



CITY OF PORTLAND, MAINE

Management Letter
For the Year Ended June 30, 2021

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To the Honorable Mayor
and City Council
City of Portland
389 Congress Street
Portland, Maine 04101

In planning and performing our audit of the basic financial statements of the City of Portland, Maine (the City) as of and for the year ended June 30, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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 over financial reporting.

Our consideration of 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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

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Material weaknesses are noted in the table of contents and comment headings. However, additional material weaknesses may exist that have not been identified.

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. Significant deficiencies are noted in the table of contents and comment headings.

During our audit we also became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The City's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.



Merrimack, New Hampshire
March 18, 2022

RECOMMENDATIONS

1. Evaluate the School Department's Internal Control Structure (Material Weakness)

A lack of segregation of duties exists as all School Finance Department personnel have full access to modules within the MUNIS system. As a result, unauthorized adjustments can be made by personnel and errors or irregularities could occur and not be identified timely. Specifically, 1) invoices may be posted for payment without appropriate review or authorization, 2) pay rates can be adjusted by individuals other than Human Resources personnel, and 3) journal entries can be posted without appropriate documentation.

We also identified that payroll may be processed without verifying that the various department heads approved the time worked by School employees, and that the audit trail in the system does not clearly identify who approved the timesheets. As a result, management is not formally approving the payroll.

Additionally, we understand that School personnel enter payroll into the MUNIS payroll module, but the posting of payroll to the general ledger is done manually. As a result, a duplication of effort exists and the manual process is more subject to errors.

We also identified that certain journal entries are posted without supporting documentation for the entry's purpose and therefore, management is not able to determine the appropriateness of all adjustments.

We recommend the School Department prioritize corrective action on the weaknesses noted above and other conflicts that may still be identified. Our observation is that the School Department does not have the internal resources to accomplish these tasks within the next few months, and therefore, we recommend that the School Department establish a corrective action plan, including what additional mitigating controls can be implemented in the near term before the internal control structure can be strengthened further.

City's Response:

The School Department acknowledges the lack of segregation of duties, which has primarily resulted from gradual staff eliminations and current vacancies. While vacancies have remained open, we have been working diligently to reorganize areas and redesign processes to allow for greater segregation of duties and strengthen internal controls to identify and correct errors and irregularities as they occur.

Understanding current processes and workflow design, as well as embracing a culture of change are key to the successful implementation of process improvements and require time to implement. To this end, we hired a new Accountant at the end of December 2021, who is working with the Director of Finance to modify and improve existing targeted processes.

While changes to the shared vendor master file can be made by the School, it is our practice to send all changes to the City, as requested.

We acknowledge that pay rates should be entered by Human Resources personnel. Training will be provided to HR personnel by payroll personnel, while we concurrently explore alternate payroll solutions.

All journal entries currently require appropriate supporting documentation and approval by the Director of Finance.

We have instituted a new time and attendance system, which requires supervisory approval.

We are currently exploring a payroll solution that does not require the use of two non-integrated MUNIS systems.

2. Improve Timeliness of School Accounting and the Year-end Closing Process (Significant Deficiency)

The School Department did not perform interim reconciliations of key general ledger accounts, including retirement and health insurance withholdings, which contributed to errors being made and not resolved timely. We noted that the year-end reconciliations continued six months after year end. Specifically, the School Department was reporting a \$10 million deficit in a grant fund until December when the requests for reimbursements from grantor agencies were recorded into the general ledger. We understand the School has experienced turnover that could have contributed to this issue, but maintaining a complete and timely general ledger is essential for management to evaluate the fiscal year operating results including accurate budget and actual comparison reports.

We recommend that the School Department ensure that the general ledger is complete and accurately maintained and that reconciliations are performed with adjustments posted timely into the general ledger. This will permit management to assess critical and timely financial information.

City's Response:

The School Department acknowledges the delays that have resulted from the lack of timeliness of school accounting and the year-end closing process. This delay has primarily resulted from gradual staff eliminations and current vacancies. We continue to develop and implement a plan for process improvements and efficiencies, as well as fill the need to account for pandemic-related federal funding. Until all permanent positions are filled, we have hired contracted staff to help fill the Controller and Grant Accountant roles. The Director of Finance has taken an active role in process development, training and supervision of these roles. The contracted Controller will train the new Accountant in the account reconciliation process to ensure that accounts are reconciled in a timely basis throughout the year.

3. Implement Prior Year School Department Additional Audit Recommendations (Significant Deficiency)

The June 30, 2020 Audit Management Letter included several School Department related comments and recommendations that have not been addressed. We recommend that the School Department implement corrective action on the following prior comments:

- Review purchasing card transactions against supporting documentation monthly.
- Adopt a cash receipt policy (including timeliness).
- Improve controls over student activity funds.
- Review accrued vacation for excess balances.

City's Response:

- *Review purchasing card transactions against supporting documentation monthly* – We are in the process of transitioning this review from Accounts Payable to our new Accountant.
- *Adopt a cash receipt policy (including timeliness)* – With the hiring of a new Accountant, we are redesigning the receipt process and working towards more timely deposit of funds. We have requested a scanner through the City to facilitate more timely deposits of checks. We have also redesigned the recording of receipts to include more timely review and documentation.
- *Improve controls over student activity funds* – The new Accountant has been assigned the review of student activity funds and policy management. While we have replaced this one staff with multiple assigned duties, we recognize that additional staff will be needed in order to implement and maintain additional improvements and internal controls on a systemic level.
- *Review accrued vacation for excess balances* – We are currently researching this issue with our vendor to facilitate correction, while exploring an alternate payroll solution.

4. Identify Individual Project Balances

The City's fund 242 (Other Special Revenue Fund) and fund 300 (Capital Improvement Program) contain single fund balance accounts with June 30, 2021 balances of \$21.1 million and \$18.8 million, respectively. The MUNIS project accounting module is designed to track the detail of the individual project balances. We were not able to verify that the fund balance accounts in general ledger funds 242 and 300 agreed to remaining balances by individual projects as complete life to date project income statements are not maintained. As a result, the detailed purposes of the fund balance amounts are not fully documented. This appears to result from budgeted revenues for grants and projects not being recorded in MUNIS.

We recommend that the City identify individual project balances associated with funds 242 and 300. This will provide additional assurance to management's oversight of the status of the individual projects.

City's Response:

The City will review all project balances in the Special Revenue and Capital Funds to correctly identify the composition of total fund balance amounts. Regarding the Special Revenue Fund, it is likely that any differences between individual project balances and total fund balance arise from past transactions in the City's legacy computer system and the subsequent transfer of those project balances to the new MUNIS accounting software. Procedures implemented in MUNIS require all receipts and disbursements to be identified by project.

Anticipated completion date: December 31, 2022

Regarding the Capital Fund, the City does not allocate the proceeds from the issuance of debt to individual capital projects because funding for capital improvement projects is tracked in subsidiary records, and verified by both the City's bond counsel and financial advisor, to identify project funding needs and prevent overfunding of any specific capital improvement project. Therefore, capital project balances are budget balances that cannot be reconciled to total fund balance. Rather, differences between individual capital project balances and total fund balance arise from investment earnings which are not allocated by project and should be transferred to the General Fund. We will verify the amount of accumulated interest earnings and make the necessary transfer.

Anticipated completion date: June 30, 2022

5. Reconcile Key General Ledger Balances Timely

Key general ledger accounts, including cash, investments and accounts receivable, were not reconciled in a timely manner during the year, which increases the risk of errors or irregularities not being detected and resolved in a timely manner. The City performed monthly cash and certain receivable reconciliations, but due to pending assistance from its software provider, the reconciliations were not finalized and formally approved on a monthly basis. Also, certain key accounts were only reconciled annually, and we noted that the City continued to make significant journal entries four months after year end.

We recommend that the City perform annual key account reconciliations more timely and implement a process whereby the independent review of monthly reconciliations is formally documented.

City's Response:

The City implemented new accounting software that continues to cause delays in periodic cash reconciliations due to difficulties in extracting relevant information and significant increases in the amount of time to perform reconciliation functions, despite additional staff hours and ongoing discussions with representatives of the software company. As a result, the reconciliation of cash and general ledger accounts, always performed in a timely manner before converting to MUNIS software, are now not complete until several months after the close of the fiscal year. Despite challenges resulting from the Covid-19 pandemic, these delays were significantly reduced in FY20 and FY21, and the City is continuing to explore ways to enhance the efficiency and timeliness of the reconciliation process.

Anticipated completion date: Ongoing

The reconciliation of taxes receivable is a new issue that arose during FY21 when a MUNIS software upgrade removed taxes receivable reports that were previously available in the accounting system, thereby causing delays in producing accurate receivable balances that could be reconciled to general ledger accounts. The City developed a workaround solution in FY21 and we continue to work with representatives of the software company to produce reports that will enable us to reconcile receivable accounts on a more timely basis in the future.

Anticipated completion date: June 30, 2022