

CITY OF SANFORD, MAINE

**Reports Required by *Government Auditing
Standards* and OMB Circular A-133**

For the Year Ended June 30, 2013

CITY OF SANFORD, MAINE
Reports Required by *Government Auditing Standards*
and OMB Circular A-133
For the Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

City Council and School Committee
City of Sanford, Maine

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Sanford, Maine as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Sanford, Maine's basic financial statements and have issued our report thereon dated March 20, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Sanford, Maine's internal control over financial reporting (internal control) to determine the 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 Sanford, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Sanford, Maine's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and 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 consider the deficiency (2013-001) described in the accompanying schedule of findings and questioned costs to be a material weakness.

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. We consider the deficiencies (2013-002 through 2013-003) described in the accompanying schedule of findings and questioned costs to be significant deficiencies.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS, CONTINUED

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Sanford, Maine's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

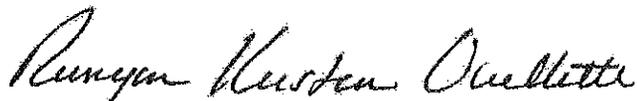
We noted certain matters that we reported to management of the City of Sanford, Maine, in a separate letter dated March 20, 2014.

City of Sanford, Maine's Responses to Findings

The City of Sanford, Maine's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City of Sanford, 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.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



March 20, 2014
South Portland, Maine

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

City Council and School Committee
City of Sanford, Maine

Report on Compliance for Each Major Federal Program

We have audited the City of Sanford, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Sanford, Maine's major federal programs for the year ended June 30, 2013. The City of Sanford, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Sanford, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Sanford, Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Sanford, Maine's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Sanford, Maine complied, in all material respects, with the types of requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED

Report on Internal Control over Compliance

Management of the City of Sanford, Maine is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Sanford, Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Sanford, Maine's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

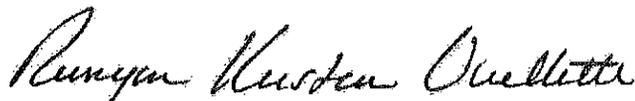
Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Sanford, Maine as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City of Sanford, Maine's basic financial statements. We issued our report thereon dated March 20, 2014, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



March 20, 2014
South Portland, Maine

CITY OF SANFORD, MAINE
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2013

| Federal Grantor/Program Title | Federal CFDA number | ARRA Funds | Pass-through number | Program or award amount | Balance at June 30, 2012 | Revenue Recognized | | Expenditures | | Balance at June 30, 2013 |
|---|---------------------|------------|-------------------------|-------------------------|--------------------------|--------------------|---------|--------------|---------|--------------------------|
| | | | | | | Federal | Other | Federal | Other | |
| | | | | | | Federal | Other | Federal | Other | |
| U.S. Department of Education: | | | | | | | | | | |
| Direct programs: | | | | | | | | | | |
| Extended Secondary Counseling Grant | 84.215E | | N/A | \$ 176,904 | (3,048) | 176,904 | - | 193,343 | - | (19,487) |
| Alcohol Abuse Reduction Grant | 84.184A | | N/A | 362,221 | (142) | 362,221 | - | 364,691 | - | (2,612) |
| Safe Schools Healthy Students | 84.184L | | N/A | 73,098 | (170) | 73,098 | - | 56,204 | - | 16,724 |
| Passed through Maine Department of Education: | | | | | | | | | | |
| Adult Basic Education | 84.002 | | 6296 | 59,489 | 25,838 | 59,489 | - | 65,383 | - | 19,944 |
| Title IA | 84.010 | | 3057 | 866,144 | 64,515 | 852,477 | - | 950,819 | - | (33,827) |
| Local Entitlement | 84.027 | | 3046 | 902,637 | (85,013) | 855,101 | - | 1,085,424 | - | (315,336) |
| 21st Century Grant | 84.287 | | 3054 | 124,169 | 706 | 124,169 | - | 124,169 | - | 706 |
| Preschool | 84.173 | | 6241 | 24,279 | 15,306 | 16,970 | - | 28,754 | - | 3,522 |
| Title 1-C Basic Grant | 84.048 | | 3030 | 153,240 | - | 153,240 | - | 152,790 | - | 450 |
| Title III - English Language Acquisition | 84.365 | | 3115 | 13,640 | (717) | 11,976 | - | 13,640 | - | (2,381) |
| Improving Teacher Quality | 84.367 | | 3042 | 262,140 | 273,897 | 251,136 | - | 228,911 | - | 296,122 |
| Total U.S. Department of Education | | | | | 291,172 | 2,936,781 | - | 3,264,128 | - | (36,175) |
| U.S. Department of Agriculture, passed through the Maine Department of Education: | | | | | | | | | | |
| National School Lunch Program - Food Donation | 10.555 | | 6134 | N/A | - | 83,509 | - | 83,509 | - | - |
| National School Lunch Program - Breakfast Program | 10.553 | | 3014 | N/A | - | 248,273 | - | 248,273 | - | - |
| National School Lunch Program - Subsidized Hot Lunch | 10.555 | | 3024 | N/A | 345,024 | 732,873 | 445,646 | 732,873 | 468,480 | 322,190 |
| Summer Food Service Program | 10.559 | | 3027 | N/A | - | 76,201 | - | 76,201 | - | - |
| Fresh Fruits and Vegetables | 10.582 | | 3028 | N/A | - | 63,923 | - | 63,923 | - | - |
| Total U.S. Department of Agriculture | | | | | 345,024 | 1,204,779 | 445,646 | 1,204,779 | 468,480 | 322,190 |
| U.S. Department of Housing and Urban Development, passed through Maine Department of Economic and Community Development: | | | | | | | | | | |
| Riverfront Grant | 14.228 | | 200910220000000002596-5 | 675,000 | 1 | 32,660 | - | 32,661 | - | - |
| Neighborhood Stabilization Program | 14.228 | | 200907150000000000329-9 | 2,472,189 | - | 783,308 | - | 783,308 | - | - |
| Neighborhood Stabilization Program 3 | 14.228 | | 201205170000000004978 | 3,950,000 | - | 3,701,038 | - | 3,701,037 | - | 1 |
| Technical Assistance Grant | 14.228 | | 201109200000000001543 | 20,000 | - | 20,000 | - | 20,000 | - | - |
| CDBG Public Service | 14.228 | | 201210170000000001615 | 50,000 | - | 50,000 | - | 50,000 | - | - |
| Business Assistance - NE Truck Tire Center | 14.228 | | 201210170000000001614 | 200,000 | - | 200,000 | - | 200,000 | - | - |
| Gateway Grant | 14.228 | | 201211280000000002083 | 500,000 | - | 57,306 | 2,600 | 57,306 | - | 2,600 |
| Mid Town Mall Project | 14.228 | | 201009090000000001408 | 123,000 | - | 32,095 | - | 32,095 | - | - |
| Total U.S. Department of Housing and Urban Development | | | | | 1 | 4,876,407 | 2,600 | 4,876,407 | - | 2,601 |

See accompanying notes to schedule of expenditures of federal awards.

CITY OF SANFORD, MAINE
Schedule of Expenditures of Federal Awards, Continued

| Federal Grantor/Pass-through Grantor/Program Title | Federal CFDA number | ARRA Funds | Pass-through number | Program or award amount | Balance at June 30, 2012 | Revenue Recognized | | Expenditures | | Balance at June 30, 2013 |
|---|---------------------|------------|---------------------|-------------------------|--------------------------|--------------------|----------------|------------------|----------------|--------------------------|
| | | | | | | Federal | Other | Federal | Other | |
| U.S. Department of Justice - Bureau of Justice Assistance: | | | | | | | | | | |
| Direct programs: | | | | | | | | | | |
| Local Law Enforcement Block Grant | 16.592 | | N/A | 24,389 \$ | 742 | - | - | 742 | - | - |
| Cops Hiring Grant | 16.710 | Y | N/A | 411,362 | - | 38,763 | - | 38,763 | - | - |
| Justice Assistance Grant | 16.738 | | N/A | 41,162 | 107 | - | - | 97 | - | 10 |
| Justice Assistance Grant | 16.738 | | N/A | 66,661 | (1,170) | 10,989 | - | 10,590 | - | (771) |
| Justice Assistance Grant | 16.738 | | N/A | 18,420 | - | 2,792 | - | 2,792 | - | - |
| Justice Assistance Grant - ARRA | 16.804 | Y | N/A | N/A | 8,074 | - | - | 7,627 | - | 447 |
| Justice Assistance Grant - ARRA | 16.804 | Y | N/A | N/A | - | 9,395 | - | 11,687 | - | (2,292) |
| Total U.S. Department of Justice - Bureau of Justice Assistance | | | | | 7,753 | 61,939 | - | 74,298 | - | (2,606) |
| U.S. Environmental Protection Agency: | | | | | | | | | | |
| Direct programs: | | | | | | | | | | |
| Goodall Brook Watershed | 66.605 | | N/A | 40,154 | - | 7,246 | - | 7,246 | - | - |
| Brownfields Assessment and Cleanup Cooperative Agreement | 66.818 | | N/A | 200,000 | 40,000 | 68,251 | - | 160,777 | - | (52,526) |
| Brownfields Assessment and Cleanup Cooperative Agreement | 66.818 | | N/A | 200,000 | (670) | 5,770 | - | 5,100 | - | - |
| Brownfields Assessment and Cleanup Cooperative Agreement | 66.818 | | N/A | 400,000 | - | 30,337 | - | 30,335 | - | 2 |
| Brownfields Area Planning Grant | 66.814 | | N/A | 175,000 | (2,856) | 24,299 | - | 21,443 | - | - |
| Total U.S. Environmental Protection Agency | | | | | 36,474 | 135,903 | - | 224,901 | - | (52,524) |
| U.S. Department of Transportation: | | | | | | | | | | |
| Direct programs: | | | | | | | | | | |
| Airport Improvement Program - Taxiways F, F1, G, & C&D | 20.106 | | N/A | 2,221,100 | 10,916 | - | - | 1,539 | - | 9,377 |
| Airport Improvement Program | 20.106 | | N/A | 4,937,964 | (4,312) | 4,312 | - | - | - | - |
| Passed through the Maine Bureau of Highway Safety: | | | | | | | | | | |
| Safe Routes to School | 20.205 | | N/A | 20,000 | (3,939) | 15,447 | - | 11,508 | - | - |
| Total U.S. Department of Transportation | | | | | 2,665 | 19,759 | - | 13,047 | - | 9,377 |
| U.S. Department of Homeland Security, passed through Maine Emergency Management Agency: | | | | | | | | | | |
| FEMA 1891 DR ME | 97.036 | | N/A | 346,714 | 58,578 | - | - | 58,578 | - | - |
| FEMA 1920 DR ME | 97.036 | | N/A | 185,118 | 212,142 | - | - | 121,706 | - | 90,436 |
| FEMA 4092 DR ME | 97.036 | | N/A | 18,721 | 1,037 | - | - | 1,037 | - | - |
| FEMA | 97.036 | | N/A | N/A | - | 40,381 | - | - | - | 40,381 |
| FEMA Home Fire Sprinkler Stipend | 97.044 | | N/A | N/A | - | 1,000 | - | 1,000 | - | - |
| Total U.S. Department of Homeland Security | | | | | 271,757 | 41,381 | - | 182,321 | - | 130,817 |
| Corporation for National and Community Service: | | | | | | | | | | |
| Direct program: | | | | | | | | | | |
| Learn and Serve - Summer of Service | 94.018 | | N/A | 24,009 | 2,450 | 24,009 | - | 24,119 | - | 2,340 |
| Total Corporation for National and Community Service | | | | | 2,450 | 24,009 | - | 24,119 | - | 2,340 |
| Totals | | | | \$ | 957,296 | 9,300,958 | 448,246 | 9,862,000 | 468,480 | 376,020 |

See accompanying notes to schedule of expenditures of federal awards.

CITY OF SANFORD, MAINE
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, requires a Schedule of Expenditures of Federal Awards showing total expenditures for each federal award program as identified in the Catalog of Federal Domestic Assistance (CFDA).

SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity - The accompanying schedule includes all federal award programs of the City of Sanford, Maine for the fiscal year ended June 30, 2013. The reporting entity is defined in the notes to basic financial statements of the City of Sanford, Maine.

- B. Basis of Presentation - The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.
 - 1. Pursuant to OMB Circular A-133, federal awards are defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance or direct appropriations.

 - 2. Major Programs - OMB Circular A-133 establishes the level of expenditures or expenses to be used in defining major federal award programs. Major programs for the City of Sanford, Maine are identified in the summary of auditor's results in the Schedule of Findings and Questioned Costs.

- C. Basis of Accounting - The information presented in the Schedule of Expenditures of Federal Awards is presented on the modified accrual basis of accounting, which is consistent with the reporting in the City's fund financial statements.

CITY OF SANFORD, MAINE
Schedule of Findings and Questioned Costs
Year ended June 30, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified? Yes

Significant deficiencies identified? Yes

Noncompliance material to financial statements noted? No

Federal Awards

Internal Control over major programs:

Material weaknesses identified? No

Significant deficiencies identified? None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? No

Identification of major programs:

| <u>CFDA Numbers</u> | <u>Name of Federal Program or Cluster</u> |
|--------------------------------|---|
| 10.550, 10.553, 10.555, 10.559 | Child Nutrition Cluster |
| 14.228 | Community Development Block Grants |
| 84.010 | Title IA – Basic Disadvantaged Program |
| 84.215E | Secondary School Counseling Program |

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

CITY OF SANFORD, MAINE
Schedule of Findings and Questioned Costs, Continued

Section II - Findings Required to be Reported Under *Government Auditing Standards*

MATERIAL WEAKNESS

2013-001 Reconciliation Between 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's general ledger and the City's general ledger on a monthly basis. This reconciliation should be performed as soon after month end as feasible. An essential part of this process is for the City to receive all School Department journal entries and postings promptly so that they can be posted to the City's accounting software.

As of June 30, 2013, the revenues and expenditures on the School Department's accounting system did not reconcile with the revenues and expenditures that were posted on the City's accounting system. When we arrived for fieldwork on November 11, 2013, the financial information presented had variances in both revenues and expenditure amounts for both the General Fund and Special Revenue Funds. These variances were as follows:

- General Fund revenues (includes Adult Education) - \$422,222.18
- General Fund expenditures (includes Adult Education) - \$430,697.22
- Special Revenue Fund revenues - \$93,057.89
- Special Revenue Fund expenditures - \$1,505.48

Work continued on the reconciliation process through the month of January when it was eventually completed. We recommend that a reconciliation between the City and School accounting software be performed monthly. Any variances should be investigated promptly and entries should be posted to the proper system (whether the City or School) accordingly so that the two accounting systems present the same financial information.

Management's response/corrective action plan: The School Department recognizes the recommendation of the auditor that monthly reconciliations take place between the City and the School. Significant account investigation has taken place over the past two years to determine the reasons why the reconciliation is so cumbersome. One of the accounting software programs (Grant Tracker) was eliminated from use this past fiscal year and each special revenue fund was separated to an individual account. This process has allowed effective tracking of the grants funds between the City and School Department. All grant and special revenue accounts are examined monthly and adjusting entries are made with the coordination of the City and School Department data as it is received. The goal for this process is 15 days after the close of month end.

The change in audit firms in each of the past two years has had timing delays with the beginning of the audit and the budget process, calendar year-end work and ending of the audit. The specific delay issue, as addressed in the material weakness reference from the auditor, resulted in a delay from November to January because of the need for clarifying questions. In question was making the appropriate journal entry determination for the medical insurance premium pass-through account that developed as a result from the change in insurance carriers and the mandated State retiree health insurance obligation. It was corrected at a meeting with the audit firm after consideration of the holiday schedule from both parties.

CITY OF SANFORD, MAINE
Schedule of Findings and Questioned Costs, Continued

Section II - Findings Required to be Reported Under *Government Auditing Standards*, Continued

Additionally, an outside accounting firm was hired to consult on the reconciliation process. Several additional steps were taken to improve the reporting of the payroll accounts and to provide additional detail for both the City and School Departments' entries for posting, which allowed for liability account entries. Two new accounts were established on the City side. This process and corrective action resolved only part of the problem with the balance sheet accounts. The School Department is considering additional alternatives that will be investigated as well as moving to the City accounting system and/or changing the current accounting software.

SIGNIFICANT DEFICIENCIES

2013-002 Preparation of Financial Statements

Auditing standards require external auditors to determine whether or not client personnel having responsibility over the financial reporting process have acquired the expertise to identify all financial reporting matters in compliance with generally accepted accounting principles. In other words, it requires that the annual financial statements (including all fund reporting, disclosures and government-wide statements) could be accurately prepared and understood in-house *without the assistance of the external auditor*. Additionally, when the auditing firm does prepare the financial statements, the City or School must assign a competent management level individual to oversee this service. Management must review, approve and accept responsibility for the financial statements and related notes.

Currently, it is common practice for governmental entities to rely on their external auditors to provide the expertise necessary to prepare the financial statements and the related disclosures. The cost-benefit of doing otherwise may not be justifiable to management. However, because the City and School Department currently takes this approach, they are considered to have a control deficiency in the design of controls over the preparation of the financial statements in accordance with generally accepted accounting principles.

Management's response/corrective action plan: The City of Sanford has relied on external auditors to provide the necessary expertise to prepare the financial statements and related disclosures. This is a cost-benefit and justifiable to management. Management is capable of reviewing, approving and accepting responsibility for the financial statements and related notes.

2013-003 Expenditure Reports for School Accounting System

As required by the State of Maine Department of Education, expenditures for School Units are to be reported by the 11 cost articles, which include regular instruction, special education, school administration, etc. Groupings of expenditures must be set up within the School Department's accounting system to report all expenditures by these cost articles. When running reports from the School Department's accounting system, we noted that the expenditures were \$294,802.22 less than the total amount of expenditures reported within the School Department's trial balance for the general fund (funds 1000, 1200, and 1300). We recommend the School Department review the groupings for its expenditures and ensure that all expenditures within the general fund are properly grouped within one of the 11 cost articles.

Management's response/corrective action plan: Management has reviewed the recommendation by the auditor with regard to groups of expenses in Funds 1000, 1200, and 1300. Internal audits and adjustments will be made for all of the 11 account groupings as required by Maine Department of Education chart of accounts. A transfer of accounts request form has been implemented to assure that cost center managers and the business office sign off before changes are made in the accounting system.

CITY OF SANFORD, MAINE
Schedule of Findings and Questioned Costs, Continued

Section III - Findings and Questioned Costs for Federal Awards

None

CITY OF SANFORD, MAINE
Schedule of Findings and Questioned Costs, Continued

Section IV - Status of Prior Year Findings and Questioned Costs

2012-4 Unreasonable Allocation of Administrative Salary

Statement of Condition: The School Department administered grants but did not have a documented method of allocating salaries.

Effect: Supporting documentation aids in providing assurance that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements. Furthermore, without documentation, it is not possible to establish whether costs complied with grant requirements surrounding allowable activities and allowable costs/cost principles.

Cause: The School Department could not provide documentation supporting the allocation of administrative salaries to the grant.

Questioned Costs: \$11,138

Status: No finding reported in the current year

2012-5 Free and Reduced-Price Meals Provided to Ineligible Children

Statement of Condition: Identification of 62 children who were deemed eligible through "administrative override", which was a procedure not in conformity with the procedures established by the USDA and the State of Maine.

Effect: Sixty-two children who were made eligible for free and reduced-price meals through "administrative override" may not have been truly eligible. The School Department received reimbursement for those meals from the State of Maine, and ultimately, the Federal government.

Cause: The School Department used a procedure called "administrative override" which involved a school administrator, such as a principal, preparing a parental free and reduced-price lunch application form that included only the child's name and administrator's signature. No documentation of estimated household income or size was provided.

Questioned Costs: \$29,256

Status: No finding reported in the current year

CITY OF SANFORD, MAINE
Schedule of Findings and Questioned Costs, Continued

Section IV - Status of Prior Year Findings and Questioned Costs, Continued

2012-6 Hiring of Highly-Qualified Teachers

Statement of Condition: Two of the three teachers selected for testing were not Highly-Qualified Teachers according to Federal criteria.

Effect: Two out of three recently-hired teachers examined were not Highly-Qualified Teachers.

Cause: Principals of the two aforementioned teachers reported that they were not Highly-Qualified Teachers at the date of hire or at the date of the audit. They lacked evidence of subject-matter mastery.

Questioned Costs: N/A

Status: No finding reported in the current year