



Proven Expertise and Integrity

April 12, 2017

Ms. Roberta Smith
Interim Town Manager
Town of Camden
96 High Street
Camden, ME 04915

As discussed, this letter will serve to outline the results of our examination to date in regards to the engagement entered into with the Town on January 10, 2017. As you are aware we were engaged to understand the following:

Objective and Services to be provided:

- Schedules of revenues received on the Camden Snow Bowl Project
- Schedules of expenditures on the Camden Snow Bowl Project
- Schedules of expenditures related to the issuance of a \$2,000,000 bond
- Schedules of expenditures that were performed within the original agreement as well as expenditures that were beyond the original agreement and understanding.

To obtain our understanding, we performed a variety of interviews with current and former Town fiscal staff; various Town committee members; and other key Town personnel who were charged with the administration and processing of fiscal data. We also reviewed financial records in regards to the project. The following is a summary of our interviews, collection and review of data, and observations and suggestions as a result of our review.

Please find attached a working document which summarizes the monies received from the foundation as they relate to various Ragged Mountain projects. Below please find our comments and recommendations.

Project Management – General Contractor:

During our analysis of the information for the engagement mentioned above, it was noted that the Town was the General Contractor for the Ragged Mountain Redevelopment Project with sole financial authority and responsibility. Several upper level management personnel at the Town shared in this responsibility. During the project many change orders were produced which affected the overall cost of the project. It appears that revised budgets were not done or approved to account for this. Furthermore, it appears that there was no plan of action on the Town's part to evaluate existing costs and project cost overruns. This resulted in an impact not only to the overall project cost, but the Town's finances as well. We recommend that in all future construction endeavors the Town consider hiring a clerk of the works for projects such as these and meet with them regularly to avoid this happening again in the future.

Monthly Financial Statements:

While performing our engagement we noted that it appears the redevelopment committee members, program/project directors, Town Manager, and Selectmen received financial reports/information when requested, but not on a regular basis. This is consistent with other Town practices at the time of the redevelopment project where information is generally provided and reviewed on an as "requested" basis. We understand it used to be the Town provided regular monthly reports as standard practice and the practiced lapsed for a short time, a time critical to the project. We recommend that the Town Manager, Program Directors, and other interested parties, receive, at a minimum, monthly program budget to actual reports for their respective programs, to include special projects such as the Ragged Mountain Redevelopment. We also recommend that all Board members receive Fund Budget reports for all Town wide programs. These should be received by the 21st of each month and have all approved budgets (including budget adjustments) with actual revenues and expenditures to date.

Journal Entries:

While performing our engagement, we noticed that the Town's finance department management makes numerous journal entries throughout the year. Many of these occur at year end. Our understanding that that these journal entries are to reclassify original activity such as revenues, salaries, benefits, supplies and other program expenses. Many of these reclassifications appear to have affected the cumulative financial reporting of this project. Whenever information is reclassified after the fact, it alters the financial information that has been used to make management decisions. If information is not corrected on a timely basis it can have a major impact on the results of operations. That appears to have occurred with this project. We recommend that the Town implement procedures to ensure any adjustments to financial data be found and corrected on a timely basis.

Third Party Contracts:

While performing our engagement, it was noted that various contracts entered into with vendors to provide services on this project committed large financial resources over and above the total project cost agreement which was approved at the November 5, 2013 Town Meeting, appears to lack appropriate documentation. In some cases change orders to contracts were done verbally or through emails. We caution the Town that all third party contracts for services including amendments to those contracts should follow the Town's procurement policies and be signed by an authorized representative of the Town. It should be also known that while discussing with management and reviewing third party payments that it appears the Town is expending funds to outside parties without signed agreements. Copies of various signed

Third Party Contracts (continued):

agreements by all pertinent parties could not be located by management. The Town should review all existing outside third party contract for compliance with policy.

Internal Control – Policy & Procedural Manual:

While performing the review, it was noticed that the Town had internal controls policies and procedures, but the documents were not all contained in a centralized area. It should also be known that the Town's purchasing policies should be updated to include the new Federal "Uniform Administrative Guidance" for federal purchase procurement and the Town should consider applying those standards to locally funded procurement as well such as projects like the Redevelopment of Ragged Mountain. While we consider these policies and procedures a crucial part of the Town's fiscal operations, the Town should document all existing policies and procedures in the form of a manual for reference. We have attached a sample of these policies and procedures for the Town to review and consider.

Procurement:

While performing the review, it was noticed on selected purchases that the Town did not follow its internal procurement policies when soliciting services to be provided to the Town by an outside contractor. It should be known that we were of the understanding that Town followed state statutes. Management provided us with its purchasing policies and procedures. Based on our review of those policies and procedures it appears management numerous times did not follow its own policies and procedures. In many cases Finance did not have copies of approved contracts or change orders and still provided payment to the vendors on this project. We recommend the Town review its existing procurement policies and procedures and review for adequacy. The Town should also follow its existing practices.

Town Meeting Vote and Understanding:

Town meeting approved warrant of November 5, 2013 approved a total project cost of \$6.5 million dollars for the redevelopment of Ragged Mountain. As part of this cost, towns people approved the Town to bond up to \$2 million dollars of the total and to accept donations in the approximate amount of \$4.5 million dollars from the Ragged Mountain Recreation Area Foundation and other sources.

As noted on the ballot form "The estimated total cost of the project is Six Million Five Hundred Thousand Dollars (\$6,500,000). The Town's share of the cost will be limited to the lesser of 30% of the actual cost of the Project or Two Million Dollars (\$2,000,000). Town funds will be distributed by the Select Board in a manner which ensures that a minimum of seventy percent (70%) of the actual cost of the Project is funded by donations." Our review confirms this 70/30 split of private/public funding sources was maintained until FY 2015.

In January 2015, the Town Management Team, Select Board and RMRAF met to review the project and address project cost overruns to date on Phase 1&2, project management and to map out a plan going forward. The plan included a reforecasted budget provided by the town, agreement to enlist project management services to be provided by Ledgewood Construction Management and regular reporting and communication. The reforecasted budget of \$8,400,000 included Phase 1 and 2, (which was mostly complete) and Phase 3 (which included the Lodge /Community Center at a projected cost of \$2,600,000).

Town Meeting Vote and Understanding(Continued):

At this time, the Foundation committed to continue fundraising an additional \$1,600,000 in good faith to help cover cost overruns and complete the project. It is noted that up until this point, the Foundation made timely payments as requested by the town. The risk of the additional fundraising was to be managed by the fact that the construction of the Lodge would not commence until the funds were raised/pledged.

During FY 2015, spending on the project and new unanticipated project cost overruns advanced rapidly. The Town did not communicate additional cost overruns or ask the Foundation for funds, even though the Foundation repeatedly asked for progress billings. As a result of this practice, it appears the Town used Town monies in excess of the allocated \$2 million dollars to fund the project. Our review suggests that the Town approved and paid approximately \$750,000 in project expenses beyond the amount approved by the voters.

We recommend that the Town and the Foundation meet as soon as possible to investigate whether it is possible to rebalance the investment in the project between the Town and the Foundation in accordance with the November, 2013 vote and hopefully ensure completion of the project.

Payment Authority:

While performing our review of the redevelopment project, it was noticed that the Town pledged “season lift tickets” and “other” benefits of the mountain to vendors in exchange for services to mountain operations and redevelopment. We recommend to the Town that this is not considered best practice and that all future bartering of this nature be stopped.

Recreation Salaries:

While performing our review, it was noted that during the winter months and while the mountain was being redeveloped, that there was an understanding from reading various information provided to us that the Recreation salaries will be charged to the redevelopment of the project to assist vendors with certain construction projects associated with the redevelopment. These salaries were not included specifically within the redevelopment budget of the mountain. Many of these salary costs within the Towns accounting system along with other projects costs were charged to snow bowl fund, parks and rec budget initially. As a result of this practice, financial information was distorted until the journal entries were done. We recommend the Town review this practice for all existing projects and modify where necessary.

General Observations - Communication:

While performing our review, it was observed that communication (or lack of) during this project between the former Town Manager, former recreation director and former finance director, while dealing with department heads, could have been improved. There appears to have been trust issues between the department heads and former management with the past handling of fiscal information. We recommend the current Town Manager, Town Finance Director, and department heads meet to discuss possible solutions to this matter.

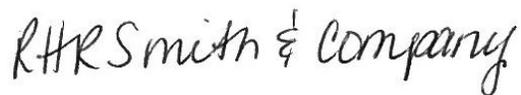
While reviewing the best practices with management, management has already begun to institute changes within some of the areas noted above. We understand management is currently preparing a response to this best practice report and the responses will include a summary of changes already made to date which management believes considers best practices. Furthermore, management is also preparing a corrective action plan for immediate consideration.

This letter is intended solely for the information and use of the Board of Selectmen, those charged with governance and others within the Town and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank Roberta, Ginny and all of the staff at the Town for their cooperation throughout this process.

If there are any questions regarding this letter, please do not hesitate to call.

Very Best,

A handwritten signature in cursive script that reads "RHR Smith & Company".

RHR Smith and Company, CPAs