

TOWN OF CAPE ELIZABETH, MAINE

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

For the Year Ended June 30, 2011

TOWN OF CAPE ELIZABETH, MAINE
Reports Required by *Government Auditing Standards*
and OMB Circular A-133
For the Year Ended June 30, 2011

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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, 2011, which collectively comprise the Town of Cape Elizabeth, Maine's basic financial statements and have issued our report thereon dated August 19, 2011. 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 Standard*, 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.



August 19, 2011
South Portland, Maine



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Town Council
Town of Cape Elizabeth, Maine

Compliance

We have audited the Town of Cape Elizabeth, Maine's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Cape Elizabeth, Maine's major federal programs for the year ended June 30, 2011. 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

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.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

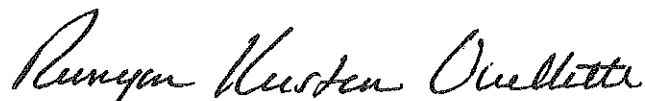
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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, 2011, and have issued our report thereon dated August 19, 2011, 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.



August 19, 2011
South Portland, Maine

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Pass-through number	Program or award amount	ARRA Funds	Balance at June 30, 2010	Federal revenue recognized	Other revenue	Federal expenditures recognized	Other expenditures	Balance at June 30, 2011
U. S. Department of Education,										
passed through Maine Department of Education:										
Title I Grants to Local Educational Agencies	84-010	3057	\$ 29,035	No	-	29,035	-	29,035	-	-
Special Education Grants to States	84-027	3046	360,134	No	188	360,134	-	360,322	-	-
Special Education Grants to States - ARRA	84-391	3046	210,718	Yes	934	210,718	-	209,389	-	2,263
Special Education Preschool Grants	84-173	6241	3,750	No	-	3,750	-	3,750	-	-
Special Education Preschool Grants - ARRA	84-392	6241	1,132	Yes	-	1,132	-	1,132	-	-
Improving Teacher Quality State Grants	84-367	3042	51,929	No	-	51,929	-	51,929	-	-
State Fiscal Stabilization Fund (SFSF) - Education State Grants	84-394	2077	925,170	Yes	23,260	907,089	-	930,349	-	-
Education Jobs Fund	84-410	3099	583,260	Yes	-	60,992	-	80,736	-	(19,744)
Total U. S. Department of Education					24,382	1,624,779	-	1,666,642	-	(17,481)
U. S. Department of Agriculture,										
passed through Maine Department of Education:										
National School Lunch Program	10-555	013-7128-05	N/A	No	15,698	48,939	480,239	48,939	494,634	1,303
Breakfast Program	10-553	013-7127-05	N/A	No	-	5,329	-	5,329	-	-
Food Donation	10-555	013-6134-05	N/A	No	-	22,575	-	22,575	-	-
Total U. S. Department of Agriculture					15,698	76,843	480,239	76,843	494,634	1,303
U. S. Department of Justice, passed through Maine Department of Health and Human Services:										
2011 Enforcing Underage Drinking Laws Program	16-727	N/A	10,000	No	-	2,103	-	2,435	-	(332)
2008 Enforcing Underage Drinking Laws Program	16-727	N/A	13,623	No	-	3,250	-	527	-	2,723
2009 Justice Assistance Grant (Edward Byrne)	16-588	N/A	1,520	Yes	-	1,520	-	1,392	-	128
Total U. S. Department of Justice					-	6,873	-	4,354	-	2,519
U. S. Department of the Interior, Fish and Wildlife Services:										
National Fire Plan - Rural Fire Assistance	15-242	N/A	5,783	No	-	-	525	4,191	525	(4,191)
Total U. S. Department of Interior, Fish and Wildlife Services					-	-	525	4,191	525	(4,191)
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)	85,000	18,948	84,591	34,851	(15,903)
Total U. S. Department of Energy					(409)	85,000	18,948	84,591	34,851	(15,903)
Total federal awards				\$	39,671	1,793,495	499,712	1,836,621	539,010	(33,753)

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, 2011

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, 2011. 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, 2011

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.

Activity Fund Cash Receipts

During our testing of activity fund cash receipts for both the Elementary and Middle Schools, we determined that there are often separate lists or rosters (e.g. participants of a fieldtrip) of individuals who are paying for events, but the lists are not forwarded to the activity fund treasurer and are not attached to the receipt documentation. Therefore, the only documentation kept by the treasurer for event receipts is the bank deposit slip. In order to maintain better controls over cash receipts, the schools should consider attaching separate lists or rosters when cash is received from various individuals for an event. That way the total amount received can be verified against the lists of individuals who paid for the events.

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