

December 28, 2017

To the City Council and School Committee
City of Biddeford, 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 Biddeford, Maine as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Biddeford, 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 Biddeford, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Biddeford, Maine's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph of this section 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. However, as discussed below, we identified certain deficiencies in internal control 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by governance. We consider the deficiencies in internal control (2017-001 and 2017-002), described in the accompanying schedule of comments and responses to be significant deficiencies.

During our audit, we became aware of other matters that are opportunities for strengthening internal controls and operating efficiency. They have been identified in the Schedule of Comments and Responses as "Other Comments".

We wish to express our appreciation for the cooperation and assistance we received from the officials and employees of the City of Biddeford, Maine during the course of our audit. We will review the status of these comments during our next audit engagement. We have already discussed them with various City and School Department 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.

The City of Biddeford Maine's responses to the significant deficiencies and other comments identified in our audit are described in the accompanying Schedule of Comments and Responses. The City of Biddeford, 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.

This communication is intended solely for the information and use of management, City Council, School Committee, and others within the City of Biddeford, Maine, 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, reading "Raymond Kursten Ouellette". The signature is written in a cursive style with a large initial 'R'.

CITY OF BIDDEFORD, MAINE
Schedule of Comments and Responses
June 30, 2017

SIGNIFICANT DEFICIENCIES

2017-001 Budget Preparation Error

As part of the budget process, the City is required to pass a balanced budget that assesses to taxpayers the total appropriations less any non-property tax revenues. During the fiscal year 2017, we discovered that the City counted homestead and business equipment tax exemption revenues twice and subsequently understated the net property tax appropriation by \$757,000. We suggest that management properly account for all non-property tax revenues during the budget process and subsequently review the revenue budget prior to committing taxes to avoid this error in the future.

Management response/corrective action plan: The double counting of the revenue was found early in the fiscal year and the City Manager notified the Council immediately. The City Manager then updated the Council over the course of the year as to additional revenues or expense savings that were helping to offset the loss of tax revenue. The year ended with a positive addition to the fund balance, which showed that the shortage was managed. Fiscal year 2018 was handled appropriately, and taxes committed with the correct revenue.

2017-002 Saco Lofts TIF Error

During preparation of the annual tax increment financing (TIF) captured value schedules, the City erroneously included the captured valuation of Saco Lofts two times. This caused the amount reported as total TIF captured value on the municipal valuation return to be overstated by \$1,053,516 and subsequently caused the TIF assessment on the assessor's certificate of assessment to be overstated by \$20,923. We suggest that management establish control procedures that require adequate review to be applied to these calculations prior to preparing both the municipal valuation return and the assessor's certificate of assessment.

Management response/corrective action plan: The TIF captured value is now double checked by the Finance Director and the Assessor, to look at the amounts used in the municipal valuation return and assessor's certificate of assessment. The TIF values are given to Finance prior to commitment and entered into the TIF calculation sheet to double check that the total TIF values are captured at the same total amount both in the tax commitment and the TIF transfer of tax amount calculation.

OTHER COMMENTS

Employee Wage Rate Change

During our testing of the City's payroll process, we found that one employee's wage rate did not match their wage rate approval form. Upon further review, we discovered that the employee did not believe that they received their yearly cost of living adjustment and requested to have their pay adjusted. The payroll department subsequently adjusted the employee pay without reviewing the updated employee pay rate form, nor receiving approval from the City Manager. The total amount of the error was not material to the financial statements; however, this was an indication of management override of controls which greatly increases fraud risk. We suggest that in the future, the City Manager approve all wage rate changes as required by policy.

Management response/corrective action plan: The pay rate change was a onetime instance, and was due to timing. Changes to pay rates that are done off cycle will now need to come in the form of a Human Resource form, and no longer completed without someone double checking that it should be changed. This particular instance was due to two people making the same change to the employee, which made the change happen twice.

CITY OF BIDDEFORD, MAINE
Schedule of Comments and Responses, Continued
June 30, 2017

OTHER COMMENTS, CONTINUED

City Credit Card Expenditures

In our testing of credit card purchases for the City, we reviewed expenditures to ensure purchases were reasonable, receipts were present and properly coded, and that a valid business purpose was documented. We selected the month of August 2016, and reviewed all expenditures for the month. During our testing, we found that three of the charges tested did not have a receipt present. We recommend that all credit card statements are supported by receipts that are properly coded and the all charges represent a clear business purpose.

Management response/corrective action plan: The City is going to work on tightening up the credit card usage. A new policy will be created, and during the process look at the current usage. The City needs to look at the number of cards, what they are used for, etc. to determine if cards are used for the appropriate reasons. The process of purchasing online is now becoming a factor that we could save substantial money. We need to look at our policies to deal with this issue, along with making people responsible of handing in receipts.

Activity Fund Disbursements – Middle School

During testing of cash disbursements for the High School activity fund, we noted that three of the forty disbursements selected for testing did not have the required approval on the invoice to initiate the disbursement process. By not following the established control process, the risk of unauthorized disbursements and disbursements that do not support student activities is greatly increased. We recommend that the School utilize invoice approval process more consistently.

Management response/corrective action plan: Management has met with the principal and secretary in charge of the activity account and the recommendation is that the disbursements will be reviewed periodically to verify that there are proper signatures on all disbursements in the future.

Activity Fund Receipting – Middle School

During testing of the cash receipting process for the Middle School Activity fund, we discovered that the current receipt procedure is to use the deposit summary form as the receipt documentation, rather than filling out individual receipts upon collecting funds. This process makes determination of timely deposit very difficult as management is documenting the date the check was written, rather than the date the check was received by school personnel. We suggest that management improve the control process by filling out physical receipts every time funds are received by activity fund staff. The receipts should then be consolidated once a week to create the weekly deposit. This change will improve the receipting documentation and allow management to determine if funds are being deposited in a timely manner and ensure that deposit summary forms reflect actual cash collections.

Management response/corrective action plan: Management has met with the principal and the secretary in charge of the activity account and we have recommended that teachers who are collecting checks mark down on the receipt log the date they received the check and not the date that is on the check. In addition, the principal and the secretary will make every effort to make deposits on a weekly basis going forward.

CITY OF BIDDEFORD, MAINE
Schedule of Comments and Responses, Continued
June 30, 2017

OTHER COMMENTS, CONTINUED

Unrecorded Bank Account

A local fire firefighter group has a bank account, the Biddeford Call Force, which is in the School Department's name, but is not recorded within the accounting system. The total amount of cash in the Biddeford Call Force account at year end was \$1,034.90. According to management, the School Department has no control or access to this account; however, the account was opened with the School Department's Employer Identification Number. Allowing other entities to open bank accounts in the School Department's name without having access or control over the account increases the risk of fraud and material misstatement. We recommend that the account be closed and reopened in the Biddeford Call Force's name and tax identification number.

Management response/corrective action plan: I have contacted the fire department and I have been told that the account will be closed and reopened under a different tax ID number. We do not give out our tax ID number or authorize any groups to use our tax ID number to open accounts. I am not sure how the fire department got our tax ID number.

Standard Costing – Infrastructure

During our testing of additions for infrastructure assets, we discovered that management is utilizing a standard costing sheet that was created in 2003. Management has applied a yearly inflation factor each year since 2003; however, the sheet does not appear to be accurate compared with actual costs documented on contractor invoices. We suggest that if management wants to continue to use the standard costing, that all costs are adjusted to actual during fiscal year 2018, to increase accuracy of capitalized infrastructure amounts.

Management's Response/corrective action plan: The cost structure used is outdated. Over the course of this year, the Engineering department is working to update the costs. The costs will be updated at least every five years.