

**CITY OF SACO, MAINE**

**Reports Required by *Government Auditing  
Standards* and the Uniform Guidance**

**For the Year Ended June 30, 2017**

**CITY OF SACO, MAINE**  
**Reports Required by *Government Auditing Standards***  
**and the Uniform Guidance**  
**For the Year Ended June 30, 2017**

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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 Board  
City of Saco, 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, business-type activities, each major fund, and the aggregate remaining fund information of the City of Saco, Maine as of and for the year ended, June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Saco, Maine's basic financial statements and have issued our report thereon dated January 22, 2018.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City of Saco, 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 Saco, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Saco, 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 City's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. 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.

**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 Saco, 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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying findings and questioned costs as item 2017-001.

We noted certain other matters that we reported to management regarding internal control over financial reporting that we have reported in the section “Other Comments.”

**City of Saco, Maine’s Responses to Finding and Other Comments**

The City of Saco, Maine’s responses to the findings and other comments identified during our audit are described in the accompanying schedule of findings and questioned costs. The City of Saco, 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.



January 22, 2018  
South Portland, Maine

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE**

City Council and School Board  
City of Saco, Maine

**Report on Compliance for Each Major Federal Program**

We have audited the City of Saco, Maine's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City of Saco, Maine's major federal programs for the year ended June 30, 2017. The City of Saco, 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the City of Saco, 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 in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Saco, 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 Saco, Maine's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Saco, Maine complied, in all material respects, with the types of compliance 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, 2017.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED**

**Report on Internal Control over Compliance**

Management of the City of Saco, 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 Saco, 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 the Uniform Guidance, 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 Saco, 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 a 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 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 based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED**

**Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance**

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Saco, Maine, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City of Saco, Maine's basic financial statements. We issued our report thereon dated January 22, 2018, 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 accompany schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance 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 taken as a whole.



January 22, 2018  
South Portland, Maine

**CITY OF SACO, MAINE**  
**Schedule of Expenditures of Federal Awards**  
**For the year ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass- through Grantor's Number	Total Federal Expenditures	CFDA/ Cluster Totals	Passed Through to Subrecipients
U.S. Department of Education, passed through					
Maine Department of Education:					
Title IA	84.010	3107	\$ 407,042		-
Special Education Cluster:					
Local Entitlement	84.027	3046	701,917		-
Preschool Grant	84.173	6247	11,261		-
Total Special Education Cluster				713,178	
Title III	84.365	N/A	6,100		-
Title IIA - Supporting Effective Instruction	84.367	3042	66,553		-
Total U.S. Department of Education			1,192,873		-
U.S. Department of Agriculture, passed through					
Maine Department of Education:					
Child Nutrition Cluster:					
National School Lunch Program	10.555	3024	252,897		-
School Breakfast Program	10.553	3014	113,951		-
Summer Food Service Program	10.559	3016	77,471		-
Food Donation Program	10.555	N/A	52,467		-
Total Child Nutrition Cluster				496,786	
Total U.S. Department of Agriculture			496,786		-
U.S. Department of Homeland Security, passed through					
Maine Emergency Management Agency:					
Emergency Management Performance Grant	97.042	EMW-2015-EP-00056	705		-
Total U.S. Department of Homeland Security			705		-
U.S. Department of Justice, direct:					
2015 Paul Coverdell Forensic Science Improvement Grant	16.742	2015-CD-BX-0019	1,636		-
Total U.S. Department of Justice			1,636		-
U.S. Environmental Protection Agency, passed through					
Maine Department of Environmental Protection:					
2017 Goosefare Brook Watershed	66.605	06A 20161216*1908	7,869		-
Total U.S. Environmental Protection Agency			7,869		-
U.S. Department of Transportation, passed through					
Maine Department of Public Safety:					
Highway Safety Cluster:					
State and Community Highway Safety - Speed Enforcement	20.600	PT-16-023	1,139		-
Total Highway Safety Cluster				1,139	
Total U.S. Department of Transportation			1,139		-
<b>Total federal awards</b>			<b>\$ 1,701,008</b>		<b>-</b>

*See accompanying notes to schedule of expenditures of federal awards.*

**CITY OF SACO, MAINE**  
**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

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**PURPOSE OF THE SCHEDULE**

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Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), 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).

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**SIGNIFICANT ACCOUNTING POLICIES**

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- A. Reporting Entity - The accompanying schedule includes all federal award programs of the City of Saco, Maine for the fiscal year ended June 30, 2017. The reporting entity is defined in the Notes to Basic Financial Statements of the City of Saco, Maine.
  
- B. Basis of Presentation - The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with the Uniform Guidance.
  - 1. Pursuant to the Uniform Guidance, 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 - the Uniform Guidance establishes the level of expenditures or expenses to be used in defining major federal award programs. Major programs for the City of Saco, Maine are identified in the summary of auditor's results section 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 of Saco, Maine's fund financial statements.
  
- D. Indirect Cost Rate - The City of Saco, Maine has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

**CITY OF SACO, MAINE**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2017**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weaknesses identified? No

Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? Yes

**Federal Awards**

Internal control over major federal programs:

Material weaknesses identified? No

Significant deficiencies identified? None reported

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

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance? No

Identification of major federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title 1A
84.027, 84.173	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No

**CITY OF SACO, MAINE**  
**Schedule of Findings and Questioned Costs, Continued**

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

**COMPLIANCE FINDING**

**2017-001 School Expenditures in Excess of Budget**

In accordance with the State of Maine Department of Education audit requirements and MRA Title 20-A §6051, we determined that the School Department has exceeded its authority to expend funds, as provided by the total budget summary article. The School Department exceeded its total budget by \$1,248,369.

**Management response/corrective action plan:**

*The School Department is focused and dedicated on reducing our negative fund balance and correcting a debt that has been with the School Department from the start of our new district. This current fiscal year had several factors that we're cleaning up to help our financials long term. We booked the entire amount owed to Thornton Academy of \$760k that has accumulated over the last three years. We also had a large influx of needs for our Special Education student population. Thornton Academy had an \$85k increase for those student Special Education needs and our district needed to hire additional staffing to meet these needs in the amount of \$100k. Our transportation costs increased by \$240k because we agreed to transport Arundel students that attended Thornton Academy for them, which in turn, Thornton Academy paid us for those services where we received offsetting revenue for this cost.*

*Our goal is to budget accordingly and increase our expenditure budget based on the needs of our school district, while keeping tax increases in mind, but not allowing that factor to dictate a lack of funding to teach our youth. With the help from the City of Saco we will be addressing our negative fund balance as one entity.*

**OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES)**

**Municipal Valuation Report (City)**

While reviewing the 2016 Municipal Valuation Return we noted that the total taxable valuation of real estate and personal property does not equal the individual totals for each of the respective valuations categories listed on the valuation return. The 2016 property tax levy amount listed on the valuation return is correct, however, it is important to accurately report all the information on the return. We recommend someone other than the person preparing the return to review the information for accuracy before submitting it to the State.

**Management response/corrective action plan:**

*Moving forward, the City Administrator will review the work of the Assessment and Finance department before submitting to the state.*

**CITY OF SACO, MAINE**  
**Schedule of Findings and Questioned Costs, Continued**

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

**OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued**

**Activity Funds (School)**

As part of our annual audit, we performed certain procedures with respect to the individual student activity funds. These procedures included gaining an understanding of the internal control procedures, and performing certain control and substantive testing. During this year's audit we performed tests at the following locations: Saco Middle School and Burns School. Areas for improvement related to this testing are as follows:

**Saco Middle School** - During our testing of cash receipts, we noted five of forty transactions tested in which the deposits were made over two weeks after receipt. Excess funds held onsite are at a greater risk of theft or misuse than funds deposited in a bank. We recommend that Saco Middle School develop a policy to reduce the risk of theft or misuse of cash on hand by limiting the amount of time that cash is held onsite. Personnel should be properly trained and equipped to implement policies and procedures.

**Burns School** - During our testing of cash receipts, we noted two of four transactions tested in which the deposits were made over two months after receipt. Excess funds held onsite are at a greater risk of theft or misuse than funds deposited in a bank. We recommend that Burns School develop a policy to reduce the risk of theft or misuse of cash on hand by limiting the amount of time that cash is held onsite. Personnel should be properly trained and equipped to implement policies and procedures.

**Management response/corrective action plan:**

*For all Saco schools, we are proposing a new policy stating all deposits will need to be made within a bi-weekly basis to insure that all schools will be able to abide by the policy. This will improve consistency throughout the district as well as reduce potential fraud from occurring.*

*The business office will continue to monitor the schools activity funds quarterly and strictly scrutinize all transactions to ensure each transaction has the proper documentation. We will guide each school in understanding where their deficiencies may be and continue to educate them with ongoing changes that may be occurring under the government auditing standards.*

**Approval of Journal Entries (City)**

While testing control procedures over journal entries at the City, we became aware that the Finance Director has the ability to post journal entries directly to the general ledger without any secondary review. As such, the risk of account manipulation and fraud is possible. We recommend that the City adopt a formal journal entry review process to mitigate the risk of fraud.

**Management response/corrective action plan:**

*The City will prepare a process to ensure a secondary review/approval of journal entry changes to the general ledger and bring to Council for approval of the new formal process.*

***Contact person for School corrective action:***

***Jason DiDonato, School Finance Director***  
***207-284-5951***

***Contact person for City corrective action:***

***Kevin L. Sutherland, City Administrator***  
***207-284-4191***

**CITY OF SACO, MAINE**  
**Schedule of Findings and Questioned Costs, Continued**

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**Section III - Federal Award Findings and Questioned Costs**

NONE

**CITY OF SACO, MAINE**  
**Schedule of Findings and Questioned Costs, Continued**

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**Section IV - Status of Prior Year Findings and Questioned Costs for Federal Awards**

NONE