

**TOWN OF CAPE ELIZABETH, MAINE**

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

**For the Year Ended June 30, 2013**

**TOWN OF CAPE ELIZABETH, MAINE**  
**Reports Required by *Government Auditing Standards***  
**and OMB Circular A-133**  
**For the Year Ended June 30, 2013**

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**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**

To the 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, 2013, 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 September 2, 2013.

**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 or 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

However, we noted other matters involving the internal control over financial reporting that we have reported in the section "Other Comments".

**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*, CONTINUED**

**Compliance and Other Matters**

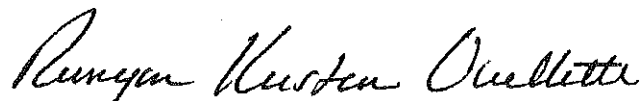
As part of obtaining reasonable assurance about whether the Town of Cape Elizabeth, Maine's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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*.

**Town of Cape Elizabeth's Responses to Other Comments**

The Town of Cape Elizabeth's responses to the "Other Comments" identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town of Cape Elizabeth'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.



September 2, 2013  
South Portland, Maine

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Town Council  
Town of Cape Elizabeth, Maine

**Report on Compliance for Each Major Federal Program**

We have audited the Town of Cape Elizabeth, Maine's compliance with the types of compliance requirements described in *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, 2013. 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.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the Town of Cape Elizabeth, Maine's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Cape Elizabeth, Maine's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the Town of Cape Elizabeth, Maine complied, in all material respects, with the types of 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 20, 2013.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED**

**Report on 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 types of compliance requirements referred to above. In planning and performing our audit, we considered the Town of Cape Elizabeth, Maine's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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.

*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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 the internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED**

**Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133**

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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Cape Elizabeth, Maine's basic financial statements. We issued our report thereon dated September 2, 2013, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic 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 basic 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 basic financial statements or to the basic 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 basic financial statements as a whole.



September 2, 2013  
South Portland, Maine

**TOWN OF CAPE ELIZABETH, MAINE**  
**Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2013**

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA number	Pass-through number	Program or award amount	ARRA Funds	Balance at June 30, 2012	Federal revenue recognized	Other revenue	Federal expenditures recognized	Other expenditures	Balance at June 30, 2013
U. S. Department of Education, passed through Maine Department of Education: Title I Grants to Local Educational Agencies	84.010	3107	\$ 28,979		-	28,929	-	28,929	-	-
Special Education Grants to States	84.027	3046	363,121		2,676	220,141	-	222,817	-	-
Special Education Preschool Grants	84.173	6241	4,654		-	4,654	-	4,654	-	-
Improving Teacher Quality State Grants	84.367	3042	44,182		-	44,182	-	44,182	-	-
Education Jobs Fund	84.410	3099	511,514	Y	-	50,375	-	50,375	-	-
Total U. S. Department of Education					2,676	348,281	-	350,357	-	-
U. S. Department of Agriculture, passed through Maine Department of Education: National School Lunch Program	10.555	013-7128-05	N/A		13,507	64,539	547,244	64,539	556,892	3,859
Breakfast Program	10.553	013-7127-05	N/A		-	8,919	-	8,919	-	-
Food Donation	10.555	013-6134-05	N/A		-	22,108	-	22,108	-	-
passed through Maine Department Agriculture, Conservation & Forestry: Urban and Community Forestry - Hickory Stand and Shade Tree Replacement	10.675	12-DG-086	7,900		-	-	7,900	7,900	-	(7,900)
Urban and Community Forestry - The Arboretum, at Fort Williams	10.675	11-DG-11420004-098	10,155		-	10,155	10,155	10,155	-	-
Total U. S. Department of Agriculture					13,507	105,721	565,299	113,621	574,947	(4,041)
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		(1,256)	2,895	-	1,639	-	(1,484)
2013 Enforcing Underage Drinking Laws Program	16.727	N/A	5,800		-	2,043	-	3,527	-	(1,484)
Total U. S. Department of Justice					(1,256)	4,938	-	5,166	-	(1,484)
U. S. Department of the Interior, Fish and Wildlife Services: National Fire Plan - Rural Fire Assistance	15.242	N/A	5,783		1,592	-	-	1,592	-	-
U.S. Department of Housing and Urban Development, passed through Cumberland County, Maine: CDBG - Family Crisis Services	14.218	N/A	50,260		-	48,653	13,683	48,653	13,683	-
U.S. Department of Transportation, passed through the Maine Department of Transportation: Highway Planning and Construction - Shore Road Pathway	20.205	019387.00	729,000		-	729,000	208,000	729,000	208,000	-
passed through the Maine Bureau of Highway Safety: 2013 CIOT Seat Belt Campaign	20.600	OP13-016	1,989		-	-	-	1,898	-	(1,898)
Total U.S. Department of Transportation					-	729,000	208,000	730,898	208,000	(1,898)
U.S. Department of Homeland Security, passed through Maine Emergency Management Agency: Disaster Grants - Public Assistance - 2013 Winter Storm	97.036	FEMA-4108-DR-ME	41,291		-	41,291	13,764	41,291	13,764	-
passed through the City of Portland, Maine FY2009 Port Security Program	97.056	N/A	12,000		-	12,000	3,000	12,000	3,000	-
Total U.S. Department of Homeland Security					-	53,291	16,764	53,291	16,764	-
<b>Total federal awards</b>				\$	16,519	1,289,884	803,746	1,304,178	813,394	(7,423)

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, 2013**

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**PURPOSE OF THE SCHEDULE**

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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).

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**SIGNIFICANT ACCOUNTING POLICIES**

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- 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, 2013. 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, 2013**

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**Section I - Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	Unmodified
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:	Unmodified
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>
20.205	Highway Planning and Construction - Shore Road Pathway

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**

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**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. 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.*

***Anticipated Completion Date:***

*Ongoing*

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

*Michael McGovern, Town Manger, 207-619-6716*

**The Lighthouse at Portland Head Receipts**

The Lighthouse now allows vendors to set up tables outside the gift shop to sell their wares during peak tourist times. The vendors keep the payments collected in cash boxes; turning the cash in to the Lighthouse bookkeeper at the end of the day. The bookkeeper enters the sales for a given day as a lump sum, submits the sales tax on behalf of the vendors, and cuts checks to the vendors for their portion of the sales, retaining the Town's portion of the sales. Currently, the vendors do not keep track of individual items sold and there is no way for the Lighthouse staff to determine that what has been submitted for cash at the end of the day is accurate. In order to increase internal controls over these sales, the Town should consider implementing certain procedures for these vendors. The sales should be tracked by individual items sold, either through a manual ledger, Excel spreadsheet, or cash register. The daily record should include the price charged, the number of units sold, and the total payment collected. At the end of the day, the bookkeeper should verify the total cash turned in with the total of the items sold and follow up on any discrepancies. In addition, the Town should consider having someone other than the Lighthouse bookkeeper deposit the funds, so that the accounting for the sales and the custody of the cash can be separated. For example, the Town could have the vendors drop their cash with a note as to how much is being deposited into a drop box and have a trusted, bonded Town employee collect the cash and take it to Town Hall for deposit.

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

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

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

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

*Management will work with the vendors to keep a list of items sold. The cash will be reconciled by the museum/gift shop manager. Records will be maintained until the completion of the annual audit. As the records of the sales will be reconcilable with the deposits and as onsite paid personnel are very limited, the museum/gift shop manager or the daily person in charge will continue to make the deposits.*

***Anticipated Completion Date:***

*October 1, 2013*

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

*Michael McGovern, Town Manger, 207-619-6716*

**Purchase Cards**

Last year, we made a recommendation that the Town have someone in management review all of the Town employee purchase card statements and sign off on them before they are processed for payment. This year, we followed up on our recommendation and learned that the Town Manager is reviewing all credit card statements related to the warrants he is reviewing. However, the credit card statements we selected during our testing had no obvious documentation they had been reviewed and authorized. In order to improve internal controls over purchase cards, all managers who are reviewing and approving credit card statements should explicitly document their approval before the statements are processed for payment.

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

*Management agrees that there needs to be obvious documentation that a review and approval have occurred.*

***Anticipated Completion Date:***

*Immediately and ongoing*

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

*Michael McGovern, Town Manger, 207-619-6716*

**Activity Funds**

During our review of the Pond Cove Activity Fund, we determined that the elementary school has large balances that have accumulated over time. These balances are from revenues that are not related directly to the activity funds, such as payments from school picture vendors. The school has designated these balances for specific uses, such as professional development. However, for the School Department to accurately account for and report its operating expenditures, such disbursements should go through the central office so they are reflected in the budget to actual balances. In addition, the use of such funds for regular, operating expenditures should also go through the central disbursement process so they can be approved on the warrants. We therefore recommend that these balances be returned to the central office so that they can be absorbed into the School Department General Fund and go through the regular disbursement process. The Central Office should determine what it considers to be a reasonable amount for the school to retain for small purchases that do not need to go through the central disbursement process (e.g. \$1,000).

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

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

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

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

*Management agrees that excess accumulated balances should be transferred to the central office with minor transactions still being conducted at the school level. A policy for the minor transactions will be prepared.*

***Anticipated Completion Date:***

*December 31, 2013*

***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**

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**Section III - Findings and Questioned Costs for Federal Awards**

**NONE**

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

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**Section IV - Status of Prior Year Findings and Questioned Costs for Federal Awards**

**NONE**