

**TOWN OF CAPE ELIZABETH, MAINE**

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

**For the Year Ended June 30, 2012**

**TOWN OF CAPE ELIZABETH, MAINE**  
**Reports Required by *Government Auditing Standards***  
**and OMB Circular A-133**  
**For the Year Ended June 30, 2012**

---

**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
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	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>	8-10
Section III - Findings and Questioned Costs for Federal Awards	11
Section IV - Status of Prior Year Findings and Questioned Costs for Federal Awards	12

**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, 2012, which collectively comprise the Town of Cape Elizabeth, Maine's basic financial statements and have issued our report thereon dated September 11, 2012. 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

Management of the Town of Cape Elizabeth, Maine, is responsible for establishing and maintaining effective 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."

The Town of Cape Elizabeth, Maine's responses to the "Other Comments" identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town of Cape Elizabeth, Maine's responses and, accordingly, we express no opinion on them.

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 11, 2012  
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, 2012. 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 compliance 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, 2012.

Internal Control Over Compliance

Management of the Town of Cape Elizabeth, Maine is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program to determine the 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, 2012, and have issued our report thereon dated September 11, 2012, 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 schedule of expenditures of federal awards 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 11, 2012  
South Portland, Maine

**TOWN OF CAPE ELIZABETH, MAINE**  
**Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2012**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Pass-through number	Program or award amount	ARRA Funds	Balance at June 30, 2011	Federal revenue recognized	Other revenue	Federal expenditures recognized	Other expenditures	Balance at June 30, 2012
<b>U. S. Department of Education,</b>										
passed through Maine Department of Education:										
Title I Grants to Local Educational Agencies	84-010	3107	\$ 24,680		-	24,680	-	24,680	-	-
Special Education Grants to States	84-027	3046	360,798		-	309,629	-	309,953	-	2,676
Special Education Grants to States - ARRA	84-391	3046	210,718	Yes	2,263	2,263	-	4,526	-	-
Special Education Preschool Grants	84-173	6241	4,625		-	4,625	-	4,625	-	-
Improving Teacher Quality State Grants	84-367	3042	43,652		-	43,652	-	43,652	-	-
State Fiscal Stabilization Fund (SFSF) - Education State Grants	84-394	2077	925,170	Yes	-	18,081	-	18,081	-	-
Education Jobs Fund	84-410	3099	511,514	Yes	(15,744)	480,882	-	461,138	-	-
<b>Total U. S. Department of Education</b>					<b>(17,481)</b>	<b>883,812</b>	<b>-</b>	<b>863,655</b>	<b>-</b>	<b>2,676</b>
<b>U. S. Department of Agriculture,</b>										
passed through Maine Department of Education:										
National School Lunch Program	10-555	013-7128-05	N/A		1,303	51,824	523,754	51,824	511,550	13,507
Breakfast Program	10-553	013-7127-05	N/A		-	6,748	-	6,748	-	-
Food Donation	10-555	013-6134-05	N/A		-	26,422	-	26,422	-	-
<b>Total U. S. Department of Agriculture</b>					<b>1,303</b>	<b>84,994</b>	<b>523,754</b>	<b>84,994</b>	<b>511,550</b>	<b>13,507</b>
<b>U. S. Department of Justice, passed through Maine Department of Health and Human Services:</b>										
2011 Enforcing Underage Drinking Laws Program	16-727	N/A	10,000		(332)	2,974	-	3,898	-	(1,256)
2008 Enforcing Underage Drinking Laws Program	16-727	N/A	13,623		2,723	-	-	450	2,273	-
2009 Justice Assistance Grant (Edward Byrne)	16-588	N/A	1,520	Yes	128	-	-	-	-	128
2010 Justice Assistance Grant (Edward Byrne)	16-588	N/A	1,206	Yes	-	1,206	-	1,206	-	-
2011 Justice Assistance Grant (Edward Byrne)	16-588	N/A	646	Yes	-	646	-	646	-	-
<b>Total U. S. Department of Justice</b>					<b>2,519</b>	<b>4,826</b>	<b>-</b>	<b>6,200</b>	<b>2,273</b>	<b>(1,128)</b>
<b>U. S. Department of the Interior, Fish and Wildlife Services:</b>										
National Fire Plan - Rural Fire Assistance	15-242	N/A	5,783		(4,191)	5,783	-	-	-	1,592
<b>Total U. S. Department of Interior, Fish and Wildlife Services</b>					<b>(4,191)</b>	<b>5,783</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,592</b>
<b>U. S. Department of Housing and Urban Development, passed through Cumberland County, Maine:</b>										
CDBG - Family Crisis Services	14-218	N/A	51,112		-	39,112	-	39,112	-	-
<b>Total U. S. Department of Housing and Urban Development</b>					<b>-</b>	<b>39,112</b>	<b>-</b>	<b>39,112</b>	<b>-</b>	<b>-</b>
<b>U. S. Department of Energy, passed through Maine Department of Public Utilities Commission:</b>										
Energy Efficiency and Conservation Block Grant Program - ARRA	81-182	N/A	85,000	Yes	(15,903)	-	15,903	-	-	-
<b>Total U. S. Department of Energy</b>					<b>(15,903)</b>	<b>-</b>	<b>15,903</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>U. S. Department of Health and Human Services, passed through Maine Department of Health and Human Services, Center for Disease Control and Prevention</b>										
Investigation and Technical Assistance and Affordable Care Act Projects	93-283	013-6401	4,500		4,500	-	-	-	-	4,500
<b>Total U. S. Department of Health and Human Services</b>					<b>4,500</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,500</b>
<b>Total federal awards</b>			<b>\$</b>		<b>(29,258)</b>	<b>1,018,527</b>	<b>589,657</b>	<b>993,961</b>	<b>513,823</b>	<b>21,147</b>

*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, 2012**

---

---

**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, 2012. 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, 2012**

---

**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:

<b><u>CFDA Numbers</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
84.410	Education Jobs Fund

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 (NOT SIGNIFICANT DEFICIENCIES)**

**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.

***Management's Response and Corrective Action Plan:***

*Monthly financial reports will continue to be prepared and reviewed for all funds. Bank reconciliations will be reviewed on a monthly basis.*

***Anticipated Completion Date:***

*We anticipate this corrective action to be taken within the next 12 months.*

***Contact person responsible for monitoring and maintaining corrective action procedures:***

*Michael McGovern, Town Manger, 207-799-7665*

**Post-Issuance Debt Compliance**

In recent months, the IRS has increased its audits of compliance with tax-exempt bond issuance requirements. These audits are sometimes based on whether the municipality has a written policy related to post-issuance compliance for tax exempt bonds. In our discussion with the Town Manager, we determined that the Town does not have a written post-issuance policy but instead relies on the Town's bond advisor to inform them when they need to do their post-issuance disclosures. We recommend that the Town adopt a formal post-issuance compliance policy to ensure the Town is meeting all of the post-issuance compliance requirements. The IRS has identified certain recommended elements that should be included in a policy.

***Management's Response and Corrective Action Plan:***

*Upon receiving this draft recommendation, the Town Council approved a post issuance of bonds compliance policy.*

***Anticipated Completion Date:***

*The Town has already approved a post-issuance of bonds compliance policy.*

***Contact person responsible for monitoring and maintaining corrective action procedures:***

*Michael McGovern, Town Manger, 207-799-7665*

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

---

**OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued**

**Grant Administration**

During our reconciliation of the federal awards expended by the Town, we determined that some of the grants administered outside of the Town Hall (e.g. Police Department) had unspent balances, even though those departments were under the impression that the grants had been spent. In addition, some of the reimbursement requests had expenditure amounts that did not match up to what was in the general ledger. In order to increase the reliability of grant records and ensure compliance, those departments should consider keeping spreadsheets of each individual grant received and expended. The spreadsheet should include an award amount, revenues received, expenditures made, and an ending award balance. Expenditure and revenue amounts should be periodically matched to what is in the Town's accounting software. In addition, reimbursement requests should be supported by detailed general ledger expenditures and should be matched to subsequent revenues.

***Management's Response and Corrective Action Plan:***

*The recommendations will be implemented.*

***Anticipated Completion Date:***

*We anticipate this corrective action to be taken within the next 12 months.*

***Contact person responsible for monitoring and maintaining corrective action procedures:***

*Michael McGovern, Town Manger, 207-799-7665*

**Purchasing**

During our testing, we noted that the Business Manager reviews and signs off on the credit card statements for the School Department employees, but no one performs the same review for the Town employees. In the case of Town employees, the cardholders are signing off on the credit card statements, and the AP clerk ensures that all receipts and invoices are attached. We recommend that the Town consider giving the Business Manager the authority to review and approve all credit card statements.

***Management's Response and Corrective Action Plan:***

*The Town Manager will review and approve all credit card statements from municipal employees. In any month that there is a charge on the Town Manager's credit card statement, a copy will be provided of that statement to the Town Council chairman.*

***Anticipated Completion Date:***

*We anticipate this corrective action to be taken within the next 12 months.*

***Contact person responsible for monitoring and maintaining corrective action procedures:***

*Michael McGovern, Town Manger, 207-799-7665*

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

---

**OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued**

**Capital Assets**

Generally accepted accounting principles require an entity to capitalize assets which have a useful life beyond one reporting period. The Town currently tracks capital assets on a spreadsheet and adjusts the list periodically throughout the year. Our testing in this area revealed several items which should have been capitalized, but were not included on the Town's list. We recommend updating the formal capitalization policy and procedures. The updated policy should include criteria for identifying capital assets, the capitalization threshold, the potential useful life for each major class of assets, and procedures for maintaining an accurate capital asset listing. Further, the Town should review general ledger transactions monthly or quarterly to identify any potential capital asset additions or disposals and adjust the list accordingly at that time. A year-end inventory of capital assets would also assist in ensuring the list is accurate.

***Management's Response and Corrective Action Plan:***

*The capital asset policy and procedures will be reviewed and procedures will be put in place to assure the accurate recording of capital asset additions and disposals on a timely basis.*

***Anticipated Completion Date:***

*We anticipate this corrective action to be taken within the next six months.*

***Contact person responsible for monitoring and maintaining corrective action procedures:***

*Pauline Aportria, School Business Manager, 207-799-2217*

**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 for Federal Awards**

**NONE**