

July 22, 2024

To: City of Bangor Finance Committee, acting as Audit Committee
Debbie Laurie, City Manager and David Little, Finance Director, City of Bangor, Maine
Gerald Hayman Jr., 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, 2023, 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.

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 and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed in the Schedule of Comments and Responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 July 22, 2024 on the financial statements.

Government Auditing Standards requires the auditor to perform limited procedures on the City of Bangor's responses to the findings and comments identified in our audit described in the accompanying schedule of comments and responses. The City of Bangor's responses were not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

City of Bangor Finance Committee, acting as Audit Committee
Debbie Laurie, City Manager and David Little, Finance Director, City of Bangor, Maine
Gerald Hayman Jr., 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 cursive script, reading "Raymond Kristen Ouellette".

CITY OF BANGOR, MAINE
Schedule of Comments and Responses
June 30, 2023

MATERIAL WEAKNESS

Cash Account Reconciliations and Deposits

Criteria: To ensure cash balances are correctly reported and to deter errors or fraud, the City should deposit funds in a timely manner and perform monthly bank reconciliations.

Condition: During the audit, we determined that many deposits were made weeks after the funds were received. These included two deposits over \$400K that cleared nineteen and forty-five days after they were received, respectively, and three deposits over \$100K that cleared the bank between seventeen and twenty days after they were received. In addition, the bank reconciliations for the pooled cash accounts were not completed for several months after fiscal year-end.

Cause: The City experienced turnover in staff that has created a backlog in processing cash receipts. In addition, the School Department had difficulties reconciling its own bank account.

Effect: Due to the large number of deposits in transit and outstanding checks, the complexity of reconciling the bank accounts increased. In addition, the City did not complete the June 2023 bank reconciliation until March 2024.

Recommendation: The City should make deposits and perform monthly bank reconciliations in a timely manner to reduce the risk of fraud or errors going undetected.

Management's Response/Corrective Action Plan: The impacts of the pandemic created an unprecedented staffing shortage for multiple departments which has lasted several years. While staffing was impacted the level of service provided to the public was not reduced resulting in fewer staff taking on more duties. As such, some areas fell behind. One such area was the receipting and depositing of mailed payments. Mailed payments were secondary to servicing live walking customers. Cash-ups and reconciliations were subsequently impacted as the primary focus was maintaining service to the public. Even as staffing levels returned to normal, processing remained delayed as new staff were being trained. During the City's Fiscal Year 2024, most Departments were back to adequate staffing levels and became current on the processing and depositing of payments.

The City School Department operates on a separate financial system than the City and during FY23 the City and School modified how School transactions are posted to the City system. This created unexpected issues with reconciliations. Both City and School staff understand the need for timely reconciliations and are addressing and modifying procedures to ensure such issues do not occur in the future.

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.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2023

OTHER COMMENTS, CONTINUED

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 within the City's current operating structure would be difficult without adding additional staff, however, typical day to day needs do not always justify such a solution. As such, to minimize risk, other compensating controls are put into place whenever possible. The City anticipates, that the combining of the Treasury and Clerk's office will provide the ability to segregate the duties within those areas which of the above Departments, would represent the largest processor of received payments.

City Budget

As part of the audit, we routinely review the budget as entered into the accounting software and compare it to the budget as passed. In FY 2023, we noted that the City did not include all of the School Department amounts passed as part of the total budget, which included the School Lunch program and the Adult Ed enrichment program. The result was that certain divisions appeared to be overspent in the accounting software when they were not. Since the City and the School Department must adhere to the budget as passed and ensure that the budget is not overspent, management should ensure that all amounts approved as part of the original budget are entered into the accounting software.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2023

OTHER COMMENTS, CONTINUED

Management's response/corrective action plan: This was an isolated oversight by staff. The budget items in question are approved under a separate Council Order than the School's primary budget categories which were posted. The error was not caught during the year due to the City and School using different operating systems and School activity not being posted to the City system as incurred. Staff has updated procedures to ensure that all approved budgeted are posted.

Federal Bus Operating Funds

As of May 2024, the City had not yet drawn down FTA funds to reimburse the bus operating funds for FY 2022 and FY 2023. Therefore, as of May 2024, the FTA owed the City of Bangor more than \$3 million in federal funds. If reimbursement requests are not filed in a timely manner, the City must use other operating cash to fund the bus operations, which may hinder other spending goals or operating procedures. Therefore, we recommend that management perform more timely reimbursement requests.

Management's response/corrective action plan: Drawdowns of FTA funding typically occur several months after the end of the fiscal year. There was a discrepancy in the FY22 submission which required review and a budget revision. Each of these steps required FTA involvement and approval which extended longer than normal due to FTA staff turnover. The issue with the FY22 drawdown compounded into FY23. The FY24 grant process is on track and the City does not anticipate such delays going forward.

Spectra Cash Receipts

As part of our test of internal controls, we selected forty cash receipts collected by Spectra at the Cross Insurance Center to test. Of those selections, two deposits from concessions receipts and two deposits from the general office were deposited several weeks after the funds were received. Currently, Spectra has a policy that deposits should be made twice a week. We recommend that management review deposit procedures to ensure they adhere to company policy.

Management's response/corrective action plan: Management will review current policy and procedures regarding Cash Receipts. A separate designated person will be found to take care of the deposits in cases where the Director of Finance is unable to handle when required.

Spectra Payroll Forms

Currently Spectra uses payroll action forms to document the approved pay rates for new hires and for approved changes in pay rates. As part of the audit, we tested controls surrounding payroll procedures and selected twenty-two employees to test. Of those employees selected, seven were missing the payroll action forms supporting their most recent pay rates. We recommend that management review all personnel files to ensure the required forms are on file. In addition, Spectra should review payroll procedures to ensure the forms are completed going forward.

Management's response/corrective action plan: OVG (Spectra) uses personal action forms to document approvals for new hire pay rates and employee pay increases, except in the case of a pay increase for a large number of employees (i.e., minimum wage increase). Management will review all payroll files to make sure that all files are complete with personal action forms included for all pay changes.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2023

OTHER COMMENTS, CONTINUED

Airport GSE Inventory

The City requires year-end counts of its significant inventory items to ensure that on-hand counts are correct. We determined that the GSE shop for the airport had not performed a year-end count, but had instead performed cycle count prior to year-end. In addition, the inventory balances had not been updated for additions or use of items. Therefore, several of the auditor test counts had discrepancies from the on-hand counts in the GSE inventory system. In addition, we identified several obsolete items that were mixed in with parts inventory but were not counted as part of the inventory, some of which were not identified as obsolete. In order to ensure that inventory counts are accurate and therefore, inventory properly valued, all departments should conduct inventory counts as close to fiscal year end as possible. In addition, inventory counts should be updated for additions to inventory, use of inventory items, and any other differences identified through year-end counts. Any obsolete items should be separated from regular inventory and tagged as obsolete.

Management's response/corrective action plan: Upon notification of the issue, Supervisors performed another inventory count closer to year end to ensure accuracy. Obsolete items have been clearly identified. Management and staff were made aware that if inventory counts are performed before year end due to scheduling or staffing, that the inventory must be adjusted to reflect any incoming or outgoing items.

City Special Revenue and Permanent Funds

Currently, the City tracks multiple funds within one fund that qualify for reporting as different types of funds under GASBS No. 54. In particular, the City uses fund 600 to track special revenue funds that have revenues sources that are restricted by outside sources or internally committed by the City Council; permanent funds that have restricted non-expendable principal and restricted earnings; and custodial funds that are held on behalf of other organizations. The risk is that activity or earnings may be attributed to an incorrect fund, which would result in the fund being misreported on the financial statements. In addition, the City uses very detailed and complicated spreadsheets to track these funds. In order to simplify tracking and reporting, the City should consider splitting these accounts into different funds within the accounting software. At the very least, special revenue funds, which do not require earnings to be tracked separately from principal, should be recorded in a separate fund from the custodial and permanent funds.

Management's response/corrective action plan: Staff tracks the various funds within the 600 fund by the account numbering sequence. Each type of fund falls within a different numbering sequence to maintain segregation for reporting purposes. Modifications at this point would be administratively burdensome. The City intends to transition to a new financial operating system within the next few years and will look at segregating the funds at that time.

High School Activity Fund Cash Receipts (repeat)

As part of our test of internal controls over high school activity funds, we selected fifteen receipts. Of the fifteen receipts selected for testing, three were missing bank deposit slips and five receipts were deposited eighteen to twenty-three days after the funds were originally received. To improve internal controls over activity fund cash receipts, the school should ensure that all deposits are made in a timely manner and documented with a reconciliation of amounts deposited. In addition, all deposits slips should be retained in the school's documentation.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2023

OTHER COMMENTS, CONTINUED

Management's response/corrective action plan: School management agrees that there were deposits that were not made in a timely manner. Further review with the High School staff will be done to ensure it is a priority to deposit funds as they are received and further impress upon them the importance of complying with these important accounting procedures.

High School Activity Fund Cash Disbursements

As part of our test of internal controls over high school activity funds, we selected twenty disbursements. Of the twenty disbursements selected for testing, two were missing sufficient supporting documentation. One disbursement was supported by an email requesting a check; the other lacked a detailed receipt (from Marden's), so we were unable to verify the nature of the disbursement. To improve internal controls over activity fund cash disbursements, the School should ensure that all disbursements are supported by detailed third-party documentation, such as a receipt or invoice prior to issuing checks.

Management's response/corrective action plan: Further review with High School staff will be done to ensure all disbursements are properly supported with detailed documentation. Such documentation will include both a completed activity voucher slip that has been signed by the principal and a detailed invoice and/or receipt from the vendor.