issues. The longer-term goal being a full departmental review of all assets, which in turn may necessitate a new tracking process.

CDBG Purchasing Policy

During our testing of the CDBG grant program, we reviewed disbursements that were made under the rehabilitation loan programs. On further inquiry, we determined that disbursements charged under the program are made by the loan recipient and are therefore, not considered City disbursements. As such, the disbursements are not required to meet the procurement requirements of the City; however, that was not clear through review of either the Loan Program guidance or the City's procurement policy. We recommend, therefore, that the City specifically document that the disbursements under the loan program fall under the Loan Program guidance and are therefore, exempt from the City's purchasing policy.

Management's response/corrective action plan: The City will amend its Procurement Policy to clarify that the expenditure of Loan Rehabilitation proceeds are the funds of the recipient and therefore not subject to the City's Procurement Policy. Additionally, Community Development Staff will update the Residential Rehabilitation Loan Program Policies & Procedures to reflect such.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued

OTHER COMMENTS, CONTINUED

CDBG Rehabilitation Loan Inspections

During our testing of the CDBG grant, we reviewed documentation of the rehabilitation loans, including pre-construction and post-construction inspections. Of the five loans selected for testing, we identified one loan that did not have either a pre-construction or a post-construction inspection, even though all of the loan proceeds had been disbursed to the property owner. According to the City's rehabilitation loan policy, "the CDD (Community Development Department) shall have the right to inspect all rehabilitation work financed in whole or in part with proceeds of the loan. The CDD will verify that all work has been done according to specifications. No payment shall be made until the work is acceptable." In addition, the Department of Housing and Urban Development (HUD) also requires the inspections in compliance with the CDBG program. Therefore, the City will have a compliance finding under the CDBG grant. We recommend that the City ensure that all required inspections take place before payments are authorized and disbursed.

Management's response/corrective action plan: The Community Development Department strives to administer the CDBG program as required through federal statute. We will ensure that all required inspections take place by scheduling regular meetings for discussions and debriefing of all staff to ensure accountability and success.

Department of Health and Human Services (DHHS) Grants

During our testing of DHHS grants, we noted two instances in which a supervisor did not signed the time cards of individuals with time charged to the grants. To ensure that controls over grant expenditures are functioning as intended, the City should ensure that all time cards have the required signatures before payroll disbursements are processed.

Management's response/corrective action plan: The Public Health and Community Services department director will meet with program directors to discuss a new time card procedure. Additionally, this procedure will go out in advance of the meeting to ensure communication with all employees: It is desirable to have an employee's time card signed by their program manager. If this is not possible, and interferes with timely submission it will be the employee's responsibility have the time card signed by the manager on duty that day. An additional check and balance will occur at the manager level when signing payroll for submission at the beginning of the week; this individual will also check with the payroll clerk to see that all employee time cards have been signed before payroll is sent to city hall.

Title 1A Grant Payroll Disbursements

During our testing of grant payroll procedures, we identified an individual who's time was allocated between the Title 1A program and the General Fund and the individual's hours charged to the Title 1A program did not agree with the supporting documentation. Upon further investigation, we determined that the same payroll amount for this individual was charged to the Title 1A grant regardless of the number of hours worked under the grant. According to section §200.430 of the Uniform Guidance titled Compensation – personal services, documentation should support "the distribution of the employee's salary or wages amount specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award, etc." The School Department should ensure that the all employee time charged to the Title 1A program is accurate and based on the actual number of hours worked in the program.

Management's response/corrective action plan: We are aware of this requirement and will assign staff to double check time cards to ensure compliance.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued

OTHER COMMENTS, CONTINUED

School Activity Fund Cash Receipts

During our testing of activity fund cash receipts, we judgmentally selected receipts from both the Cohen and Doughty activity funds. Of the thirteen receipts selected at the Cohen School, three of the receipts were deposited ten or more days after the School received the amounts. In addition, the Cohen School staff deposited one check 276 days after the date on the check. In addition, of the twelve receipts selected at the Doughty School, two of the receipts were deposited more than ten days after they were received. We recommend that the School Department reinforce with the schools' staff the importance of making timely deposits.

Management's response/corrective action plan: Schools are aware of the requirements to deposit weekly. Staff associated with the activity funds have been reminded that deposits should be made every Monday. The issue with the check that was deposited eight months after the fact was that it was misplaced by the Principal.

Doughty School Activity Fund Cash Disbursements

During our testing of activity fund cash disbursements, we identified three disbursements from a sample of seventeen that were charged to the wrong activity account. In addition, we noted two separate purchases of gift cards. Although the purchase of gift cards is not prohibited, we recommend that if the School Department is going to continue the practice of purchasing gift cards, that the schools be required to document the recipients and the purpose of the gift cards; and that the recipients of the cards be required to sign for those cards. As the purchase and use of gift cards are more susceptible to misuse, we strongly recommend that the schools discontinue the practice of purchasing and giving away gift cards. We also recommend that the student group advisors review the activity in their respective accounts to ensure that amounts are properly charged to those accounts.

Management's response/corrective action plan: We will urge staff to use more diligence in recording disbursements and review periodically. The comments regarding the purchase of gift cards are well taken. Going forward, a log will be kept documenting the number of the gift cards purchased, to whom issued, and the receiver will be required to sign, signaling his or her receipt of the card.