

December 6, 2013

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 (the City) as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the City'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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.

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.

However, 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*.

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.

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,

Runyon Kersteen Ouellette

CITY OF AUBURN, MAINE
Schedule of Comments
June 30, 2013

OTHER COMMENTS

School Cash Disbursements

During our testing of the Local Entitlement program, as well as activity funds, we found several instances where sales tax is being paid or reimbursed for school expenditures. As the School is a tax-exempt entity, we discourage the School Department from incurring these unnecessary charges.

We also noted instances where advances are being provided to employees prior to purchasing goods or services. According to the School's purchasing policy, requests for reimbursement are to be authorized prior to reimbursement. Providing advances violates the School Department's policies. We recommend that the School Department adhere to the policies as they are currently written or amend them to provide for advances.

Lastly, we noted the purchasing of gift cards through the activity funds with no documentation as to how they were distributed. It is our recommendation that the School Department maintain a log to document to whom they are providing the cards and the purpose of the distribution. Additionally, we also became aware of instances where School Department employees are receiving gift cards. As such, there are payroll tax requirements regarding the treatment of rewards to employees, including gift cards. We recommend the School Department become familiar with these payroll tax requirements to ensure compliance.

Management's response/corrective action plan: We will discuss this problem with administrators, School secretaries and our Accounts Payable Specialist and emphasize the importance of adhering to no sales tax being paid, regardless of which fund the expenditure is targeted from. Our collective efforts will ensure that no further sales tax is reimbursed. We have taken steps to reduce the dollar amounts and frequency of these advances, such as encouraging employees to use district charge cards at certain stores, or issuing advances in increments of \$100 only. We realize there may be times when it is necessary to the success of a program to use an advance. When such advances are necessary, the Administrator will, at minimum, provide verbal acknowledgement to teacher. Thus, someone will have forewarning that the advance payment is of the utmost urgency. We will review the use of gift cards from activity funds and make sure logs are put in place to track disbursement of all gift cards, as well as to ensure all payroll requirements, when appropriate, are followed per IRS guidelines.

Title I Cash Disbursements

During our testing of Title I cash disbursements, we found two transactions in which purchase orders were signed or approved after the transaction occurred. The purpose of a purchase order is to give an employee proper approval to purchase an item or service prior to the actual purchase. This process allows for adequate review of the budget and evaluation of department needs before committing to a purchase. We recommend that prior to ordering, each purchase order be reviewed for proper timely approvals and that employees are educated about the proper use of purchase orders.

Management's response/corrective action plan: We will remind administrators of these requirements, while also reviewing the policy to see if the language should be changed to allow for more flexibility in situations where pre-approval is not practical or even possible.

CITY OF AUBURN, MAINE
Schedule of Comments, Continued
June 30, 2013

OTHER COMMENTS, CONTINUED

High School Activity Funds

During our testing of High School activity funds cash receipts, we noted several instances where the amount deposited did not agree with the backup. We recommend ensuring that the detailed backup agrees with the amount deposited.

We also noted instances in which disbursements for the Middle School and High School activity funds lacked support. We recommend that in the future, all supporting documentation be retained, consistent with the policies of the School Department.

Management's response/corrective action plan: Since the dates those deposits were made, additional steps have been put in place to ensure that deposit backup ends up matching the amount that goes into the bank. These include keeping adding machine tapes and having a second person verify the amount of the deposit and sign off. We continue to work with school secretaries to strengthen the support for disbursements. In spite of this comment, we feel things have been greatly improved over the past 2 years, with added diligence both by management and School personnel.

School Lunch

During our observation of School lunch inventory counts, we noted two instances out of five where the counts on the inventory sheet did not agree with the physical inventory we counted. When we received the final inventory counts, they were not updated to reflect the counts we observed.

School lunch employees do not physically count the inventory at year-end. We find this is an important control to ensure the amounts reported by the School Department are accurate. We recommend the School lunch inventory be counted at year-end to ensure inventory amounts reflected in the financial statements are not materially misstated.

Additionally, during our testing of negative school lunch balances, we found that there were students with negative balances that qualified for free lunch. Per the School Lunch Director, it is the School's practice to waive any balances for students that qualify for free lunch. We also noted that there were several students with large negative outstanding balances. Per the School Lunch Director, it is the School's practice to only allow students to charge up to three lunches, so it appears that students are being allowed to charge more than three meals. We recommend that the School Department ensure their policy for waiving negative school lunch balances and their policy for charging lunch are followed, so the financial records accurately reflect what is to be collected.

CITY OF AUBURN, MAINE
Schedule of Comments, Continued
June 30, 2013

OTHER COMMENTS, CONTINUED

Management's response/corrective action plan: We will have school lunch employees perform a physical count of inventory at year-end as recommended. The negative school lunch balances have been corrected. Discussions are ongoing with the finance committee, management and the School Lunch Director regarding the best way to handle charging of meals and collection of outstanding balances. We must work for solutions that meet the needs of the students while ensuring the financial solvency of the lunch program. There are no simple answers to these issues, but we are doing our best to ensure that balances do not grow so large that it becomes unlikely we will be able to collect them.

The School Committee instituted a change three years ago, whereby it was of great importance and success for both overdue balances by parents and reducing ASD outstanding balances, for parents to submit "Free and Reduced" applications to State DOE. The concept is and continues to be, should a parent follow through with the application and receive State Approval, prior balances are removed and we move forward, with assistance of the Federal Program. It is a win-win scenario for both parties.

Controls Over Payroll

During our testing of the City's payroll system controls, out of 40 employees tested, we noted nine instances where the Form I-9 was incomplete. We also noted 10 instances where the Form W-4 was either incomplete or missing. We recommend the City review employee files to ensure they are complete and all the required documentation is maintained. Lastly, we found two instances where time reported was not approved by the department head. We recommend the City ensure that all time reported is properly approved.

Management's response/corrective action plan: Sometimes employees do not provide all of the documentation at the time of enrollment, and it is a matter of following up with them to obtain the information. We now have new employee letters that are mailed to new employees with a list of information they are required to provide during new employee enrollments as well as a checklist for the new employee folder to ensure that the documentation is in the file. Human Resources will review all of the employee files for completeness in January 2014. Any files with missing information will be updated.

CITY OF AUBURN, MAINE
Schedule of Comments, Continued
June 30, 2013

OTHER COMMENTS, CONTINUED

W-4's – It is now our policy for all new employees to complete Federal and State w-4's. Employees who have many years of service only signed the federal form and the withholdings were used for the state as well. In January of this year, all employees completed new federal w-4's. In January of 2014, all employees will be required to complete new State w-4's.

The Human Resources Department will conduct a file review in January 2014 to ensure that employee files are up to date.

Time Sheets – It is the City's policy that Department Directors or his/her designee sign the timesheets weekly. HR will remind Department Directors of this requirement and will review every time sheet and send any without proper signatures back to the Department Director.

Affordable Care Act (informational comment only)

One of the key provisions of the Affordable Care Act is the so-called “employer mandates.” Currently, this will require employers with 50 or more full-time employees (or the equivalent thereof as comprised of a combination of full- and part-time employees) to offer to its full-time employees affordable health coverage meeting certain minimum essential coverage standards. For purposes of this requirement, full-time employees are those working on average at least 30 hours per week. Initially slated to become effective January 1, 2014, the effective date has now been delayed for one year in an effort to provide employers more time to comply with these regulations. Since the City of Auburn exceeds the 50 or more full-time equivalent employee rule, and will be subject to these requirements, we recommend that an effort be made to gain a full understanding of all applicable provisions between now and the effective date in order to ensure compliance.

Management's Response: We are monitoring this situation and working to come up with a manageable solution to these new requirements. We will continue to watch for communications from legal counsel on this matter, as well as seeking the recommendations of the Maine Association of School Business Officials subcommittee that has been formed to come up with recommended best practices for ACA compliance. We also will monitor any guidance provided from the Maine School Management Association (MSMA).

2013 Property Tax Commitment Error

Prior to the commencement of the 2013 audit, management determined that the 2013 tax commitment was under-committed. The amount of the under-commitment was equal to \$1,732,413, and was due to the homestead reimbursement (\$503,080) and the BETE reimbursement (\$1,257,497) both being counted twice when calculating the commitment; this was offset by the municipal appropriation in the tax commitment calculation being overstated by \$28,164. Additionally, the amount of TIF tax revenue was calculated lower due to the doubled-up Homestead reimbursement and BETE reimbursement (which lowered the tax rate).

In order to offset the shortfall in tax revenues, cost-cutting measures were implemented by City staff. Ultimately, the City did not need to consume a greater amount of fund balance than was originally budgeted. Fund balance decreased by \$1,248,773, but was budgeted to decrease by \$2,448,796.

It is our recommendation that in the future, once the commitment is completed by the Assessor's Office, that it be reviewed in detail by the Finance Director and City Manager.

CITY OF AUBURN, MAINE
Schedule of Comments, Continued
June 30, 2013

OTHER COMMENTS, CONTINUED

Management's response/corrective action plan: After discovering this error, the following procedure was implemented and used during the FY14 budget process: The Finance Director and Assessor will meet to go over the budget and the amount of tax dollars needed to meet the budget. The Assessor and Finance Director will both complete the Tax Rate Calculation paperwork and meet together to make sure that they agree, then the paperwork will be sent to the City Manager for his review. After he reviews and agrees with the Assessor and Finance Director, the Finance Director will send the Tax Rate Calculation and the Council Budget to the auditor to review. This process was done for the FY14 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.