

November 24, 2014

To the Management of the  
City of Auburn, Maine:

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Auburn, Maine as of and for the year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Auburn, Maine's internal control over financial reporting (internal control) as a basis for designing auditing 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 Auburn, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Auburn, Maine's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider a significant deficiency.

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 City'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.

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. We consider the deficiency in Arena and Recreation segregation of duties to be a significant deficiency.

Additionally, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. They have been identified in the attached *Schedule of Comments and Responses*.

This communication is intended solely for the information and use of management, City Council, School Committee, and others within the entity and is not intended to be and should not be used by anyone other than these specified parties.

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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 Auburn, Maine, including the Department of Education, 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 personnel, and we will be pleased to discuss it in further detail at your convenience, or to assist you in implementing the recommendations.

Very truly yours,

A handwritten signature in black ink, reading "Remyon Kursten Ouellette". The signature is written in a cursive style with a large initial 'R' and 'O'.

CITY OF AUBURN, MAINE  
Schedule of Comments and Responses  
June 30, 2014

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**SIGNIFICANT DEFICIENCY**

**Segregation of Duties – Arena and Recreation**

During our testing of Arena and Recreation cash receipts, we found there is a lack of segregation of duties in the receiving, depositing and recording of cash receipts. To provide effective control, it would be necessary to separate each of these duties. At the present time, the cashier's duties include all of these functions to some degree. During subsequent conversations, it is apparent that at this time, it is not possible to separate each of these duties. It would appear advisable to at least set up some form of control over cash receipts, such as a list of remittances received to be prepared at the time the mail is opened, use of prenumbered receipts, and reconciling cash registers to the register tape. All of these tasks would be completed by an employee other than the one preparing the deposit.

*Management's response/corrective action plan: As soon as this was brought to the attention of staff, procedures were implemented to correct this issue. Currently one staff member closes out the cash register daily and reconciles the cash receipts to the tape. This same employee opens all mail and lists each check in a check log as it is received. This employee initials all work and then gives the work to the administrative assistant, who makes out the deposit. We will continue to monitor the cash receipts process and refine as necessary with the limited staff.*

**OTHER COMMENTS**

**School Activity Funds**

During our testing of activity funds, we noticed that there are activity funds that do not appear to be for the benefit of the students, such as the Administration, General or Wellness funds. We also noted there are 50/50 raffles conducted and the proceeds are used for faculty baskets. The true purpose of activity funds is to account for student activity programs, where students have participation in their management. We recommend the Department of Education review their activity funds to determine if they are being properly reported in the financial statements.

*Management's response/corrective action plan: During the 14-15 school year, we will review the funds being run through activity funds to see if they are properly placed there, or if any should be moved to a different fund and be accounted for in a different way by the school administrator solely. The 50/50 raffles were being run through the staff fund at the high school. This fund consisted solely of funds donated by staff members, for use at the staff's discretion for such things as purchasing flowers for a sick staff member, or donating to a needy family. After review of this fund and discussion with the auditors, management decided that activity funds are not an appropriate place to have a staff fund. The balances of the staff funds at all schools have been returned to the staff, and the School District will no longer have any participation or oversight in this type of fund, or any 50/50 raffles.*

CITY OF AUBURN, MAINE  
Schedule of Comments and Responses, Continued  
June 30, 2014

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OTHER COMMENTS, CONTINUED

**High School Activity Funds**

During our review of the June 30, 2014 High School Activity Fund bank statement reconciliation, we noted several old, outstanding items, including deposits and checks dating as far back as 2009. This causes additional time to be spent by personnel to reconcile the bank accounts each month. If any of these checks should ultimately be voided, the possibility of using these funds currently is eliminated. The State of Maine requires holders of unclaimed property, which includes any type of outstanding check, to identify the unclaimed property by listing them on a form supplied by the State and then trying to locate the owners of the unclaimed property. Attempts to locate owners should be done between July 1 and September 1. The State also provides an Owner Identification sample letter to use. On November 1, the holders are required to send the Holder Report Form along with the funds to the Office of the State Treasurer. Checks should be made payable to the Treasurer, State of Maine. We recommend that this process be completed as soon as possible so that checks can be removed from the bank reconciliation and the original transactions reversed.

*Management's response/corrective action plan: The majority of the old, outstanding items are not actual checks or deposits, but adjusting entries that were made several years ago to reconcile accounts within the accounting software. We believe most of these entries will offset each other. The Business Office Manager and High School secretary will review these items and have all of them cleared or corrected by the end of 2015.*

**School Journal Entries**

During our review of Department of Education journal entries, we noted that there is no evidence that they have been approved, even if they may be periodically reviewed by the Business Manager. The School Department should consider implementing a system in which journal entries over a certain dollar amount be approved by the Business Manager and documented by a signature.

*Management's response/corrective action plan: Beginning in July 2014, the Business Manager will review a monthly journal entries report, as created by Tyler accounting software, and sign off on the reports to indicate acknowledgement of review and approval.*

CITY OF AUBURN, MAINE  
Schedule of Comments and Responses, Continued  
June 30, 2014

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**OTHER COMMENTS, CONTINUED**

**Highway Planning and Construction Drawdowns**

During our testing of the Highway Planning and Construction grants, we determined that drawdowns are not completed in a timely manner. To avoid the use of General Fund monies for extended periods of time, it is an important aspect of cash management to recover expended funds in a timely manner. We recommend that drawdowns be completed monthly, or as expended, to ensure expended funds are replenished in a timely manner.

*Management's response/corrective action plan: The Finance Department staff met with the City Engineer, as going forward the Finance Department will be doing the drawdowns. On large projects, we will do monthly drawdowns and on small projects, we will determine if we need to do more than one drawdown based on the length of the project. This change has already been implemented.*

**Tax Increment Financing Districts Agreements**

During our review of Tax Increment Financing (TIF) agreements with the City, we noted a few areas in need of improvement. We noted one instance where the credit enhancement payment exceeded the amount of captured taxes. This is a violation of the TIF agreement, which indicates funds can only be paid out up to the amount captured. We also noted that most amounts recorded in the TIF fund only account for the credit enhancement agreement portion of the TIF. The remaining captured amount, to be spent by the City on specific items depending on which TIF they originate, is maintained in the General Fund and spent from the General Fund. In order to ensure compliance with the City's TIF agreements, we would recommend that the entire captured amount be transferred to the TIF fund and expended from that fund in its entirety. This will ensure that monies spent from TIF funds are easily traceable to the expenditures to ensure compliance with the TIF agreements.

*Management's response/corrective action plan: We will address the issues in our next budget cycle (FY16 budget).*

***Person responsible for corrective action of School comments:***

*Adam Hanson, Business Office Supervisor, Auburn School Department  
Phone: (207) 784-6431, ext. 1425*

***Anticipated completion date:***

*Corrective action will be complete within 12 months.*

***Person responsible for corrective action of City comments:***

*Jill Eastman, Finance Director, (207) 333-6600*

***Anticipated completion date:***

*Corrective action will be complete within 12 months.*