

March 27, 2023

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, 2022, 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 March 27, 2023 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.

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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, 2022

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, 2022

OTHER COMMENTS, CONTINUED

Financial Reporting

During our review of minutes and communication with a finance committee member, we determined that there is no periodic presentation and review of financial reports other than the annual financial statements. We understand that management is currently working on a system of providing more frequent financial reports. We recommend that management provide summary financial reports at least quarterly so that the finance committee can perform its due diligence and oversight more frequently.

Management's response/corrective action plan: Staff intends to provide quarterly updates to the Committee, however, significant issues locating qualified applicants left key positions within the Finance Department vacant for an extended period. The Deputy Finance Director position remains vacant after nearly a year. Staff is committed to providing updates as soon as staffing permits.

City Fund Balance and Net Position

As part of the financial statement preparation, the City makes multiple entries that are posted against fund balance and then the entries are reclassified for financial statement purposes. This approach ensures comparability in historical numbers and keeps the funds on a budgetary basis as many of the adjustments done for financial statement purposes are not budgeted (e.g. payroll accruals). When this approach is taken, the complexity of preparing year-end adjustments and the financial statements increases, which increases the likelihood of errors or omissions on the financial statements. In FY 2022, the City found an error due to an entry reclassified incorrectly on the financial statements and as a result, had to restate beginning net position. We recommend that the City try to post more of the year-end adjustments directly to the revenue and expenditure/expense lines and post fewer entries through fund balance to reduce the complexity of reconciliations and reduce the chances of errors or omissions. In addition, as the enterprise funds are supposed to be accounted for on an accrual basis, the City should consider budgeting for some of the year-end adjustments, such as changes in accrued payroll and compensated absences.

Management's response/corrective action plan: The reclass entry in question related to the Sewer Fund reclassifying construction retainage from the PY which was already a part of Fund Balance. Staff will review procedures and practices to determine if certain entries could be posted directly as opposed to Fund Balance. The City budgets payroll based on a 52 week pay cycle, how the employee is paid for that time (paid leave or worked hours) doesn't change the budget impact. Staff's determination is that changes in accrued payroll and compensated absences do not need to be budgeted.

Spectra Cash Receipts

As part of our test of internal controls, we judgmentally selected forty cash receipts collected by Spectra at the Cross Insurance Center to test. Of those selections, five were missing all supporting documentation, twelve were missing necessary approvals, and six were missing additional required supporting documentation. To ensure internal controls over receipts are functioning properly, management should reinforce established control processes, including proper approvals and retention of backup documentation.

Management's response/corrective action plan: Position vacancies were contributing factors. The Director of Finance position was filled late in the fiscal year and procedures have been established to ensure all receipts have approval and supporting documentation.

CITY OF BANGOR, MAINE
Schedule of Comments and Responses, Continued
June 30, 2022

OTHER COMMENTS, CONTINUED

Spectra Cash Disbursements

As part of our test of internal controls, we judgmentally selected forty cash disbursements made by Spectra at the Cross Insurance Center to test. Of those selections, three were missing a supporting invoice, all of which were for online purchases. To improved internal controls over disbursements, management should ensure that all disbursements are properly supported by an invoice or receipt.

Management's response/corrective action plan: Position vacancies were contributing factors. The Director of Finance position was filled late in the fiscal year and procedures have been established to ensure all disbursements have supporting documentation.

School Department Accounts Payable

During our testing of the School Department's accounts payable process, we identified several, material amounts included as payables at year-end that were for projects performed after year end. We recommend that the School Department do a careful review of the invoices that are included in accounts payable at year end to ensure that any amounts for work done after year end are excluded.

Management's response/corrective action plan: The Business Office will review all invoices received at fiscal year-end, ensuring that only invoices where the service was performed or the item received prior to year-end are included.

School Lunch Claim Forms

During our testing of monthly claims forms, we noted that none of the seventy-four daily meal count sheets were signed by a supervisor. To ensure meal counts are accurate, management should ensure school lunch staff are reviewing and signing count sheets.

Management's response/corrective action plan: The Director of Food Services has instructed her staff to review, sign and date all lunch claim forms. Management will review the documents ensuring this is completed.

High School Activity Fund Cash Receipts

As part of our test of internal controls over high school activity funds, we judgmentally selected twenty cash receipts. Of the twenty receipts selected for testing, eight were missing bank deposit slips and eight receipts were not deposited in a timely manner. 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 deposit slips should be retained in the school's documentation.

Management's response/corrective action plan: School management agrees that there were deposits that were not made in a timely manner. A review with the High School staff will be done focusing on the importance of making deposits when funds are received. All deposit backup material has been collected into one document upon request.