

TOWN OF CAPE ELIZABETH, MAINE

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

For the Year Ended June 30, 2016

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

Town Council
Town of Cape Elizabeth, Maine

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Cape Elizabeth, Maine as of and for the year ended June 30, 2016, 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 21, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Cape Elizabeth, Maine's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Cape Elizabeth, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Cape Elizabeth, Maine's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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.

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GOVERNMENT AUDITING STANDARDS, CONTINUED**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Cape Elizabeth, Maine's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Town of Cape Elizabeth, Maine's Responses to 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 responses. The Town of Cape Elizabeth, Maine's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



September 21, 2016
South Portland, Maine

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Responses
For the Year Ended June 30, 2016

Findings Required to be Reported Under *Government Auditing Standards*

None

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES)

Segregation of Duties (repeat)

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

Management's Response and Corrective Action Plan:

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

Anticipated Completion Date:

Ongoing

Contact person responsible for monitoring and maintaining corrective action procedures:

Michael McGovern, Town Manager, 207-619-6716

School Budget

During our testing of the school budget balances as entered into the general ledger, we noted that some of the categories in the original budget column did not agree with the budget as passed at referendum, although in total the budget did agree. On further inquiry, we determined that budget line transfers were done in the original budget columns instead of being shown as budget adjustments. To ensure that the School Department is in compliance and does not exceed the budget as passed, only the budget as approved at referendum should be entered in the original budget column. Any budget line transfers or adjustments should be tracked as adjustments.

Management's Response and Corrective Action Plan:

The School Business Manager will make sure that only the original budget is input into the original budget column and all budget line transfers will have supporting documentation and be approved by the Superintendent prior to inputting.

Anticipated Completion Date:

August 31, 2016

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

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued

Year-end Reports and Adjusting Journal Entries

At the beginning of the Town's audit, we obtained a copy of the Town's trial balance and revenue and expenditure reports. On further review, we noted that the trial balance control accounts for revenues and expenditures did not agree with the detailed reports of revenues and expenditures. Additionally, we learned that a journal entry was posted between when the trial balance report was printed and when the revenue and expenditure reports were printed. We determined that the central office staff continued to post adjusting journal entries to the general ledger in the fiscal year that was being audited and some of those entries were duplicates of the audit journal entries. The result was that both the auditors and management had to spend time determining which journal entries were posted before and after the original reports had been run and where the audited reports differed from the Town's final reports. In order to ensure a smoother year-end audit process, the Town should implement a cut-off date at which point no additional journal entries are posted in the year being audited, unless provided to the auditor before being posted. In addition, the client should ensure that all entries, as practical, are posted before year-end reports are run and given to the audit team. This may mean that the audit is performed at a later date, giving management more time to prepare.

Management's Response and Corrective Action Plan:

The issue was caused by a change in personnel and that person was not familiar with the accounting system and town processes. The School Business Manager will implement a cutoff date for journal entries along with the recommendation for a later audit date to give management greater time to prepare for the audit.

Anticipated Completion Date:

Immediately

Interfund Receivables and Payables

During our review of the journal entries posted during fiscal year 2016, we noted that there are a number of journal entries that do not include the related interfund receivable and payable accounts and therefore, create imbalances in the funds. The result is that the central office staff has to perform a reconciliation and post a very lengthy journal entry to get the funds back in balance on a monthly basis. In those instances in which journal entries affect more than one fund, the staff should consider adding the due to from accounts to keep the funds in balance. This practice will save the staff time at the end of the month and cut down on the number of adjusting journal entries required.

Management's Response and Corrective Action Plan:

The School Business Manager is working with the accounting software provider to upgrade the software to provided automatic due to/from entries.

Anticipated Completion Date:

June 2017

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

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued

Pond Cove Elementary School Activity Fund

During our testing of the Pond Cove activity fund cash receipts, we noted that the school currently keeps documentation when amounts are collected from individuals for deposit, but the date is not noted when those amounts are collected. In order to improve internal controls over cash receipts and ensure deposits are made in a timely manner, the account custodian should document the date, the purpose, and amount of all cash collected for deposit.

Management's Response and Corrective Action Plan:

The School Business Manager notified Pond Cove Office Staff as soon as this was brought to their attention. The School Business Manager will review paper work on a regular basis to make sure it is being documented and deposited in a timely manner.

Anticipated Completion Date:

Immediately

Maine Education Data Management System (MEDMS)

Currently, the State of Maine Department of Education requires all School Departments to upload complete and accurate financial data to its MEDMS software system. During our review of the information uploaded to the MEDMS system, we noted many account lines that were excluded, mostly for federal grants. In order to ensure the year-end financial information is properly reported to the State, the School Department staff should carefully review the information uploaded for accuracy and completeness. In addition, any new general ledger accounts should be properly bridged so that they upload to the MEDMS system.

Management's Response and Corrective Action Plan:

The School Business Manager will make sure that all school accounts including grant accounts are programmed correctly in order to upload to the MEDMS software correctly.

Anticipated Completion Date:

July 2017

Credit Card Testing

During our testing of cash disbursements, we selected eighteen credit card statements of individual employees to test. Of the eighteen statements, four were missing supporting invoices or receipts. In order to improve internal controls over credit card transactions, the Town should ensure that all employees are submitting sufficient documentation for their disbursements, primarily receipts or invoices.

Management's Response and Corrective Action Plan:

The Accounts Payable department has written procedures for the school department that requires receipts and/or invoices for all credit card charges. The municipal departments are also required to provide full documentation and department heads will be reminded of the requirement.

Anticipated Completion Date:

Immediately

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

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), Continued

Transfer Station Cash Receipts

During our review of the transfer station cash receipts process, we noted that although individual employees can log in to the software, typically all transactions for the day are processed under one employee's ID, regardless of who is completing the transaction. In addition, the software is not password protected and someone with sufficient knowledge could open the register. In order to improve the accuracy of tracking transactions and security over the software, the software should be password protected. In addition, each employee should log in and log out for each transaction under his or her ID so the software appropriately shows who processed each transaction. Each employee should also have his or her own private password so that one employee could not log in under another employee's ID and process transactions.

Also, during our review of transaction processing at the transfer station, we noted that some employees are not entering the exact amount tendered into the register and instead treating the transactions as though they received the exact amount due. As the station has had some issues with overages and shortages, we recommend that employees always enter the exact amount tendered so that the software can calculate the change due. We also recommend that each and every citizen be given a receipt (not asked if they want one first) so that the citizen can refer to his or her receipt to ensure it is accurate, including the amount tendered and the change given.

Management's Response and Corrective Action Plan:

The Town Manager has met with the director of public works on this topic and new procedures will be implemented.

Anticipated Completion Date:

December 31, 2016

Portland Head Light Cash Receipts

During our testing of Portland Head Light gift shop and museum cash receipts, we noted that almost every day out of the forty days' cash receipts selected for testing had overages and shortages that were mostly attributable to manual adjustments. We determined that some transactions processed at the gift shop were for the museum and vice versa. The risk of performing manual adjustments on an almost daily basis is that it gives the opportunity for improper adjustments and possible theft. In order to improve the controls over the Portland Head Light cash receipts and decrease the number of overages and shortages and manual adjustments, we recommend that the registers at both the gift shop and museum be programmed to ring in transactions for both locations. If the transactions were processed under the correct category, there would no longer be a need for manual adjustments to record revenues in the correct category.

Management's Response and Corrective Action Plan:

We will either follow the recommendation regarding programming the software or if that is not possible, we will simply forbid any transactions in the opposite location.

Anticipated Completion Date:

December 31, 2016