

CITY OF SACO, MAINE

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

For the Year Ended June 30, 2018

CITY OF SACO, MAINE
Reports Required by *Government Auditing Standards*
and the Uniform Guidance
For the Year Ended June 30, 2018

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Certified Public Accountants and Business Consultants

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 the 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, 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, 2018, 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 28, 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 schedule of findings and questioned costs as item 2018-001.

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 finding and other comments identified in 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 28, 2018
South Portland, Maine



Certified Public Accountants and Business Consultants

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE 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, 2018. 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 contained 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, 2018.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE 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 AND ON INTERNAL CONTROL OVER COMPLIANCE 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, 2018, 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 28, 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 accompanying 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 as a whole.



December 28, 2018
South Portland, Maine

CITY OF SACO, MAINE
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2018

| 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 | \$ 368,226 | | - |
| Title IA - Focus School | 84.010A | N/A | 10,000 | 378,226 | - |
| Special Education Cluster: | | | | | |
| Local Entitlement | 84.027 | 3046 | 672,322 | | - |
| Preschool Grant | 84.173 | 6247 | 6,520 | | - |
| Total Special Education Cluster | | | | 678,842 | |
| Title III | 84.365 | 3115 | 89 | | - |
| Title IIA - Supporting Effective Instruction | 84.367 | 3042 | 84,309 | | - |
| Total U.S. Department of Education | | | 1,141,466 | | - |
| U.S. Department of Agriculture, passed through | | | | | |
| Maine Department of Education: | | | | | |
| Child Nutrition Cluster: | | | | | |
| National School Lunch Program | 10.555 | 3024 | 263,999 | | - |
| School Breakfast Program | 10.553 | 3014 | 118,122 | | - |
| Summer Food Service Program | 10.559 | 3016 | 88,164 | | - |
| Food Donation Program | 10.555 | N/A | 49,245 | | - |
| Total Child Nutrition Cluster | | | | 519,530 | |
| Total U.S. Department of Agriculture | | | 519,530 | | - |
| U.S. Department of Homeland Security, passed through | | | | | |
| Maine Emergency Management Agency: | | | | | |
| Disaster Grants - Public Assistance | 97.036 | N/A | 82,257 | | - |
| Total U.S. Department of Homeland Security | | | 82,257 | | - |
| U.S. Department of Housing and Urban Development, passed through the | | | | | |
| Maine Department of Economic and Community Development: | | | | | |
| CDBG Workforce Development | 14.228 | N/A | 17,316 | | - |
| Total U.S. Department of Housing and Urban Development | | | 17,316 | | - |
| 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 | 6,133 | | - |
| State and Community Highway Safety - OUI Grant | 20.600 | N/A | 1,674 | | - |
| Total Highway Safety Cluster | | | | 7,807 | |
| Total U.S. Department of Transportation | | | 7,807 | | - |
| Total federal awards | | | \$ 1,768,376 | | - |

See accompanying notes to schedule of expenditures of federal awards.

CITY OF SACO, MAINE
Notes to Schedule of Expenditures of Federal Awards
June 30, 2018

PURPOSE OF THE SCHEDULE

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).

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, 2018. 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, 2018

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> |
|---------------------|---|
| 10.553-10.559 | Child Nutrition Cluster |

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

Auditee qualified as low-risk auditee? Yes

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

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

COMPLIANCE FINDING

2018-001 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 \$177,912.

Management response/corrective action plan: The School Board elected to purchase 1:1 Chrome Books in the amount of \$125K for grades 3-5 when the State of Maine granted Saco an additional \$355K in State Subsidy. This decision was made due to the current inadequate equipment to ensure proper State testing requirements.

The other area of significant budget overage was in our Special Education Department. Our tuition to Thornton Academy was over spent by \$140K due to additional student needs in the program that was not anticipated.

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES)

School Lunch Verification (School)

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 student was properly charged the appropriate meal price, we recommend that the Director review the verification report prior to submission.

Management response/corrective action plan: During the Administrative Review of the Saco School Nutrition program in November 2017, the Child Nutrition DOE reviewer determined that one free & reduced meals application was verified incorrectly. An error was made in checking the Income Tax Return the parent sent to us for income verification of self-employment. As a result, the parent was given 10 days written notification that the child was no longer eligible for reduced price meals.

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. Areas for improvement related to this testing are as follows:

Saco Middle School - During our testing of cash receipts, we noted nine of forty-six 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.

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

Saco Middle School - During our testing of cash disbursements, we noted nine of forty-one transactions tested in which the disbursements did not have any supporting documentation. We recommend that Saco Middle School adhere to the policies and procedures set forth by the Central Office regarding cash transactions for student activity funds. Personnel should be properly trained and equipped to implement policies and procedures.

Management response/corrective action plan: This year the individual that maintains the activity funds for Saco Middle School was out due to a surgery for several months. During that time, it was realized that there had not been proper cross training and many of the concerns raised in the audit was discovered during that period. We have since trained a backup just in case something like that occurs again. They are aware of the issues and have worked hard to correct those deficiencies and assured that won't occur to that extent in the future.

Contact person for School corrective action:
Jason DiDonato, School Finance Director
207-284-5951

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 – Summary Schedule of Status of Prior Year Findings and Questioned Costs for Federal Awards and Government Auditing Standards

Federal Awards – None

Government Auditing Standards -

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.

Status: See current year finding 2018-001.