City of Portland, Maine
Remote Joint City/School Finance Committee Meeting
Thursday, April 4, 2024
5:00 PM, Remote via ZOOM

AGENDA

PUBLIC COMMENT INFORMATION

To submit written public comment on an agenda item for which public comment is being accepted, email finance@portlandmaine.gov. Submissions must be received by 12:00 pm the day before the Finance Committee meeting to guarantee their inclusion in the agenda packet. All submissions must include the commenter's name and legal address. To help ensure your comment is submitted for the correct item, please include the name of the agenda item (see below).

ZOOM MEETING INFORMATION

This meeting will take place remotely using Zoom.
This meeting will be held remotely pursuant to the Remote Meeting Policy adopted by the Portland City Council. Allow your computer to install the free Zoom app to get the best meeting experience. If you are not able to attend live, a recording will be available in the Agenda Center following the meeting. For agenda items where public comment is scheduled, you will need to use the "raise your hand" feature. To raise your hand via the telephone, please hit *9. You will be unmuted by the host when it is time for public comment.
Please click the link below to join the webinar:
https://portlandmaine-gov.zoom.us/j/85247906218?pwd=bmxkd1RYbWZvOE83L1ViN2hnSjRQUT09
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Or One tap mobile :
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+1 305 224 1968 US
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International numbers available: https://portlandmaine-gov.zoom.us/u/kcotbN8kK1

1. Introductions

2. FY25 Portland Public Schools Budget Discussion - Follow Up and Q&A

At the meeting the Joint City/School Finance Committee will continue to jointly discuss the FY25 Portland Public Schools Budget and the results of a PPS Finance Committee vote on the budget from 4/1. Staff will hear responses to Q&A from the previous meeting and see details from a City budget frequently asked questions and answers document presented by the City Finance Director. The School Department budget materials are available at the PPS Finance website here: https://www.portlandschools.org/department/finance/fy-2025-budget. If any meeting materials are provided in advance by PPS they will be added to the agenda packet. This is the second of two joint City/School meetings as required by the City Charter. This is a discussion item only - no action will be taken at the current meeting.

3. Presentation of FY23 (6/30/23) Audit Results - Marcum LLP

The Joint City/School Finance Committee will receive a presentation on results of the audit of the City/Schools for the year ended 6/30/23. The auditors will review their findings from the fiscal year and management letter recommendations for future improvements. Committee members will have time to ask questions and responses will be provided at the current meeting (if readily available) or a future joint City/School meeting. School and City staff will discuss the Management Letter responses and future steps which will need to be taken to address audit issues raised. This is a discussion item only - no action will be taken at the current meeting.

4. Review of Upcoming Meeting Dates and Topics

a. Monday, April 8th - City Council Meeting - Presentation of City Manager's Recommended Budget (action to refer budget to Finance Committee for review)
b. Various April 2024 dates - Finance Committee budget review - see Finance Committee web page for complete listing of updated City budget review dates.

5. Adjournment

CENTERING STUDENTS

Joint Finance Committee Meetings

April 4, 2024

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There is a lot to cover in our joint time but we will do it quickly to provide time for questions and discussion between committee members.

Agenda

1. Audit Response and Update on Financial Practices
2. Partnership with the City
3. Budget Update Since March 28th

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The District has been actively working to address the material weaknesses and deficiencies identified in the audit.

Audit Concerns

- Segregation of duties between finance and human resources (multi-year)
- Review purchasing card transactions against supporting documentation monthly (multi-year)
- Adopt a cash receipt policy (multi-year)
- Improve controls over student activity funds or perform internal audit (multi-year)
- Review accrued vacation for excess balances (multi-year)
- Resolve cash variances promptly (FY23)

District Actions

- In January, with the launch of the new payroll system, controls were added to reset the access of users to align with job functions
- Updating the process and procedures for purchasing cards and reviewing purchases monthly
- Internal audit assessment of three schools to determine best next steps for student activity funds
- Reviewed and adjusted vacation/sick balances
- City and District finance staff reviewing cash variances regularly

1 There are also future actions that we must take to continue to strengthen our financial procedures.

Future Actions

- Continue to staff key positions in Human Resources (Executive Director of HR) and Finance (Account Manager, Payroll Specialist)
- Ensure that reports in our payroll system allow for seamless uploads of our general ledger and MainePERS
- Continued refinement of our purchasing card processes
- Adoption of student activity fund practices
- Develop and adopt a cash receipt policy

Additional Notes

- District staff continue to develop and implement systems now...likely resulting in audit findings for FY24
- Will likely need to expand the window of financial reviews beyond FY23

2. Partnership with the City

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2 I appreciate our developing partnership with the city and the opportunities to continue to improve it.

Potential Areas of Future Work

- The audit report highlighted cash variances but also speaks to a broader need to make sure there are clear systems and working procedures between the City and the District financial teams.
- Continued improvement on the coordination between City offices and the District
  - Support for homeless students
  - HVAC
- Review of shared financial responsibilities between the City and the District
  - Use of facilities vs Use of buses
  - MOU with facilities
- Shared financial benefits of the fund balances

3. Budget Update Since March 28th

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Since our meeting on the 28th, the PPS Finance Committee approved a budget with adjustments in budgeted revenues and expenses.

Revenue Adjustments

- Budgeted $300,000 in MaineCare revenue

Expense Adjustments

Reductions of Budgeted Expenses

- PFML reduction ($322,602)
- Benefits reduction ($559,283)

School Based Staff

- 10 School Based Staff $770,329

Central Office Capacity

- 5 Central Office Staff $507,044

Strategic Investment Capacity

- 2 Central Office Staff $217,583

Total Increase: $613,071

Since our meeting on the 28th, the PPS Finance Committee approved a budget with adjustments in budgeted revenues and expenses.

Revenue Adjustments

- Budgeted $300,000 in MaineCare revenue

Expense Adjustments

Reductions of Budgeted Expenses

- PFML reduction ($322,602)

)

Combined

$313,071 additional in fund balance use

$0.00 increase in tax rate

Total Increase: $613,071

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Questions / Discussion

CITY OF PORTLAND, MAINE

MANAGEMENT LETTER

FOR THE YEAR ENDED JUNE 30, 2023

CITY OF PORTLAND, MAINE

CONTENTS

To the Honorable Mayor
and City Council
City of Portland
389 Congress Street
Portland, Maine 04101

In planning and performing our audit of the basic financial statements of the City of Portland, Maine (the City) as of and for the year ended June 30, 2023, 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, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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 significant deficiencies or material weaknesses and therefore, significant deficiencies or material weaknesses may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A reasonable possibility exists when the likelihood of an event occurring is either reasonably possible or probable as defined as follows:

- *Reasonably possible.* The chance of the future event or events occurring is more than remote but less than likely.
- *Probable.* The future event or events are likely to occur.

Material weaknesses are noted in the table of contents and comment headings. However, additional material weaknesses may exist that have not been identified.

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. Significant deficiencies are noted in the table of contents and comment headings.

Marcum LLP / 9 Executive Park Drive / Suite 100 / Merrimack, NH 03054 / Phone 603.882.1111 / marcumllp.com

During our audit we also became aware of other matters that we believe represent opportunities for strengthening internal controls and operating efficiency. The recommendations that accompany this letter summarize our comments and suggestions concerning those matters.

The City's written responses to our comments and suggestions have not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The purpose of this communication, which is an integral part of our audit, is to describe for management and those charged with governance, including those overseeing the financial reporting process, the scope of our testing of internal control and the results of that testing. Accordingly, this communication is not intended to be and should not be used for any other purpose.

Marcum LLP

Merrimack, NH
March 18, 2024

STATUS OF PRIOR YEAR RECOMMENDATIONS:

1. Evaluate the School Department's Internal Control Structure (Material Weakness)

Prior Year Comment:
The duties for School Finance Department personnel are not fully segregated. As a result, unauthorized adjustments can be made by personnel and errors, or irregularities could occur and not be identified timely. Specifically, pay rates can be adjusted by individuals other than Human Resources personnel. Employees can bypass controls as their access to MUNIS modules is not fully restricted to their roles.

A full audit trail over certain timesheets or pay rates was not available. Therefore, we cannot conclude on the completeness and accuracy of the processing of these transactions, or if management is formally approving the payroll transactions after they are posted to the payroll module. Additionally, School personnel enter payroll into the MUNIS payroll module, however the posting of payroll to the general ledger is done manually. As a result, a duplication of effort exists, and the manual process is more subject to errors.

Current Year Status:
The items noted above were not fully implemented during the fiscal year 2023.

Further Action Needed:
We continue to recommend that the School Department prioritize corrective action on the weaknesses noted above. Additional mitigating controls can be implemented in the near term before the long-term internal control structure can be strengthened further.

School Department's Response:
The School Department agrees with the audit findings in regards to the internal control structure during fiscal year 2023. During fiscal year 2024, the School Department moved to ADP system for their HR/Payroll system. This change in ERP system has allowed for a reset of the controls of users with HR, payroll, finance, and at the schools and departments. Payroll personnel does not have access to change employee information but able to view and HR personnel does not have access to the payroll process but able to view. Access to change user controls in ADP are managed by the Executive Director of Finance and the backup is the Purchasing Manager.

2. Implement Prior Year School Department Additional Audit Recommendations (Significant Deficiency)

Prior Year Comment:
Prior year management letters included several School Department related comments and recommendations that have not been addressed. We recommend that the School Department implement corrective action on the following prior comments:

- Review purchasing card transactions against supporting documentation monthly.
- Adopt a cash receipt policy (including timeliness).

- Improve controls over student activity funds or perform internal audit review of the transactions.
- Review accrued vacation for excess balances.

Current Year Status:
These issues were not fully addressed in fiscal year 2023.

Further Action Needed:
We continue to recommend that the School Department address the weaknesses in internal control noted above.

School Department's Response:
The School Department agrees with the prior year audit finding in regards to implementing prior year school department additional audit recommendations in FY2023. The School Department has started working on the following:

- Updating the process and procedures to the end users and reviewing purchasing card transactions against supporting documentation monthly;
- Had an audit assessment done at each of the three school types (elementary, middle, and high) during fiscal year 2024 of the school accounts so that management can begin determining what improvements over controls need to be implemented;
- Reviewed accrued vacation balances and amended and adjusted prior to transferring to ADP on December 24, 2024. Balances were adjusted to reflect contract maximums.

The School department will begin working on adopting a cash receipt policy prior to the end of the fiscal year.

3. Consider an Internal Audit Function

Prior Year Comment:
In the prior year, we recommended that the City establish an Internal Audit Department. Internal audits complement the annual external audit process as internal audits generally focus on the efficiency and effectiveness of control procedures throughout the organization and provide on-going analysis to ensure controls are adequately designed and operating effectively. Further, internal audits can provide management with recommendations for improvements as needed.

Current Year Status:
The recommendation was not implemented for fiscal year 2023.

Further Action Needed:
In our opinion, with past computer system conversions, as well as the size and complexity of the City of Portland (including the School Department), the City should consider a position dedicated to the continuous improvement of internal controls and the efficiency and effectiveness of departmental activities to enhance and streamline operations.

City's Response:
Existing Finance staff evaluates controls and investigates financial transactions on an as-needed basis when periodic reviews of financial records indicate that such reviews are necessary. We agree that an internal audit position that is dedicated to monitoring the effectiveness of control procedures and department activities would significantly enhance the efficiency of existing Finance staff, strengthen the system of internal control and complement the external audit process.

CURRENT YEAR RECOMMENDATIONS:

4. Improve Information Technology Controls

During our audit procedures, we noted that the Deputy Director of Finance, Deputy Director of Payroll, Director of Human Resources and other employees have privileged access in the MUNIS ERP system, the application utilized for the general ledger. Additionally, the City currently does not have a formal written process to communicate access changes to the application. Best practices, as outlined by frameworks such as the Committee of Sponsoring Organizations of the Treadway Commission (COSO), emphasize the importance of implementing the principle of least privilege. Privileged access complicates audit trails and may hinder the ability to establish accountability for changes made within financial systems, which may increase the potential for unauthorized transactions.

We recommend that the City enhance controls over the privileged IT access in the finance and payroll departments. Specific actions may include:

- Conducting a comprehensive review of all current privileged access rights within the department to ensure they are necessary and appropriate.
- Establishing a formal process for the periodic review and certification of privileged access rights, involving both the finance and IT departments.
- Implementing segregation of duties to ensure that no single individual has control over all aspects of a financial transaction or system configuration.
- Developing an approval process for granting, modifying, and revoking privileged access, which includes oversight by management independent of the finance department.
- Ensuring that all privileged access is logged and monitored, with alerts in place for any unauthorized or suspicious activities.

City's Response:
A comprehensive review of privileged access rights has been conducted and will be updated periodically. The current segregation of duties whereby IT staff grants and terminates user access while Finance staff determines access privileges will be reviewed by both departments to determine if such separation is operating effectively, strengthen controls in this area, and revise access roles where necessary. Finance and IT will review the process for monitoring privileged access activity and analyze ways to make this process more efficient since monitoring system activity is a manual process involving a substantial volume of transactions.

5. Resolve Cash Variances Promptly

During our audit procedures, we noted instances where identified cash variances were not resolved in a timely manner. Delay in resolution of these items could potentially lead to inaccuracies in financial reporting, increased risk of errors and irregularities, and may signify weaknesses in internal control procedures. This was a result of significant turnover at the School Department.

We recommend that all identified variances are investigated and resolved within a specified time frame. This will strengthen the City's financial controls and provide greater assurance in the accuracy of financial reporting.

City's Response:
A process has been in place for the resolution of school cash variances. However, as noted above, the reconciliation of these variances was delayed during the fiscal year due to significant turnover in school finance staff. City and school finance personnel are now regularly reviewing overlapping financial processes which will improve the timeliness of reconciling cash variances and other financial transactions.