

TOWN OF CAPE ELIZABETH, MAINE

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

For the Year Ended June 30, 2019

**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, 2019, 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 14, 2020.

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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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 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 14, 2020
South Portland, Maine

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Responses
For the Year Ended June 30, 2019

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.

School and Town Cash Disbursements

During our testing of School Department and Town cash disbursements, we identified three disbursements for a gymnasium inspection, the renovation of the football locker room, and the replacement of a flow motor at Richard's pool, all of which exceeded \$3,500 and did not have bids. Per the Town's purchasing policy, "all purchases and contracts in excess of \$3,500 shall require use of the procedure outlined in Section IV. Section IV includes bid procedures for purchases over \$3,500." In order to improve internal controls over purchasing procedures, management should ensure to 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.

Activity Fund Disbursements

During our testing of the Middle School activity fund cash disbursements, we identified two disbursements from a total selection of twenty disbursements, for which sales tax was paid, that in total exceeded \$39. As the Town is a tax-exempt entity, we recommend that the School Department avoid paying sales tax whenever possible. In addition, in those instances in which sales tax exceeds \$10, the custodian of the activity funds should seek reimbursement from the vendor.

Management's Response and Corrective Action Plan: The School Department Business Manager will draft a formal letter to each school principal and lead secretary emphasizing that sales tax is not to be paid for any transaction. The Business Manager will also personally meet with each administrative assistant in all three schools to review this practice so we will avoid this mistake in the future.