

TOWN OF CAPE ELIZABETH, MAINE

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

For the Year Ended June 30, 2020

**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, 2020, 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 January 22, 2021.

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) as a basis for designing 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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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 financial statements. 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 findings and responses under "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.



January 22, 2021
South Portland, Maine

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Responses
For the Year Ended June 30, 2020

Findings Required to be Reported Under *Government Auditing Standards*

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

Tax Commitment

During the audit, management informed us there was an error on the Municipal Valuation Return, which we confirmed through our review of the budget and tax commitment. We determined that \$300,000 in budgeted use of fund balance for the School Department was not included in the non-tax revenues. The result was that the amount raised from the tax commitment for the School Department was \$300,000 higher than originally intended. In order to avoid errors on the Return, someone other than the Assessor should review the non-tax revenues included in the commitment calculation to ensure they are accurate.

Management's Response and Corrective Action Plan: The Finance Director and Assessor are working together in reviewing the budget components are the amount of taxes to be assessed. The error noted above was caused by the anticipated School Department revenues and use of fund balance not being fully entered into the financial management system. Also, the School Business Manager and the Finance Director are working together to assure that all revenues and expenditures identified and approved are properly entered into the financial management system.

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Responses
For the Year Ended June 30, 2020

Findings Required to be Reported Under *Government Auditing Standards*

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), CONTINUED

School Department Fund Balance

Maine Revised Statute Title 20-A, Education states that a School Department's "unallocated balances in excess of 3% of the previous fiscal year's budget must be used to reduce the State and local share of the total allocation for the purpose of computing state subsidy. School boards may carry forward unallocated balances in excess of 3% of the previous year's school budget and disburse these funds in the next year or over a period not to exceed 3 years". Currently, the School Department's unassigned fund balance of \$1,141,397 is about 4% of the fiscal year 2020 budget. The School Department should plan to use the fund balance according to State statute.

Management's Response and Corrective Action Plan: *The School Department intends to use a portion of the unassigned fund balance for the fiscal year 2021-2022 budget. This will decrease the unassigned fund balance, complying with the Maine Statute Title 20-A.*

School Cash Disbursements

During our testing of School Department cash disbursements, we identified four disbursements that did not have approved purchase orders, even though they were required. In two of those instances, there was also no approval on the invoice for the purchase. In addition, we identified one disbursement for building improvements that exceeded the Department's \$20,000 threshold, which the superintendent approved as an emergency bid waiver. However that approval was not documented. In order to improve internal controls over purchasing procedures, management should review all disbursements in excess of the bidding threshold and ensure that the School Department documented approvals for any bid waivers. In addition, all required approvals should be obtained before checks are written for disbursements.

Management's Response and Corrective Action Plan: *Management will continue to review with those involved in the purchasing process the Town's policy and procedures to ensure that all requirements are met going forward. In this particular case, it was an emergency roof repair. The school's bidding/purchasing policy (Code: DJE, page 1) allows for the Superintendent to forego the competitive bid or RFP process when the situation is categorized as such.*

Town Cash Disbursements

During our testing of Town cash disbursements, we identified one disbursement for demolition disposal for the Town that exceeded its \$3,500 threshold for a bid but that did not go through the bid process. In order to improve internal controls over purchasing procedures, management should review all disbursements in excess of the bidding threshold and ensure that the Town used the appropriate bidding procedures.

Management's Response and Corrective Action Plan: *Management will review with those involved in the purchasing process the Town's policy and procedures to ensure that all requirements are met going forward.*

TOWN OF CAPE ELIZABETH, MAINE
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Findings Required to be Reported Under *Government Auditing Standards*

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), CONTINUED

Credit Card Disbursements

During our testing of credit card disbursements, we judgmentally selected forty disbursements from the credit cards of nine different employees. Of those employees selected, one employee had three transactions that were missing supporting invoices or receipts. In order to improve internal controls over credit card disbursements, the Town should reinforce to all employees that invoices and receipts related to purchases must be turned in and verified.

Management's Response and Corrective Action Plan: *Management has worked on the credit card process for both the town and school since January 2020. All employees entitled to use a credit card know that their responsibility is to provide timely receipts for each charge. Accounting controls have been applied to prevent any further issues.*

Portland Head Light Cash Receipts

During our review of the cash receipts procedures at Portland Head Light, we discussed the handling of inventory items purchased in the Museum with the Director. The Director explained that items purchased in the Museum are treated as though they are Gift Shop sales and she manually removes those items from the Museum sales. Once a month, the Director then does a positive adjustment to the Gift Shop sales to account for items purchased in the Museum. We determined that when the Director does the manual adjustment to the Museum sales, she pulls the cash attributed to those sales from the deposit and sets it aside in the safe. Then, once a month, when she adjusts the Gift Shop sales, she deposits the amounts that have been set aside from Museum purchases. The monthly adjustments range from \$200 to \$400, depending on the number of items sold.

During our review of cash receipts, we also noted that deposits are being made every three to four days. The result is that often thousands of dollars are held in the safe until those deposits are made. For example, on October 7, 2019, four days' of sales were deposited, which exceeded \$10,000 in total.

In order to improve the controls over cash on hand, the Head Light should minimize the amount of cash held in its safe. Sales from inventory items sold in the Museum should be deposited when collected and not deposited once a month when the adjustment is made. The adjustment can still be done once a month without holding that cash in the safe and the difference between the deposit and sales would be a reconciling item for the museum. In addition, deposits should be made more frequently to avoid excess cash on hand and reduce the risks of theft or loss.

Management's Response and Corrective Action Plan: *Management will undertake a thorough review of the cash handling before the start of the 2021 season. Management will address the issues identified with the museum director*

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Schedule of Findings and Responses
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Findings Required to be Reported Under *Government Auditing Standards*

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), CONTINUED

Middle School Activity Fund Disbursements

During our testing of the Middle School activity fund cash disbursements, we identified the purchase of four gift cards through the Student Council account. Although the purchase and use of gift cards are not prohibited under the current Activity Fund policy, their purchase and use should be discouraged. Since gift cards are similar to cash, it is difficult to determine who used the gift card or if it was used for its intended purpose. If the School Department continues to allow the purchase and use of gift cards, then the Department should consider implementing policies regarding gift cards. In particular, the recipients of the gift cards should be documented with the intended purpose of the cards and the recipients should sign for those cards to document the intended recipient received the cards.

Management's Response and Corrective Action Plan: *Management will meet with each school administrative assistant to review expectations of accounting controls for Activity Funds. The use of gift cards will addressed: no gift cards are to be issued in the future.*

High School Activity Fund

While testing the High School Activity Fund cash receipts procedures, we identified two deposits from December 2019 and January 2020 from a sample of forty cash receipts that were deposited twenty two and thirty four days after the amounts were originally received. In order to improve internal controls over cash receipts, the school should make deposits no more than one week after the amounts were received.

Management's Response and Corrective Action Plan: *Management meets with each school administrative assistant during the month of January to review expectations of accounting controls for Activity Funds. Depositing funds within one to two days will be addressed. In addition, the school department will consult with the Town Finance Director to coordinate using a courier for bank deposits.*