

December 23, 2019

To: City of Bangor Finance Committee, acting as Audit Committee
Debbie Laurie, 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, 2019, 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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 December 23, 2019 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 Laurie, 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,



CITY OF BANGOR, MAINE
Schedule of Comments and Responses
June 30, 2019

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

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2019

OTHER COMMENTS, CONTINUED

Public Works Inventory (repeat)

During our review of the year-end inventory counts for public works, we noted several instances in which inventory items were miscounted. It is our recommendation that when the year-end inventory counts are being performed, a second staff member should confirm the counts.

Management's response/corrective action plan: The differences were due to materials being removed for work the day of the inventory count. The City will implement a process whereby, inventory removed after the count by staff, will be logged.

Cross Insurance Center Inventory

During our testing of year-end inventory counts, we identified three instances in a sample of forty items for which the records differed from the original counts. In one instance, the count was different by an entire box of forty-eight items. It is our recommendation that when the year-end inventory counts are being performed, a second staff member should confirm the counts.

Management's response/corrective action plan: Two staff members shall perform all future inventory counts, ensuring an accurate record for year-end purposes.

Cross Insurance Center Payroll Disbursements

During our testing of payroll disbursement procedures for the Cross Insurance Center, we identified thirteen timecards out of a sample of forty transactions that did not have supervisory approval. On further inquiry, we determined that the lack of approvals was due to turnover in management positions. In addition, we also identified five employees who received raises and the approval of those raises was not documented. We also identified one individual for whom the time card was missing for the period being tested. In order to improve internal controls over payroll procedures, we recommend that a second person in a supervisory role be designated as having authority to sign time cards if the original supervisor is not available. In addition, any raises that are not a direct result of the increased minimum wage should have those raises officially approved and documented.

Management's response/corrective action plan: The Cross Insurance Center staff will implement the appropriate policy to ensure all payroll hours and rates have the appropriate supervisory approval.

Cross Insurance Center Cash Disbursements

During our testing of cash disbursements procedures for the Cross Insurance Center, we identified nine disbursements out of a sample of forty disbursements for which there was no supervisory approval, most of which were stipends and fees paid in connection with the Bangor Fair or wire transactions. On further inquiry, we determined that some of the lack of supervisory approval was due to turnover in management positions. In order to improve internal controls over cash disbursements, we recommend that a second person in a supervisory role be designated as having authority to approve disbursements if the original supervisor is not available. In addition, a department head should review and approve stipends and fees related to the Bangor Fair before they are submitted to the finance office for payment.

Management's response/corrective action plan: The Cross Insurance Center staff will implement the appropriate policy to ensure all disbursements have the appropriate supervisory approval.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2019

OTHER COMMENTS, CONTINUED

Activity Fund Balances

During our review of year-end activity fund balances, we noted several of the activity funds have deficits. As all of the activity funds for each school share a checking account, when an activity fund exceeds its available funds it reduces the amount of funds available to other activity accounts. In addition, there is always a risk that the excess funds will not be recuperated. We recommend that the student group advisors verify the available balance in their respective accounts before authorizing disbursements, to ensure disbursements do not exceed available funds.

Management's response/corrective action plan: Future deposits, disbursements, and monthly reconciliations will include the School Business Office, thereby eliminating the potential for any fund to be overdrawn.

High School Activity Fund Cash Receipts

As part of our tests of internal controls over the high school activity funds, we judgmentally selected forty cash receipts. Of those forty receipts, fourteen of those amounts were deposited ten or more days after when they were initially received. In addition, for the deposit made on September 25, 2018, some of the amounts were deposited more than a month after they were received and the deposit exceeded \$13,000. There was also one deposit for which the deposit slip was missing, and one individual receipt that we were unable to trace to the deposits. In order to improve internal controls over cash receipts, the School Department should remind High School personnel of the existing policies and procedures related to activity funds, which call for amounts to be deposited on a weekly basis. In addition, the school should consider documenting, either on the deposit slip or on another form, the individual amounts that make up the deposit total to ensure easier reconciliation.

Management's response/corrective action plan: A system shall be established to ensure that deposits are processed in a timely and appropriate manner. The policy has been reviewed with the appropriate staff.

Activity Fund Cash Disbursements

During our testing of the Cohen School and High School activity funds, we noted the following internal control discrepancies:

- Cohen School – Several disbursements from the Principal's account were missing the principal's approval on the disbursement voucher.
- Cohen School – The purchase of gift cards was not included in the gift card log.
- High School – Three disbursements were missing the principal's approval.
- High School – Two disbursements were missing receipts or invoices.
- High School – The purchase of gift cards was missing documentation of the recipients of the cards.
- High School – A blank check was issued for a purchase at Hannaford.
- High School - Sales tax was paid that exceeded \$10 in one instance.

As a result of these discrepancies, we make the following recommendations:

- The School Department should reinforce the policy that all disbursements must have the principal's approval and supporting third-party documentation, such as a receipt or invoice before checks are issued.
- The payment of sales tax should be discouraged and in instances in which the sales tax is significant, the School should seek reimbursement from the vendor.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2019

OTHER COMMENTS, CONTINUED

- The purchase of gift cards should be discouraged. In addition, according to the School Department's policy, purchases of gift cards are to be documented in a log that should include the number of gift cards purchased, to whom the gift cards were issued, and the receiver of the gift cards are required to sign the log.
- The use of blank checks should be discouraged as it enables the person using the check to circumvent pre-approval of amounts and could potentially lead to misuse of funds.

Management's response/corrective action plan: Future disbursements will be processed through the accounting software's purchase order system, thereby ensuring that all levels of approvals and account coding exist. This will also eliminate the need to maintain any check stock at the schools. The receipt and reconciliation of the various bank statements shall be transferred to the school business office, which will ensure appropriate oversight of all activity accounts.

New Accounting Standards

The Governmental Accounting Standards Board (GASB) has recently released several new pronouncements that reshape certain accounting practices within the governmental field. Two pronouncements that are of particular significance are GASB Statement No. 84, *Fiduciary Activities* and GASB Statement No. 87, *Leases*.

GASB Statement No. 84, *Fiduciary Activities*, redefines the criteria for identifying fiduciary activities for state and local governments. The new criteria focuses on control of assets for fiduciary activities and who are the beneficiaries of the assets. Under the new criteria, there will be some changes in how these fiduciary relationships are reported. As such, the City should evaluate current fiduciary relationships under the new criteria in order to determine the proper method of accounting and reporting under the new pronouncements. GASB Statement No. 84, *Fiduciary Activities* will be effective for the fiscal year ending June 30, 2020.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting for state and local governments. Under the new model, all leases will be required to be recognized in the Statement of Net Position; there is no longer a distinction between operating and capital leases. Instead, all leases will be represented on the Statement of Net Position by a right to use asset and a lease liability. GASB Statement No. 87, *Leases*, also sets new standards for note disclosures in order to provide more meaningful information to the users of the financial statements. To assist in implementing the requirements of GASB No. 87, *Leases*, the City should assess all current leasing arrangements and begin accumulating the necessary data to facilitate the calculations required. GASB Statement No. 87, *Leases*, will be effective for the fiscal year ending June 30, 2021.

Management's response/corrective action plan: City staff is aware of these changes and will be working towards full implementation in advance of the effective dates.