

January 24, 2021

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, 2020, 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 December 23, 2020 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,

A handwritten signature in black ink, reading "Raymond Keenan 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, 2020

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, 2020

OTHER COMMENTS, CONTINUED

Treasury Cash Receipts

As part of our testing of Treasury cash receipts, we judgmentally selected all of the receipts from two separate dates to test. Of those dates selected for testing, one date was missing signatures on its daily cash sheets. In particular, four of the five clerks' cash sheets were not signed by the teller who collected the funds. To ensure controls over cash receipts are functioning as intended, daily cash sheets should be signed by the teller responsible for collecting the funds.

Management's response/corrective action plan: Staff will ensure all cash sheets contain the appropriate employee signatures.

Motor Pool Inventory

During our review of the Motor pool inventory list, we identified several inventory items that had negative quantities on hand and some inventory items that had positive quantities but no cost per unit or total cost listed. On further inquiry, we determined the negative variances were caused by how employees were removing inventory from the stock room and those removals were not logged into the system until a later date. In addition, the positive variances were caused by items held for Public Works but not counted as part of inventory. To ensure inventory is properly valued, the Department should ensure that inventory items are removed from the system when they are removed from the stock room and at the correct quantities. In addition, items that are purchased on behalf of another Department should still be counted as part of the inventory, regardless of whether they are held for specific purposes.

Management's response/corrective action plan: The department no longer stores inventory items for other departments, those items have been transferred to the home department's inventory. In addition, policy and procedures have been implemented to ensure inventory is issued by an employee other than the technician whose role includes "issuing" the part through the inventory control system.

Public Works Inventory

During our testing of Public Works materials inventory, we identified three items for which their costs as listed in the system did not agree with the most recent invoices for those items, for a total variance of over \$7,000. To ensure that materials inventory is properly valued, the Department should ensure that inventory items are entered into the system using the most recent purchase price available.

Management's response/corrective action plan: The inventory management system uses an average cost to value items which will limit the likelihood of values matching the most recent invoice. Staff will ensure to enter the correct purchase price and make note of any changes in price which could result in a significant discrepancy.

Cross Insurance Cash Receipts

During our testing of cash receipts, we noted one month's bank reconciliation was not signed by the General Manager. As the Center experienced turnover in its finance team, the Center should ensure that reviews and approvals of bank reconciliations are performed on a monthly basis.

Management's response/corrective action plan: Turnover and vacancies were contributing factors, staff will ensure all reconciliations are approved by the General Manager.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2020

OTHER COMMENTS, CONTINUED

Cross Insurance Payroll Disbursements

As part of our tests or internal controls related to the Cross Insurance Center's payroll procedures, we judgmentally selected thirty-five employees to test over two payroll periods. Of those employees selected for testing, two were missing approvals on their time cards. In addition, both of the payroll dates selected were missing approvals on their summary forms. To ensure that controls over payroll procedures are functioning as intended, the Center should ensure that all required approvals are in place before payroll is processed.

Management's response/corrective action plan: Turnover and vacancies were contributing factors, staff will ensure all payroll records are approved by the appropriate manager.

Cross Insurance Center Unearned Revenues

During our review of the Cross Insurance Center unearned revenue liabilities, we noted that amounts were calculated using rates that did not agree with the underlying contracts. In order to ensure the correct recognition of unearned revenue liabilities and revenues, the Center should ensure that the rates used agree with the underlying contracts. In addition, unearned revenue liabilities should be reconciled on a monthly basis.

Management's response/corrective action plan: Turnover and vacancies were contributing factors, the finance manager in conjunction with the General Manager will ensure unearned revenues are recorded in accordance with the underlying contracts.

Parking Cash Receipts

As part of our testing of parking cash receipts, we judgmentally selected all of the receipts for a few days in October 2019 and January 2020. Of those dates selected, one site had parking receivable payments that differed from the receivable report, one site had a discrepancy between the Z-report and the daily summary of \$23 that was not documented, and one site had a Z-report that was missing for that date. In order to improve internal controls over parking receipts, management should ensure that all supporting documentation is retained on file and that any reasons for discrepancies are documented.

Management's response/corrective action plan: A handbook will be developed and followed by the office personnel to ensure all funds and receipts are matched and properly retained.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2020

OTHER COMMENTS, CONTINUED

School Department Payroll

During our testing of School Department payroll procedures, we judgmentally selected forty employees to test. Of those forty employees, one employee had the incorrect employer contribution for health insurance provided. In addition, one employee had additional pay for which we were unable to obtain supporting documentation. We also noted three instances in which a non-supervisor signed time cards. On further inquiry, we determined that a principal gave permission to the employee to sign the time cards but that permission was not documented. In order to improve internal controls over payroll transactions, the School Department should ensure that all supporting documentation for payroll is complete and appropriate authorizations have been obtained prior to checks being issued. In addition, insurance amounts should be verified after they are entered into the accounting software to ensure accuracy.

Management's response/corrective action plan: The incorrect health insurance contribution was human error and has been corrected. The procedures regarding missing hours and time card corrections have been updated so that email approvals will be required.

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, seven of those amounts from the months of November and December 2019 were deposited ten or more days after when they were initially received. 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.

Management's response/corrective action plan: A new system was established in January 2020, the instances noted occurred prior to the implementation of the revised system. The timeliness of deposits is also now monitored by the business office.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2020

OTHER COMMENTS, CONTINUED

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 – The purchase of two gift cards was not included in the gift card log.
- High School – One disbursement was a missing receipt or invoice.
- High School – One disbursement was only partially supported by a receipt (the total did not agree with the total of the disbursement) and the vendor name was missing from the receipt.
- High School – A disbursement of \$2,400 for startup cash for events was made in September 2019 and the funds were not re-deposited until June 2020.

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

- 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.
- All disbursements should be supported by detailed third-party documentation. In addition, the detailed documentation should be obtained before the checks are written.
- Startup cash should not be held for the entire school year but should be re-deposited after each event. Otherwise, the funds are more susceptible to theft or loss.

Management's response/corrective action plan: The majority of the issues identified occurred prior to the January 2020 implementation of updated procedures and policies, which dictates that all disbursements are processed through the business office thereby ensuring appropriate supporting documentation and approvals exist. Management will reinforce the need to follow the gift card policy as well as ensure start-up funds are returned in a timely manner.