

December 28, 2016

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, 2016, 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".

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 "Ryan Kristen Ouellette". The signature is written in a cursive style with a large initial 'R' and 'O'.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses
June 30, 2016

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

Cash Receipts

During our testing of the treasury cash receipts process, we noted ten instances in which the receipts from the parking, school, and police departments were processed ten or more days after the date on which they were originated by the department. In order to improve internal controls over cash receipts, the City should reinforce to all departments the importance of turning in cash receipts and deposit slips to City Hall in a timely manner. In addition, the Treasury Department should ensure that all amounts are processed as soon as possible.

Management's response/corrective action plan: Due to volume and receipt amounts, some departments have implemented a weekly cash up schedule, which delays when the receipts are sent to Treasury for processing. All incoming departmental receipts will be reviewed and larger departments will be contacted regarding the importance of forwarding receipts in a timely manner. Once received, the Treasury Department normally processes all incoming mail the same or next day. The Department has also implemented a check scanner, which electronically deposits checks daily, and cash is deposited by armored courier daily.

Purchasing Cards

As part of our testing of the City's disbursement process, we judgmentally selected one month's worth of purchase card transactions to test. Of the items selected for testing, two were missing payment authorization forms that were signed by the department heads. The City should reinforce the importance of filling out purchase authorization forms to ensure that authorization is properly documented.

Management's response/corrective action plan: The two monthly statements without payment authorization forms were reviewed by the Finance Director, however; the formal payment authorization forms were not executed. The payment authorization forms for these two statements will be completed monthly.

Department of Health and Human Services Grants

During our testing of DHHS grants for compliance purposes, we noted two instances in which the number of hours charged to the individual grants exceeded the number of hours actually worked on those grants, based on the personnel activity reports for the given time periods. As the differences in hours did not add up to a significant dollar amount, there was no compliance finding. However, we recommend that the City ensure that all personnel activity report hours either match or exceed the number of hours charged to individual grants.

Management's response/corrective action plan: The Public Health and community services department instituted a 'time and effort' procedure that will be applied to all grant activity. Managers will also be assessing hours worked on a quarterly basis to ensure better alignment with grant requirements.

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

OTHER COMMENTS, CONTINUED

High School Activity Fund

During our review of the High School activity fund checking account, we noted many items on the bank reconciliation that were very old, with some dating as far back as 2009. Although the old, outstanding items are immaterial in total, they should not be outstanding and unless they are cleared from the accounting system, will remain in the reconciliation. We recommend that the activity fund custodian work to clear the old, outstanding items from the outstanding list and simplify the reconciliation.

Management's response/corrective action plan: These items will be cleared by the high school finance secretary. It appears that these items just need an offsetting entry in the accounting system.

Uniform Guidance

Recently the Office of Management and Budget (OMB) revised regulations applicable to federally funded programs. The new regulations are contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance replaces OMB Circulars A-133, A-87, and A-110 and incorporates new requirements for grant recipients. The Uniform Guidance includes not only protocols for program management and administration, but also updates compliance regulations for federal awards. We recommend that the City and School Department become familiar with the requirements of the Uniform Guidance, and take the necessary steps to ensure full compliance with the guidance.

One of the more significant provisions of the Uniform Guidance that affect the City and School Department is the procurement standards under 2 CFR sections 200.318 through 200.326. Under the new procurement standards, the City and School Department are required to have a documented purchasing policy, which at a minimum, incorporates the provisions of the Uniform Guidance. Currently the City and School Department do not have a formal written procurement policy that incorporates the provisions of the Uniform Guidance. We recommend that management review the applicable provisions of the Uniform Guidance and update the procurement policy appropriately. The OMB has provided a grace period for non-federal entities to comply with the new procurement provisions, after which time non-compliance will be considered a federal finding. The grace period applicable to the City and School Department expires on June 30, 2017.

Management's response/corrective action plan: Both the City and School Department will have an appropriate procurement policy in place by July 1, 2017.