

January 29, 2021

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, 2020, 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. These items have been included in the attached schedule of comments and responses.

The City of Auburn, Maine's responses to the comments identified in our 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 the City Council, School Committee, Audit Committee and management of the City of Auburn, Maine, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

A handwritten signature in cursive script that reads "Remya Kristen Ouellette".

CITY OF AUBURN, MAINE
Schedule of Comments and Responses
June 30, 2020

OTHER COMMENTS

City Accounting Software to School Accounting Software Reconciliation (City and School)

The City and School Department utilize separate accounting software. Since the City and the School Department have separate accounting software, it is essential that reconciliations of all balance sheet, revenue, and expenditure accounts be performed between the School Department's general ledger and the City's general ledger on a monthly basis. This reconciliation should be performed as soon as feasible after month end.

Even though significant progress was made from the prior year, as of June 30, 2020, balance sheet, revenue, and expenditure accounts on the School Department's accounting system did not fully reconcile with the balance sheet, revenue, and expenditure accounts on the City's accounting system when we began audit fieldwork. Most notably, the School Department's capital project accounts were not recorded on the City's books in the current year.

We recommend that the reconciliation between the City and School Department accounting systems continue to be performed monthly. Any variances should be investigated promptly and entries should be posted to the proper system (City or School Department) accordingly so that the two accounting systems present the same financial information. It's also crucial that the School Department's activity is appropriately classified on the City's books.

Management's response/corrective action plan: The School Business Office took significant steps in the 2019-20 fiscal year to improve our process of reconciling our accounting system with the City's accounting system. The Business Office Supervisor continues to work closely with the City Finance Director each month to reconcile and research any discrepancies. We have corrected the issue of the capital project accounts not exporting correctly to the City, and we feel we are well-positioned to have a complete and accurate reconciliation between School Department and City in time for fiscal year 2020-21 audit fieldwork to begin.

School Lunch Substitute Compensation

During our control testing of School Department payroll, we noted three situations in which school lunch substitutes were paid the starting rate for new full-time employees in that position. This appears to have been common practice for a number of years, but is not formally documented in School Department's personnel handbook or in a contract or written agreement with the temporary employee. We would recommend that this policy, similar to the compensation for any employee, be formally documented, so there no misunderstanding as to employees' rate of pay.

Management's response/corrective action plan: The School Department will add this information to the substitute and tutor wage guidelines that are currently posted in the Human Resources section of our website. School lunch substitutes will continue to receive the same pay rate as newly hired nutrition employees.

CITY OF AUBURN, MAINE
Schedule of Comments and Responses
June 30, 2020

OTHER COMMENTS, CONTINUED

School Department Accrued Compensated Absences

Currently the School Department recognizes the accrued compensated absences liability at year-end using the rate of pay for the following fiscal year. Well this seems logical, as employees will be compensated at the higher following-year rate, Generally Accepted Accounting Principles dictates that the liability be recorded as of the rate of pay as of the final day of the fiscal year. Although the variance in rates between fiscal years is deemed immaterial, we recommended the School Department recognize the liability using the current-year rates in future periods.

Management's response/corrective action plan: Starting with fiscal year 2020-21, the School Department will calculate accrued compensated absences using "current-year" rates as recommended above.

Grant Receivables

During our testing of accounts receivable, we found that certain amounts related to the Community Development Block Grant (CDBG) and the Maine Department of Transportation (MDOT) construction contracts were not properly reported as receivables. Both the CDBG and MDOT contracts operate on a reimbursement basis whereby the City seeks payment from the applicable Federal or State agency only after work has been completed. At year-end, the amounts reported as receivable did not include eligible reimbursements for significant amounts of work that had been completed, but were unbilled as of June 30, 2020. As part of the audit, we discussed the work completed with the respective department heads and provided the City with adjusting journal entries to record these unbilled receivables. We recommend that the City implement procedures to identify and report these unbilled receivables, as they can be significant amounts based on the nature of the work completed.

Management's response/corrective action plan: The Finance Department staff has met with the City Engineer (MDOT) and the CDBG Manager to go over information needed from them to make sure we record all receivables at year-end. This will be implemented in FY21.

CDBG Grant Expenditures

As part of our testing over the Community Development Block Grant (CDBG) we selected forty expenditure transactions for review. We found that four of the forty transactions did not have any documentation suggesting the purchases were reviewed or approved. All four of the exceptions found were smaller purchases processed through City issued credit cards. As with any purchase transaction, we suggest that management review and approve all purchases and maintain documentation of the approval process. Such review will aid the City in identifying errors or fraudulent transactions in a timely manner.

Management's response/corrective action plan: The Finance Department will assist the Economic and Community Development Department so that proper purchasing and review protocols are completed. This will be implemented in FY21.

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

OTHER COMMENTS, CONTINUED

Interfund Receivables/Payables

An important aspect of governmental accounting is the use of interfund transfers and interfund receivables/payables to allocate the activity and use of a shared cash account among several different funds. These transactions and amounts, as with any accounting entry, should balance and net to zero when posted to the general ledger. Our testing revealed that, as of June 30, 2020, the interfund receivables and payables did not net to zero and there was an immaterial variance. We recommend that management investigate the variance further and identify the sequence of events that led to the erroneous general ledger posting(s). The interfund transfers and receivables/payables should be reconciled regularly so that any variances can be detected and corrected in a timely manner.

Management's response/corrective action plan: The City Finance Director will prepare a reconciliation each month and research any discrepancies so that they may be corrected swiftly. This will be implemented in FY21.

Person responsible for corrective action of School comments:

*Adam Hanson, Business Manager, 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.