

TOWN OF CAPE ELIZABETH, MAINE

**Reports Required by *Government Auditing
Standards* and OMB Circular A-133**

For the Year Ended June 30, 2010

TOWN OF CAPE ELIZABETH, MAINE
Reports Required by *Government Auditing Standards*
and OMB Circular A-133
For the Year Ended June 30, 2010

Table of Contents

<u>Report</u>	<u>Page</u>
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	3-4
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor's Results	7
Section II - Findings Required to be Reported Under <i>Government Auditing Standards</i>	8
Section III - Findings and Questioned Costs for Federal Awards	9
Section IV - Status of Prior Year Findings and Questioned Costs	10



Certified Public Accountants and Business Consultants

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 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, 2010, which collectively comprise the Town of Cape Elizabeth, Maine's basic financial statements and have issued our report thereon dated September 24, 2010. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Cape Elizabeth, Maine's internal control over financial reporting 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 Town of Cape Elizabeth, Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Cape Elizabeth, Maine's internal control over financial reporting.

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 Town's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

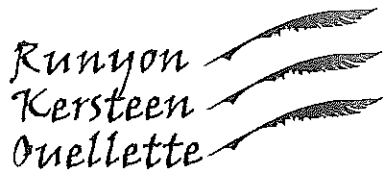
As part of obtaining reasonable assurance about whether the Town of Cape Elizabeth, Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a 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 also noted other matters involving the internal control over financial reporting that we have reported in the section "Other Comments."

This report is intended solely for the information and use of the Town Council, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



September 24, 2010
South Portland, Maine



Certified Public Accountants and Business Consultants

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Town Council
Town of Cape Elizabeth, Maine

Compliance

We have audited the compliance of the Town of Cape Elizabeth, Maine with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Town of Cape Elizabeth, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Town of Cape Elizabeth, Maine's management. Our responsibility is to express an opinion on the Town of Cape Elizabeth, Maine's compliance based on our audit.

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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Town of Cape Elizabeth, 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. Our audit does not provide a legal determination on the Town of Cape Elizabeth, Maine's compliance with those requirements.

In our opinion, the Town of Cape Elizabeth, Maine, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Town of Cape Elizabeth, Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Cape Elizabeth, Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Town of Cape Elizabeth, Maine's internal control over compliance.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

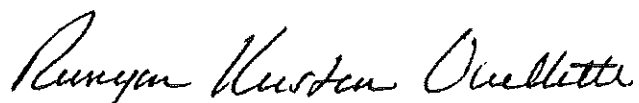
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

Our consideration of the 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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited 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, 2010, and have issued our report thereon dated September 24, 2010, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of the Town Council, management, others within the entity, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



September 24, 2010
South Portland, Maine

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2010

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Pass-through number	Program or award amount	ARRA Funds	Balance at June 30, 2009	Federal revenue recognized	Other revenue	Federal expenditures recognized	Other expenditures	Balance at June 30, 2010
U. S. Department of Education, passed through Maine Department of Education:										
Title I Grants to Local Educational Agencies	84.010	3057	\$ 34,159	No	-	34,159	-	34,159	-	-
Special Education Grants to States	84.027	3046	363,972	No	600	363,972	-	364,384	-	188
Special Education Grants to States - ARRA	84.391	3046	210,718	Yes	-	210,718	-	209,784	-	934
Special Education Preschool Grants	84.173	6241	2,421	No	-	2,421	-	2,421	-	-
Special Education Preschool Grants - ARRA	84.392	6241	1,132	Yes	-	1,132	-	1,132	-	-
Improving Teacher Quality State Grants	84.367	3042	50,519	No	-	50,519	-	50,519	-	-
Technology Literacy Challenge Fund Grants	84.318	3003	247	No	-	247	-	247	-	-
Technology Literacy Challenge Fund Grants - ARRA	84.386	3003	608	Yes	-	608	-	608	-	-
State Fiscal Stabilization Fund (SFSF) - Education State Grants	84.394	2077	699,120	Yes	-	699,120	-	675,860	-	23,260
Passed through Office of Substance Abuse: Safe and Drug-Free Schools and Communities State Grants	84.186	N/A	4,273	No	-	4,273	-	4,273	-	-
Total U. S. Department of Education					600	1,367,169	-	1,343,387	-	24,382
U. S. Department of Agriculture, passed through Maine Department of Education:										
National School Lunch Program	10.555	013-7128-05	N/A	No	322	46,305	455,991	46,305	440,615	15,698
Breakfast Program	10.553	013-7127-05	N/A	No	-	5,791	-	5,791	-	-
Food Donation	10.555	013-6134-05	N/A	No	-	15,915	-	15,915	-	-
Total U. S. Department of Agriculture					322	68,011	455,991	68,011	440,615	15,698
U. S. Department of Homeland Security, passed through Maine Emergency Management Agency:										
Disaster Grants - Public Assistance - FY 2010	97.096	N/A	37,945	No	-	37,945	-	37,945	-	-
Disaster Grants - Public Assistance - FY 2009	97.096	N/A	131,402	No	68,922	-	-	68,922	-	-
Assistance to firefighters grant	97.044	N/A	6,900	No	6,900	-	-	6,900	-	-
Total U. S. Department of Homeland Security					75,822	37,945	-	113,767	-	-
U. S. Department of Justice, passed through Maine Department of Health and Human Services: Enforcing Underage Drinking Laws Program	16.727	N/A	10,373	No	(1,227)	3,834	685	2,607	685	-
Total U. S. Department of Justice					(1,227)	3,834	685	2,607	685	-
U. S. Department of Transportation, passed through Maine Department of Public Safety: 2009 HV Impaired Driving Enforcement	20.600	N/A	3,600	No	(273)	2,968	898	2,695	898	-
Total U. S. Department of Transportation					(273)	2,968	898	2,695	898	-
U. S. Department of Energy, passed through Maine Department of Public Utilities Commission: Energy Efficiency and Conservation Block Grant Program - ARRA	81.182	N/A	85,000	Yes	-	-	-	409	-	(409)
Total U. S. Department of Energy					-	-	-	409	-	(409)
Total federal awards			\$	\$	75,244	1,479,927	457,574	1,530,876	442,198	39,671

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF CAPE ELIZABETH, MAINE
Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-133 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 Town of Cape Elizabeth, Maine for the fiscal year ended June 30, 2010. The reporting entity is defined in Notes to Basic Financial Statements of the Town of Cape Elizabeth, Maine.

- B. Basis of Presentation - The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.
 - 1. Pursuant to OMB Circular A-133, 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 - OMB Circular A-133 establishes the levels of expenditures or expenses to be used in defining major federal financial award programs. Major programs for the Town of Cape Elizabeth have been identified in the attached Schedule of Findings and Questioned Costs - Summary of Auditor's Results.

- 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 Town of Cape Elizabeth, Maine's fund financial statements.

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs
June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Noncompliance material to financial statements noted?	no

Federal Awards

Internal Control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173, 84.391, 84.392	Special Education Cluster
84.394	State Fiscal Stabilization Fund (SFSF) - Education State Grants

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	yes

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs, Continued

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

NONE

OTHER COMMENTS

Segregation of Duties

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. For example, internal accounting control is enhanced when the employee who handles the accounting for an asset, such as cash, is denied access to the asset. 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.

Middle School Activity Funds

During our testing of Middle School cash disbursements, we noted that several of the disbursements were either missing pre-approval or back-up documentation, such as an invoice. In order to improve the controls over activity fund cash disbursements, the School Department should ensure that no disbursements are made from the activity funds until proper approval and back-up documentation has been received.

During our testing of Middle School cash receipts, we noticed that the custodian of the funds sometimes waits a month before making a deposit, indicating that amounts are being collected and not deposited in a timely manner. In order to improve internal controls over cash receipts, the School Department should create and enforce a policy for making timely deposits.

GASB 54 -- New Requirements for Funds and Fund Balances

Starting in 2011, Governmental Accounting Standards Board #54 will become effective. In addition to requiring that fund balances be classified in newly defined categories, the standard also limits what types of funds can be defined as special revenue funds. Special revenues will be limited to those funds in which specific revenue resources are restricted or committed for special purposes. We recommend that the Town begin the process of analyzing and reclassifying funds and fund balances to ensure compliance with GASB 54 by the required implementation date.

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs, Continued

Section III - Findings and Questioned Costs for Federal Awards

NONE

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs, Continued

Section IV - Status of Prior Year Findings and Questioned Costs

NONE