

December 3, 2012

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, 2012, 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 our 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 on 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, 2012

OTHER COMMENTS

School Activity Funds

Cash Disbursements

During our testing of cash disbursements for High School and Middle School activity funds, we noted several disbursements were missing supporting documentation, such as an invoice. In some instances, support for disbursements was limited to handwritten notes or emails. In order to improve the controls over activity fund disbursements, the Department of Education should implement a policy that no disbursements are made until proper supporting documentation has been received.

Management's response/corrective action plan:

During the 2011-12 school year, Business Office Manager Adam Hanson visited each school to review the operation of activity funds. He met with each school secretary to discuss areas that needed improvement and to make sure consistent controls are in place at all schools. All principals and secretaries using activity funds have been told verbally and via email that nothing is to be paid without proper backup documentation, such as an invoice or receipt. Due to the nature of some of the items paid, there often is no official invoice or receipt available, and in those cases, an email or handwritten note may be appropriate backup, but in all cases, there must be something attached to explain or verify the expenditure. The auditors determined that 5 out of 80 expenditures reviewed at the Middle School or High School were lacking sufficient backup. We have reviewed those with the secretary to determine what was lacking and to ensure that such payments are handled correctly in the future. The Business Office Manager will continue his work with activity funds going forward, continuing to visit the schools, review expenditures and reinforce the need for proper documentation. He will also continue to evaluate the procedures currently in use and make changes when appropriate to strengthen controls.

Deficit Balances

During our review of activity fund balances, we noted two balances with deficits, one of which had been carried from prior years. The purpose of the activity funds is to set aside amounts on behalf of specific student organizations and activities. Therefore, each account should be kept separate from other accounts and disbursements should not be made if there is not a sufficient balance to cover expenditures. Additionally, the schools may want to consider a review of the activity funds to ensure revenue and expenditures have been booked to the correct funds.

Management's response/corrective action plan:

The deficit balance of \$103 in the one-act play account was reviewed and taken care of in September 2012. The overall High School Activity Funds concluded June 30, 2012 with a fund balance of \$110,172. The principal could have used some of the positive balances to offset the overage, but he elected to let the One-Act Play Director resolve the overage at the beginning of the FY 13 fiscal year. The other deficit balance under "Interest/Offset" has been a carryforward balance for many years. There was an error made at some point in allocating interest income, resulting in this deficit. The Business Office Manager is going to review that account with the ELHS principal and secretary and make sure it is corrected during the 2012-13 school year. In general, the ELHS secretary monitors account balances as the year progresses to ensure that no individual accounts are over-expended.

CITY OF AUBURN, MAINE
Schedule of Comments, Continued
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OTHER COMMENTS, CONTINUED

Disposition of Inactive School Activity Accounts

Often, faculty advisors leave or programs end with deficit balances or small balances remaining. When this occurs, we recommend the departing faculty advisor or group be asked how any remaining balances are to be treated. If for whatever reason this does not occur, the principal should decide what to do with remaining balances, such as disbursing it among the remaining activity accounts.

Management's response/corrective action plan:

The Business Office Manager will work with the ELHS and AMS principals and secretaries to determine which accounts are inactive, and to make sure those funds are disbursed to other accounts and those activities closed during the 2012-13 school year. Moving forward, the School Department, in conjunction with the principals, plans to inactivate and disburse to other funds any account that has been inactive for three years.

Approval of School Employee Time Worked

Our audit procedures included testing the Department of Education payroll system controls. Our tests indicated that time entered into the Department's newly designed time recognition software does not contain documentation of approval by supervisors or managers. Since the time entered into this program supports the Department's labor expenses, we recommend that these transactions be first submitted to supervisors or managers for approval. Knowledge that the supervisor or manager will review this information will encourage employees to complete such information accurately and honestly.

Management's response/corrective action plan:

This comment refers to custodians, bus drivers, school lunch and maintenance employees using the automated "Time IPS" time clock system. Paper time sheets were eliminated a few years ago for those employees when this system was put in place. Information is gathered from that system, reviewed by department supervisors and sent to payroll for payment. However, there was no written documentation of supervisor approval of these hours. This payroll practice was changed in the spring of 2012, and supervisors are now hand signing the document summarizing the employee work hours to verify their review and approval of the time worked. The summary timesheet is forwarded to the Business Office as an acknowledgement and approval of the submitted electronic payroll.

School Nutrition Cash Receipts

During our testing of cash receipts for the School Lunch Program, we noted several instances where free and reduced meal counts, as reported on State Department of Education monthly claims forms, did not agree with the underlying meal count records. While the variances were of a trivial value, accurate counts and reporting are required for proper calculation of federal subsidy. We recommend that staff double check the reported amounts for the lunch counts back to the supporting records to ensure accuracy. If variances are found, they should be investigated, documented, and corrected within a reasonable period of time.

Management's response/corrective action plan:

The discrepancy between the Department of Education reports and the Nutrikids (meal system) reports is because of our practice of awarding free "bonus" meals to students who pay for meals in advance rather than paying as they go. The lunch program director manually adds the "bonus" meals to the number on the Nutrikids report to determine the number of "paid" meals to be reported on the Department of Education report. Going forward, the lunch program director will keep on file copies of her handwritten counts that will make it possible to tie the Nutrikids reports to the reports submitted to the Department of Education. The bonus meals issue does not affect the accuracy of the free and reduced reporting or the reimbursement received from the state.

CITY OF AUBURN, MAINE
Schedule of Comments, Continued
June 30, 2012

OTHER COMMENTS, CONTINUED

Complete and Maintain I-9 Information for All Employees

During the audit, we noted that several employees did not have a Form I-9 on file. Form I-9s are used by the United States Citizenship and Immigration Service to determine if employees working for an organization are legal citizens of the United States or have the appropriate worker's visa. Form I-9 must be stored for 3 years after the date an employee is hired, or 1 year after the date an individual ceases to be an employee, whichever is later. For example, if an employee retires from the City after 15 years, Form I-9 will need to be stored for a total of 16 years. The penalty for failing to properly complete or retain Form I-9s is up to \$1,100 per employee. We recommend that the City perform a review of all employees to ensure that Form I-9s exist for those employees.

Management's response/corrective action plan:

The City will review all I-9s and make sure that we have the required I-9s on file by the end of January 2013.

Post-Issuance Debt Compliance

In recent months, the IRS has increased its audits of compliance with tax-exempt bond issuance requirements. These audits are sometimes based on whether the entity has a written policy related to post-issuance compliance for tax-exempt bonds. In our discussion with the Finance Director, we determined that the City does not have a written post-issuance policy, but instead relies on the City's bond advisor to inform them when they need to do their post-issuance disclosures. We recommend that the City adopt a formal post-issuance compliance policy to ensure the City is meeting all of the post-issuance compliance requirements. The IRS has identified certain recommended elements that should be included in a policy.

Management's response/corrective action plan:

The Finance Director is working with Bond Counsel to write a post-issuance compliance policy that will be brought to the City Council to be adopted before the end of FY2013.

Finance Committee

During our pre-audit meeting with the Audit Committee, it was mentioned that the City Council does not have a finance committee. By establishing and regularly utilizing a finance committee, the City can achieve a greater understanding of, and be more involved in the financial process. General duties of a finance committee may include, but are not limited to, receiving and discussing financial information provided by management, such as Ice Arena financials and a schedule of unexpended bond proceeds, and any other functions the City Council recommends.

Management's response/corrective action plan:

The City Manager and City Council are looking at different committee structures at this time. No decision has been made yet as to what the end result will be.

CITY OF AUBURN, MAINE
Schedule of Comments, Continued
June 30, 2012

OTHER COMMENTS, CONTINUED

Community Development Issues

During our testing of Community Development programs and gathering data for the Schedule of Expenditures of Federal Awards, several issues came to our attention. They are as follows:

1. There are no procedures in place for writing off Community Development Block Grant loans receivable. Currently, Community Development personnel sporadically review the outstanding loan balances and write-off loans without specific guidelines for uncollectibility. We recommend the City have a policy in place indicating the frequency and criteria used for writing-off uncollectible loans receivable.
2. Drawdown requests were not submitted in a timely manner; most were submitted six months after expenditures were incurred. This requires the general fund to cover those expenditures until a drawdown request is submitted and reimbursed. We recommend the drawdown requests be submitted in a more timely manner.
3. Accounts receivables and accounts payable balances were not properly recorded as of year-end. We recommend proper cutoff procedures be followed to ensure compliance with generally accepted accounting principles.
4. Under the Lead Hazard grant, the City forfeited approximately \$180,000 in grant funds that were not expended by the time the grant expired. During our discussions with City personnel, this was an oversight due to personnel turnover. We recommend the City utilize all grant funds available to them within the period of availability of the grant.

Management's response/corrective action plan:

The Finance Department will work with the CDBG staff to create a policy for writing off uncollectible accounts and getting drawdowns done on a monthly basis. We will also work with staff to make sure that expenditures and revenues are recorded in the proper years.

Investigate Old Outstanding Checks (repeat from 2011)

We noted that old outstanding checks are being carried on the monthly cash reconciliation for the City's general fund. This causes additional time to be spent by personnel in reconciling the bank account each month. If any of these checks should be voided and have not been, the possibility of using those funds for other needs 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 not 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 would be happy to provide the City with additional information on these rules. 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. Research should be done periodically to eliminate large numbers of old items being carried from month to month.

Management's response/corrective action plan:

We have begun researching the old checks and will make sure that any checks we cannot locate the owners of, we will file with the State of Maine.

CITY OF AUBURN, MAINE
Schedule of Comments, Continued
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OTHER COMMENTS, CONTINUED

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.