

CITY OF PORTLAND, MAINE

**Reports Required by the *Passenger Facility Charge*
*Audit Guide for Public Agencies***

For the Year Ended June 30, 2019

CITY OF PORTLAND, MAINE
Reports Required by the *Passenger Facility Charge*
Audit Guide for Public Agencies
For the Year Ended June 30, 2019

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE PASSENGER FACILITY CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES,
ISSUED BY THE FEDERAL AVIATION ADMINISTRATION**

City Council
City of Portland, Maine

Report on Compliance

We have audited the City of Portland, Maine's compliance with the types of compliance requirements described in the *Passenger Facility Charge Audit Guide for Public Agencies*, issued by the Federal Aviation Administration (Guide), for its passenger facility charge program for the year ended June 30, 2019.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of awards applicable to its passenger facility charge program.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the City of Portland, Maine's passenger facility charge program 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 *Passenger Facility Charge Audit Guide for Public Agencies*. Those standards and the *Passenger Facility Charge Audit Guide for Public Agencies* 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 the passenger facility charge program occurred. An audit includes examining, on a test basis, evidence about the City of Portland, 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 the passenger facility charge program. However, our audit does not provide a legal determination of the City of Portland, Maine's compliance.

Basis for Qualified Opinion on the Passenger Facility Charge Program

As described in finding 2019-001 in the accompanying schedule of findings and questioned costs, the City of Portland, Maine did not comply with requirements regarding reporting. Compliance with such requirements is necessary, in our opinion, for the City of Portland, Maine to comply with the requirements applicable to that program.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE PASSENGER FACILITY CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES,
ISSUED BY THE FEDERAL AVIATION ADMINISTRATION, CONTINUED**

Qualified Opinion on the Passenger Facility Charge Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Portland, Maine complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Passenger Facility Charge Program for the year ended June 30, 2019.

Other Matters

The City of Portland, Maine's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Portland, Maine's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of the City of Portland, 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 Portland, Maine's internal control over compliance with the types of requirements that could have a direct and material effect on the passenger facility charge program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the passenger facility charge program and to test and report on internal control over compliance in accordance with the Guide, 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 Portland, 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 the passenger facility charges program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of the passenger facility charges 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 the passenger facility charge 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.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE PASSENGER FACILITY CHARGE AUDIT GUIDE FOR PUBLIC AGENCIES,
ISSUED BY THE FEDERAL AVIATION ADMINISTRATION, CONTINUED**

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 Guide. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Passenger Facility Charges Required by the Guide

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Portland, Maine as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Portland, Maine's basic financial statements. We issued our report thereon dated March 26, 2020, 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 passenger facility charges is presented for purposes of additional analysis as required by the Guide, 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 passenger facility charges is fairly stated in all material respects in relation to the basic financial statements as a whole.



March 26, 2020
South Portland, Maine

CITY OF PORTLAND, MAINE
SCHEDULE OF EXPENDITURES OF PASSENGER FACILITY CHARGES
For the Year and Each Quarter Within the Year Ended June 30, 2019

	Approved Amounts Impose and Use	Memorandum	Quarter Ended September 30, 2018	Quarter Ended December 31, 2018	Quarter Ended March 31, 2019	Quarter Ended June 30, 2019	Year Ended June 30, 2019	Memorandum
		Only Cumulative Total June 30, 2018						Only Cumulative Totals June 30, 2019
02-03-C-00-PWM								
02-03-C-01-PWM (amended)								
02-03-C-03-PWM (amended)								
Passenger facility charge revenue and interest	\$ 18,945,754	18,307,785	-	-	-	-	-	18,307,785
Expenditures:								
Passenger boarding bridge acquisition	1,575,433	1,524,470	-	-	-	-	-	1,524,470
Terminal canopy completion	2,317,153	2,242,671	-	-	-	-	-	2,242,671
Baggage claim expansion and improvements	8,446,307	8,166,295	-	-	-	-	-	8,166,295
Passenger boarding bridge regional jet modifications	186,128	180,065	-	-	-	-	-	180,065
Runway 11/29 upgrade and relocation	1,545,899	1,480,483	-	-	-	-	-	1,480,483
Taxiway improvements	176,359	170,264	-	-	-	-	-	170,264
Terminal roadway system expansion	2,876,979	2,784,031	-	-	-	-	-	2,784,031
Snow removal equipment acquisition	1,755,041	1,694,362	-	-	-	-	-	1,694,362
PFC application costs and program administration	66,455	65,144	-	-	-	-	-	65,144
Total expenditures	\$ 18,945,754	18,307,785	-	-	-	-	-	18,307,785
10-05-C-00-PWM								
Passenger facility charge revenue and interest	\$ 132,206,104	27,196,618	1,291,229	1,083,380	986,623	1,156,521	4,517,753	31,714,371
Expenditures:								
Terminal building expansion	120,717,387	23,718,284	1,463,785	-	2,630,979	-	4,094,764	27,813,048
Passenger boarding bridges	3,279,957	627,053	38,699	-	69,557	-	108,256	735,309
Roadway realignment project	8,208,760	1,665,250	102,772	-	184,720	-	287,492	1,952,742
Total expenditures	\$ 132,206,104	26,010,587	1,605,256	-	2,885,256	-	4,490,512	30,501,099

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
City of Portland, 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, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Portland, Maine (the City) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Portland, Maine's basic financial statements and have issued our report thereon dated March 26, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Portland, 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 Portland, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Portland, Maine's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify a certain deficiency in internal control that we consider to be a material weaknesses and another that we consider to be a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described as item 2019-002 in the accompanying schedule of findings and questioned costs to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described as item 2019-003 in the accompanying schedule of findings and questioned costs to be a significant deficiency.

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

We noted certain matters that are opportunities for strengthening internal controls and operating efficiency that we have reported to the management of the City of Portland, Maine in a separate letter dated March 26, 2020.

City of Portland, Maine’s Response to Findings

City of Portland, Maine’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. City of Portland, Maine’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly we express no opinion on it.

Purpose of this Report

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



March 26, 2020
South Portland, Maine

CITY OF PORTLAND, MAINE
Schedule Findings and Questioned Costs
June 30, 2019

Section I - Findings and Questioned Costs for Expenditures of Passenger Facility Charge Program

2019-001

Statement of Condition: Reporting standards require underlying data to be reconciled to reported amounts. PFC quarterly reports were prepared during the year, which contained inaccurate data.

Criteria: The PFC quarterly reports must accurately report revenues and expenditures charged to the various projects and ensure that the information agrees with the City's accounting system.

Effect: Expenditures could be understated or overstated and eventually not be reimbursed with PFC revenue. Revenues could be understated or overstated, resulting in the wrong cumulative total collected and reported to the airlines.

Cause: The Airport personnel were preparing the PFC reports by running information from the accounting system with inaccurate parameters. As a result, one of the quarterly reports was submitted with inaccurate information during the year.

Recommendation: The PFC quarterly reports need to properly reflect the activity for the quarter. The reports should be reviewed by someone from the City's Finance department to ensure that the information agrees to the City's records before submitting to the FAA. Subsequently, all reports have been amended to reflect the accurate data.

Questioned Costs: None

Management's response/corrective action plan: *One quarterly report, which was subsequently corrected, omitted a bond principal payment. Debt service for bond issues relating to passenger facility charges, as specified in the bond covenants, are paid through monthly deposits into an escrow account. Actual principal and interest payments are made by the escrow agent and are not recorded directly in the PFC general ledger accounts. A new staff person, preparing the quarterly report for the first time, was unaware of this practice and has since filed a corrected report.*

Anticipated completion date: December 31, 2019

Contact person responsible for corrective action: *Paul Bradbury, Airport Director, Portland International Jetport, 207-756-8029*

CITY OF PORTLAND, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2019

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

MATERIAL WEAKNESS

2019-002 – Timely reconciliation of Balances

Criteria: Fundamental to proper financial reporting is the routine analysis of accounts and reconciliation of balances to underlying documentation. Such analysis and reconciliation aids in identifying errors and irregularities so they can be corrected in a timely manner.

Statement of Condition: Many general ledger accounts, including cash, accounts receivable, accounts payable, and other assets and accrued liabilities were not reconciled in a timely manner during the year and at year-end. Many of these general ledger accounts were materially adjusted between our original fieldwork dates in September 2019 and when we returned to complete fieldwork in January of 2020.

Cause: The City and School Department are transitioning to a new accounting software that has caused delays in the reconciliation processes. The School Department has also experienced significant turnover in key accounting positions.

Effect: Many significant general ledger balances were not reconciled and substantiated until nearly six months after year-end, including cash, accounts receivable, accounts payable, and other assets and accrued liabilities. As a result, material misstatements were not detected and corrected in a timely manner. The balances of these accounts may not have been properly reported in accordance with GAAP during the year and, as such, reports provided to those charged with governance and to outside entities may have been based on inaccurate information.

Recommendation: It is our recommendation that all general ledger balances, most importantly cash, are reconciled within one month after month's end and that all year-end general ledger balances be reconciled and substantiated within two months of year-end.

Management Response: *The City implemented new accounting software that caused delays in the reconciliation processes due to difficulties extracting relevant information and significant increases in the amount of time required to perform reconciliation functions, despite additional staff hours and assistance from representatives of the software company. As a result, the reconciliation of cash and general ledger accounts, typically performed in a timely manner in the past, were not complete until several months after the close of the fiscal year. The City continues to explore ways to enhance the efficiency and timeliness of the reconciliation process with new accounting software.*

In the School Department, staff turnover as well as gaps in distribution of duties following the elimination of the Controller position in the prior year contributed to this lapse in routine reconciliation. The School Finance Department has since (through further reorganization) reinstated the position of Controller, who will be responsible for this oversight moving forward. The School Department will ensure monthly reviews and reconciliations of all general ledger balances.

Anticipated Completion Date: June 30, 2020

CITY OF PORTLAND, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2019

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

SIGNIFICANT DEFICIENCY

2019-003 – Review of Purchasing Card Transactions - School Department

Criteria: To ensure that the purchasing cards are being utilized appropriately, the School Department should review the monthly statements, which includes verifying that the transactions included are following the School Department's policies in regards to use of the purchasing cards.

Statement of Condition: During our testing of purchasing card transactions, we found that the monthly statements were not being reviewed and reconciled during the year. We found the retention of receipts and invoices that support purchases made with purchasing cards was not consistent. We also noted a transaction that was split into two transactions to circumvent the purchasing limit, purchases that included sales tax, meals purchased that had no documented business purpose, and other purchases which, per policy, should have gone through the purchase order system.

Cause: The School Department experienced turnover in key accounting positions during the year which delayed the review of the monthly statements and oversight responsibilities. Employees utilizing purchasing cards did not always follow the parameters within the School Department policy regarding use of those purchasing cards.

Effect: The lack of review and oversight of the purchasing card transactions increases the risk of fraud and error and also increases the chances that School Department funds will be utilized for unauthorized activity.

Recommendation: It is our recommendation that monthly statements and individual transactions are reviewed to ensure that they are following the School Department's policy in regards to the usage of the purchasing cards. We recommend having a consistent policy on the retention of supporting documentation, i.e. receipts and invoices, for purchasing card purchases, which should include uploading documentation for all transactions to the JP Morgan website. We also recommend reviewing and enforcing the policy and revoking the use of purchasing cards for those employees who violate the School Department's purchasing card policy.

Management Response: New software implementation and staff turnover over the course of the year caused significant challenges for the department with respect to keeping up with routine reviews and reconciliations. With several new staff in place, we intend to review all policies and procedures related to purchasing cards. Following our internal policy review, we will ensure that these policies have been communicated to purchasing cards end users. Moving forward, we will perform monthly reviews of purchasing card activity to identify whether there are transactions that may be out of compliance. If the finance department finds that a user is not following policy despite being duly informed of said policy, their purchasing card privileges will be revoked.

Anticipated Completion Date: April 1, 2020

CITY OF PORTLAND, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2019

Section III - Status of Prior Year Audit Findings

2018-001

Statement of Condition: Reporting standards require underlying data to be reconciled to reported amounts. PFC quarterly reports were prepared during the year, which contained inaccurate data.

Criteria: The PFC quarterly reports must accurately report revenues and expenditures charged to the various projects and ensure that the information agrees with the City's accounting system.

Effect: Expenditures could be understated or overstated and eventually not be reimbursed with PFC revenue. Revenues could be understated or overstated, resulting in the wrong cumulative total collected and reported to the airlines.

Cause: The Airport personnel were preparing the PFC reports by running information from the accounting system with inaccurate parameters. As a result, the quarterly reports were submitted with inaccurate information for most of the year.

Recommendation: The PFC quarterly reports need to properly reflect the activity for the quarter. The reports should be reviewed by someone from the City's Finance department to ensure that the information agrees to the City's records before submitting to the FAA. Subsequently, all reports have been amended to reflect the accurate data.

Status: See item 2019-001.

2018-002 – Cash and Investment Reconciliations

Cash and investment reconciliations are an important part of financial planning. These reconciliations are important in understanding the cash flows of the City and for ensuring the availability of liquid cash for City operations. Ideally, these reconciliations are performed at the close of each month and necessary adjustments and reconciling items are posted to the general ledger in a timely manner. During our audit testing we found that material adjustments to reconcile the June pooled cash and investment accounts and consolidated rep payee account were not posted until September or later. Had these adjustments been posted in a timely manner it would have significantly altered financial reporting and potentially changed management decisions regarding operations.

We suggest that reconciliations of all cash and investment accounts be performed monthly with all necessary adjustments posted to the general ledger by the close of the subsequent month to ensure that crucial management decisions are based on accurate information.

Status: See item 2019-002.

CITY OF PORTLAND, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2019

Section III - Status of Prior Year Audit Findings, continued

2018-003 – Routine General Ledger Review - School Department

To ensure the accuracy of recorded transactions, periodic reviews and/or reconciliations of general ledger balances must be performed. Our audit testing revealed that such procedures were not routinely performed during the majority of the year. We believe that the following procedures should be performed on a monthly basis:

- Reconciliation of the detailed listing of accounts receivable to the general ledger balances
- Reconciliation of the detailed listing of accounts payable to the general ledger balances
- Determination of the accuracy of the withholding accounts recorded on the general ledger to subsequent payroll tax returns and other reports
- Analytical review of each revenue account to identify misclassifications or errors
- Analytical review of expenditures to identify misclassifications or errors

A monthly check off sheet controlled by the Finance Department would be a good means of ensuring that each of these procedures is performed on schedule each month.

Status: *See item 2019-002.*