

TOWN OF CAPE ELIZABETH, MAINE

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

For the Year Ended June 30, 2018

**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, 2018, 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 December 21, 2018.

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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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 an instance of noncompliance (2018-001) that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses.

We noted certain matters that we reported to management of the Town of Cape Elizabeth, Maine in the attached schedule of findings and responses under “Other Comments”.

Town of Cape Elizabeth, Maine’s Responses to Finding and Other Comments

The Town of Cape Elizabeth, Maine’s responses to the finding and 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.



December 21, 2018
South Portland, Maine

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Responses
For the Year Ended June 30, 2018

Findings Required to be Reported Under *Government Auditing Standards*

COMPLIANCE FINDING

2018-001 Continuing Disclosures for Debt Issuances

Federal law and certain bond covenants dictate that the Town provides financial and other information under continuing disclosure requirements. The Town has an established policy to comply with such requirements; one of which is the submission of audited financial statements to the Municipal Securities Rulemaking Board (MSRB) within 270 days of year-end. We found that the audited financial statements for June 30, 2017 were not submitted to the MSRB within the prescribed period. We recommend that the Town re-evaluate the policy for debt compliance and create a formal set of procedures to ensure that the necessary information is submitted as required.

Management's Response and Corrective Action Plan: *Management will ensure that any and all annual reporting and disclosures occur within the required time periods in accordance with MSRB standards. The Town is also in the process of adding a Town specific finance director to assist in maintaining compliance with all reporting standards.*

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES)

Material Audit Adjustments

As part of the audit process, we use and rely on reports provided by management to compile the financial statements. When auditors prepare the financial statements, management must take responsibility for the financial statements and the records used to prepare them. As part of the audit process, we provided management with many audit entries, which we feel were more than inconsequential. We recommend monthly reconciliations be performed for all accounts to help identify adjustments that should be made. In addition, a thorough review of the financial records should be performed at the end of the year to ensure all year-end adjustments have been identified and posted.

Management's response/corrective action plan: *Management will make a thorough review of the financial records at year-end and make sure that all year-end adjustments have been identified and posted.*

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 and school board agendas. The council chair and the finance chair sign all warrants. The majority of school board*

members sign school all warrants.

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

Budget

During our review of the budget entered into the accounting software, we noticed variances with what was approved by the Council and what was entered into the accounting system. We identified about \$708,000 in capital projects that were entered into the software that were included in a preliminary capital plan, but not included in the final budget as approved by the Council. In addition, we noted the School Department budget was not adjusted for the late change in education subsidy, even though the Council approved amending the taxes raised for such a change. In order to ensure compliance with the budget, the Town should ensure that the budget, as entered in the accounting software, agrees with the budget as passed and should ensure that all planned expenditures are included in the final budget to be approved by the Council.

Management's Response and Corrective Action Plan: *The Town Manager will verify that the capital plans are included in the final budget and the School Business Manager will make sure that any adjustment to subsidy is corrected at the time of the subsidy change. Additionally, the town council approved fund transfers to address the funding of capital projects in the September 10, 2018 council meeting.*

Anticipated Completion Date: *Immediately.*

Portland Head Light Gift Shop

During our testing of Portland Head Light cash receipts, we selected forty days' worth of cash receipts to test. Of those days selected, we noted three instances in October 2017 in which several days' worth of receipts were deposited on the same day, even though there were individual deposit slips prepared for each of those days. The amounts deposited were \$16,892.53, \$11,547.16, and \$9,049.36, respectively. In addition, in November 2017, we noted four instances in which the amounts collected at the museum were not processed and deposited for several days. The number of days between the museum amounts were collected and when they were processed and deposited were between seven and eight days.

Since the Town experienced theft at the lighthouse, the amount of cash held on hand at the lighthouse should be minimized and deposits should be taken to the bank more frequently. We recommend that during the busy times, deposits should be made daily, or at a minimum, every other day. If the lighthouse does not have sufficient staff to take the deposits to the bank, then the Town should consider using either a courier system or having the Police Department take the deposits to the bank. In addition, the museum amounts should be processed and deposited in the same weekend in which they are collected.

Management's Response and Corrective Action Plan: *The Town engaged the services of a courier to pick up deposits at the PHL Gift Shop three days a week, with the service commencing this past August. The desired result should address the timely processing of deposits and correcting this activity.*

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

Capital Assets

Although the Town updated the spreadsheet that is used to track all capital assets, the Town failed to identify changes in capital assets related to construction in progress and infrastructure assets. This resulted in discrepancies between projects that had been completed and should have been included in capital asset additions but were still identified as construction in progress. Once projects are complete, they should be removed from construction in progress and moved to the appropriate capital asset category to begin being depreciated. We recommend that the Town discuss who should be responsible for updating all capital asset information so that capital asset information is complete and accurate for audit purposes.

Management's Response and Corrective Action Plan: *Management will continue to look for improvement in the tracking of capital assets and converting projects from construction in process to complete in addition to any other areas where improvement can be found.*