

TOWN OF CAPE ELIZABETH, MAINE

**Reports Required by *Government*
*Auditing Standards***

For the Year Ended June 30, 2017

**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**

Town Council
Town of Cape Elizabeth, 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, each major fund, and the aggregate remaining fund information of the Town of Cape Elizabeth, Maine as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Cape Elizabeth, Maine's basic financial statements and have issued our report thereon dated December 1, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Cape Elizabeth, 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 Town of Cape Elizabeth, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Cape Elizabeth, 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 entity'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control described in the accompanying schedule of findings and responses (#2017-001 and #2017-002) that we consider to be significant deficiencies.

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GOVERNMENT AUDITING STANDARDS, CONTINUED**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Cape Elizabeth, 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*.

We noted certain matters that we reported to management of the Town of Cape Elizabeth, Maine in the attached schedule of other comments.

Town of Cape Elizabeth, Maine's Responses to Findings and Other Comments

The Town of Cape Elizabeth, Maine's responses to the findings and other comments identified in our audit are described in the accompanying schedule of findings and responses. The Town of Cape Elizabeth, 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 1, 2017
South Portland, Maine

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Responses
For the Year Ended June 30, 2017

Findings Required to be Reported Under *Government Auditing Standards*

SIGNIFICANT DEFICIENCIES

2017-001 Year-end Reports

At the beginning of the Town's audit, we obtained a copy of the Town's trial balance and revenue and expenditure reports. On further review, we noted several funds were not in balance, some beginning fund balances did not agree with last year's financial statements and some trial balance control accounts for revenues and expenditures did not agree with the detailed revenue and expenditure reports. Some of the differences had to do with the closing process, in which amounts did not close to fund balance, some of the differences appeared to be accounting software issues, and some of the differences were due to year-end adjustments that were recorded out of balance. We recommend that management review year-end reports to identify and fix any issues. In addition, we recommend that the Town's staff follow up with its accounting software vendor to address any software-related issues.

Management's Response and Corrective Action Plan: *Management has reviewed the final FY 17 year-end reports and all funds are currently in balance. Management is currently working with its accounting software vendor to address any software-related issues.*

2017-002 Capital Assets

As part of the financial statement preparation process, the Town is responsible for identifying and properly recording all capital asset transactions, including identification of asset additions and disposals as well as reconciling records related to those assets. During FY 2017, the Town identified \$464,000 in capital asset additions. However, during the audit, we identified an additional \$3.6 million in additions that had not been recorded by the Town. In addition, we noted a lack of consistency in how capital projects were tracked and many of the School Department capital expenditures were comingled within expenditure lines, making it very difficult to reconcile the total expenditures that belonged to each project. We recommend that the Town take greater care in accounting for its capital assets.

Management's Response and Corrective Action Plan: *Management will work on a better capital asset process in order to identify all assets that need tracking. In addition, the School Department will work on a better process to record Capital Improvement Projects. The Manager has spoken with the new Director of Facilities on providing a more clearly defined capital project listing for tracking progress and evaluating success.*

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Responses, Continued

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES)

Segregation of Duties (repeat)

Segregation of duties involves the assignment of responsibilities in such a way that different employees handle different parts of the same transaction. Anyone who records transactions or has access to assets ordinarily is in a position to perpetrate errors or irregularities. Appropriate segregation of duties helps to detect errors in a timely manner and deter improper activities. Internal accounting control is enhanced when the employee who handles the accounting for an asset, such as cash, is denied access to the asset. An example would be the Planning and Codes office, where one person collects the cash, accounts for the receipts, and prepares the deposit. Because of the small size of the accounting staff, ideal segregation of duties is not practical. Certain functions, ideally performed by separate individuals, cannot be accomplished and therefore, internal accounting controls are not as strong as they might otherwise be. Because of the limitations of the small size of the Town's staff, we suggest that cautious review of financial transactions, such as a review of bank reconciliations, be performed for all funds by responsible officials. We also recommend that monthly financial reports continue to be prepared and reviewed for all funds to identify possible financial fluctuations of unusual nature.

Management's Response and Corrective Action Plan: *Management notes that this or a similar comment is included every year. Monthly financial reports continue to be reviewed for all funds. The appropriations and revenue control reports are also posted online every month and a link is provided from the monthly council agenda. The council chair and the finance chair sign all warrants.*

Budget

During our review of the budget as entered into the accounting software, we noticed differences between the budget as entered into the software and the budget as it was originally approved. On further inquiry, we determined there were formula errors in the original budget worksheets and amounts entered in the software were amounts that should have been approved by the council. In order to ensure compliance with the budget as passed, the Town should only enter the budget as passed in the accounting software and should ensure that any amendments to the budget are properly reflected in the software.

Management's Response and Corrective Action Plan: *The School Business Manager will make sure that only the original budget is input into the original budget column and all budget line transfers will have supporting documentation and be approved by the Superintendent prior to inputting.*

Anticipated Completion Date:

August 31, 2017

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Responses, Continued

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued

Sales Tax on Purchases

As part of our testing of cash disbursement procedures, we selected six credit card statements to test. Of those six credit card statements, we noted nine transactions in which sales tax was paid and the total of those sales tax payments exceeded \$87. Since the Town is a tax-exempt entity, it should determine ways to avoid paying sales tax and in those instances in which large amounts of tax are paid, the Town should try to get the tax reimbursed.

Management's Response and Corrective Action Plan: *Management will reinforce to departments that all transactions that may be exposed to a sales tax liability will inform the vendor of the Town's exempt status from payment of sales tax. The Town has established our tax-exempt status with our consistent vendors, and renewed care will be taken to ensure sales tax exposure is kept to a minimum.*

Portland Head Light Gift Shop

During our testing of Portland Head Light cash receipts, we selected forty days' worth of cash receipts to test. Of those days selected, eleven days had instances in which the cash collected varied from the sales entered into the point of sale software by \$10 or more. In some instances, the differences were due to sales that occurred at the Museum, but were revenues for the gift shop and the sales were subsequently corrected in the next month. In other instances, the differences were due to entry errors. Although some of the differences were documented, not all were and we had to obtain additional information from the Director to verify the differences. In order to improve controls over cash receipts, the Director should prepare a detailed daily reconciliation of receipts collected to the sales recorded for all locations, with all adjustments and errors well documented. Any adjustments to revenues should be recorded at least on a weekly basis.

Management's Response and Corrective Action Plan: *The manager will reinforce this attention to detail with the Portland Head Light gift shop and museum Director to stress the importance of accurate data entry, reconciliation of cash receipts, and a greater level of detail in documenting any adjustments and errors.*

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Responses, Continued

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued

Deposit Security

During the audit, we became aware that a portion of a Town deposit was unable to be located and possibly stolen. In addition, we noted that the safe in which the deposit was located was unlocked, even though it was during the hours of operation and access to the location was not restricted. The Town should review procedures for all departments to ensure that cash collected at the various locations is secured at all times, in a locked safe, cash register, or other secure location. Care should be taken to ensure that no one has access to restricted areas or unsecured deposits without proper authorization. In addition, deposits should be made frequently to reduce the risks related to having excess cash on hand.

Management's Response and Corrective Action Plan: *The Manager has spoken with the Director of Portland Head Light gift shop and museum regarding security of funds. The safe within which deposits are located is always locked, and greater care relating to access to the location of the safe is being practiced. The Town is planning on the installation of a security camera monitoring the safe's location to monitor activities around the safe. Any cash collected at both the museum and gift shop is secure at all times, either in the locked safe or cash register. Deposits shall be made on a daily basis, and plans are underway to determine procedures for ensuring the security of deposits over the weekend.*

Anticipated Completion Date:

Ongoing

Contact person responsible for monitoring and maintaining corrective action procedures:

Matthew E. Sturgis, Town Manager, 207-619-6716

Catherine Messmer, Town Controller/School Department Business Manager