

December 22, 2016

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, 2016, 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 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 Auburn, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Auburn, 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 several matters that are opportunities for strengthening internal controls and operating efficiency. The attached schedule summarizes our comments and suggestions regarding these matters. This letter does not affect our report dated December 22, 2016, on the financial statements of the City of Auburn, Maine.

The City of Auburn, Maine's responses to the comments identified in the audit are described in the accompanying schedule of comments and responses. The City of Auburn, Maine'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.

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 engagement. We will review the status of these comments during our next audit engagement. We have already discussed these comments with various City and School personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

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

Sincerely,

A handwritten signature in black ink that reads "Raymond Weston Ouellette". The signature is written in a cursive style with a large initial 'R'.

CITY OF AUBURN, MAINE
Schedule of Comments and Responses
June 30, 2016

OTHER COMMENTS

Community Development Program Loan Receivables

During our testing of the Community Development Program loan balances, it was noted that an \$845,000 neighborhood stabilization program forgivable loan distributed to Coastal Enterprises, Inc. in 2011 was never recorded in the GMS software (used to manage such loans) or on the City's trial balance until fiscal year 2016. From 2011 through the date of recording the loan in GMS in 2016, \$422,500 was discharged from the loan, leaving a balance of \$422,500. As this was a forgivable loan, the City's income statement would not have been effected by the recording the original loan or the activity from the partial discharge. However, by not recording the original loan and subsequent activity, assets and liabilities of the City were understated from 2011 to 2016. We recommend management review and consider updating its procedures related to the recording and disbursing of loan funding to ensure all new loans are properly recorded in both the GMS software and the City's trial balance.

Management's response/corrective action plan: In response to the auditor's request for a corrective action plan, the City has implemented a new protocol to ensure that all loans are recorded in GMS in a timely manner. Immediately following a loan closing for CDBG/HOME, or any other grant funded loan activity, the Community Development Manager will ensure that the loan information is recorded in GMS. The GMS file will include the name of the loan recipient, address, project address (if different from mailing address), full amount of the loan, loan terms and type of loan. The GMS Master File Report will be submitted to the Finance Department for recording of the receivable. Attached the Master File Report will be a department requisition listing a MUNIS account. The loan file checklists have been updated to include this item so that the process is carried through for all loans.

Uniform Guidance

Recently the Office of Management and Budget (OMB) revised regulations applicable to federally funded programs. The new regulations are contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance replaces OMB Circulars A-133, A-87, and A-110 and incorporates new requirements for grant recipients. The Uniform Guidance includes not only protocols for program management and administration, but also updates compliance regulations for federal awards. We recommend that the City become familiar with the requirements of the Uniform Guidance, and take the necessary steps to ensure full compliance with the guidance.

One of the more significant provisions of the Uniform Guidance that affects the City is the procurement standards under 2 CFR sections 200.318 through 200.326. Under the new procurement standards, the City is required to have a documented purchasing policy which, at a minimum, incorporates the provisions of the Uniform Guidance. Currently the City does not have a formal written procurement policy that incorporates these provisions. We recommend that management review the applicable provisions of the Uniform Guidance and update its procurement policy to include these provisions. The OMB has provided a grace period for non-federal entities to comply with the new procurement provisions, after which time non-compliance will be considered a federal finding. The grace period applicable to the City expires on June 30, 2017.

CITY OF AUBURN, MAINE
Schedule of Comments and Responses, Continued

OTHER COMMENTS, CONTINUED

Management's response/corrective action plan:

School Response: *The Auburn School Department's Procurement Policy and Procedures was vetted on November 5, 2015 by the School Department's attorneys, Drummond and Woodsum, with explicit intention that whenever state or federal funds are utilized for projects, equipment, material or services, the most stringent procurement standard is adhered. In concert with our Policy Review protocol and with the onset of the new Uniform Guidance requirements, we will undertake a policy review study during FY 2017 and revise, as necessary, our Procurement Policy and Procedures to insure that we are in compliance with the Uniform Guidance and it's General Procurement Standards as outlined in section 200.317-200.326.*

City Response: *Staff is currently reviewing the information on Uniform Guidance and will be amending the current purchasing and procurement policy to comply with the new requirements. Once the amendments have been completed, the policy will be reviewed by the City's Audit Committee for approval. After the Audit Committee approves the changes the policy will be placed on the City Council agenda for approval. This will be done before the end of fiscal year 2017.*

Person responsible for corrective action of School comments:

*Denise Johnson, 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.