

CITY OF SACO, MAINE

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

For the Year Ended June 30, 2016

CITY OF SACO, MAINE
Reports Required by *Government Auditing Standards*
and the Uniform Guidance
For the Year Ended June 30, 2016

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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, 2016, 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 December 23, 2016.

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 of 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 that are required to be reported under *Government Auditing Standards*.

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 Other Comments

The City of Saco, Maine’s responses to the 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.



December 23, 2016
South Portland, Maine

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR 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, 2016. 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, 2016.

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR 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 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, 2016, 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 December 23, 2016, 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.



December 23, 2016
South Portland, Maine

CITY OF SACO, MAINE
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2016

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	\$ 445,140		-
Title IA - Focus School	84.010A	N/A	6,005	451,145	-
Special Education Cluster:					
Local Entitlement	84.027	3046	731,705		-
Preschool Grant	84.173	6247	11,034		-
Total Special Education Cluster				742,739	
Title III	84.365	N/A	3,772		-
Title IIA - Teacher Quality	84.367	3042	70,048		-
Total U.S. Department of Education			1,267,704		-
U.S. Department of Agriculture, passed through					
Maine Department of Education:					
Child Nutrition Cluster:					
National School Lunch Program	10.555	3024	275,742		-
School Breakfast Program	10.553	3014	139,597		-
Summer Food Service Program	10.559	3016	24,799		-
Food Donation Program	10.555	N/A	29,899		-
Total Child Nutrition Cluster				470,037	
Total U.S. Department of Agriculture			470,037		-
U.S. Department of Homeland Security, passed through					
Maine Emergency Management Agency:					
Emergency Management Performance Grant	97.042	EMW-2015-EP-00056	1,400		-
Total U.S. Department of Homeland Security			1,400		-
U.S. Department of Justice, direct:					
2015 Paul Coverdell Forensic Science Improvement Grant	16.742	2015-CD-BX-0019	55,582		-
2015 Byrne Memorial Justice Assistance Grant	16.738	2015-DJ-BX-0241	12,099		-
Total U.S. Department of Justice			67,681		-
Total federal awards			1,806,822		-

See accompanying notes to schedule of expenditures of federal awards.

CITY OF SACO, MAINE
Notes to Schedule of Expenditures of Federal Awards
June 30, 2016

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB)'s 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).

SIGNIFICANT ACCOUNTING POLICIES

- A. Reporting Entity - The accompanying schedule includes all federal award programs of the City of Saco, Maine for the fiscal year ended June 30, 2016. 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, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over compliance:	
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 the Uniform Guidance?	No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.559	Child Nutrition Cluster
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

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

NONE

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES)

Deleting Invoices Once Payment Received

While performing our search for subsequent receipts, we noted two items that we were unable to get appropriate invoices or supporting documentation. Upon inquiry with the City Finance Director, it was noted that these invoices pertained to the Police Department and that once payment for such invoice is received, the Police Department deletes such invoice. This is not an acceptable practice and we recommend that invoices created by the Police Department no longer be deleted once payment is received. It is important to maintain an audit trail and have the appropriate supporting documentation for all items that are entered into the City's general ledger system.

Management response/corrective action plan: Based upon finding this out, the short-term fix has been established to have the Police Department keep a copy of all invoices. The process is going to be changed in the future; the Police Chief and the Finance Director will be meeting in January to make a plan to change the process to use Munis to maintain the Police Department accounts receivable.

Activity Funds

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 ten of forty-seven 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 four of eight 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 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.

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

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued

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.

Verification of School Nutrition Applications

During our audit of the School Nutrition program, we noted that the results of the verification process were incorrectly reported amongst the various categories of free, reduced, or paid on the verification report submitted to the State. Although the students were properly charged the appropriate meal price, we recommend that the Director review the verification report prior to submission.

Management response/corrective action plan:

As a result of a review of the Saco School Nutrition Program conducted by DOE Child Nutrition Services on March 1, 2016, it was discovered that during our verification process, eligibility for free meal benefits for two students was incorrectly determined. The families submitted pay stubs showing biweekly income. Gross income was then multiplied by 2 to arrive at a monthly income, which was incorrect. Instead, the income should have been multiplied by 26 to determine yearly, instead of monthly, income. This resulted in an eligibility change in which one child's meal status was changed from free to reduced (which is no cost in Saco Schools), and another child's meal status was changed from reduced to full price. After this was discovered, families were then notified by phone call, followed by a letter, and children's meal status was corrected. This meal status change for a few students that occurred after the verification report was submitted to the State explains why the original number of free, reduced, and paid students reported on the verification report differed from those in the verification documentation.

Uniform Guidance

Recently the Office of Management and Budget (OMB) revised regulations applicable to federally funded programs. The new regulations are contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Uniform Guidance replaces OMB Circulars A-133, A-87, and A-110 and incorporates new requirements for grant recipients. The Uniform Guidance includes not only protocols for program management and administration, but also updates compliance regulations for federal awards. We recommend that you become familiar with the requirements of the Uniform Guidance, and take the necessary steps to ensure full compliance with the guidance.

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

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued

One of the more significant provisions of the Uniform Guidance that affects the City and School is the procurement standards under 2 CFR sections 200.318 through 200.326. Under the new procurement standards, you are required to have a documented purchasing policy, which at a minimum, incorporates the provisions of the Uniform Guidance. Currently the City or School does not have a formal written procurement policy that incorporates the provisions of the Uniform Guidance. We recommend that management review the applicable provisions of the Uniform Guidance and update the procurement policy appropriately. The OMB has provided a grace period for non-federal entities to comply with the new procurement provisions, after which time non-compliance will be considered a federal finding. The grace period applicable to the City and School expires on June 30, 2017.

Management response/corrective action plan:

Based upon the new compliance regulations, the Business Manager will become familiar with the "Uniform Guidance," to ensure that all protocols and requirements going forward are met based upon The Uniform Guidance Regulations. A new formal documented purchasing policy that meets the provisions of the Uniform Guidance is currently being drafted and will be in place by June 30, 2017.

Contact person for School corrective action:

Jason DiDonato, School Finance Director
207-284-5951

Contact person for City corrective action:

Cheryl Fournier, City Finance Director
207-284-4191

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

Section III - Federal Award Findings and Questioned Costs

NONE

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

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

2015-001 – U.S. Department of Agriculture, for the Period July 1, 2014 through June 30, 2015, CFDA #10.553 – 10.559 School Nutrition Cluster

Statement of Condition: On two occasions, meal counts for free and reduced meals as reported to the State Department of Education on the monthly claim forms, did not agree with the underlying meal count records maintained by the individual schools participating in the program.

Criteria: Accurate counts and reporting are required for proper calculation of federal subsidy.

Cause: The individual schools use an automated system in recording meal counts, but the counts from that system were not properly recorded on the monthly claim forms.

Status: The meal counts reported on the monthly claim forms agreed to the meal count records maintained by the individual schools.