

TOWN OF CAPE ELIZABETH, MAINE

**Reports Required by *Government Auditing
Standards* and the Uniform Guidance**

For the Year Ended June 30, 2021

TOWN OF CAPE ELIZABETH, MAINE
Reports Required by *Government Auditing Standards*
and the Uniform Guidance
For the Year Ended June 30, 2021

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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

Members of the Town Council
and School Board
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 Town of Cape Elizabeth, Maine as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Town of Cape Elizabeth, Maine's basic financial statements, and have issued our report thereon dated January 28, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Cape Elizabeth, Maine's internal control over financial reporting (internal control) as a basis for designing 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 Town of Cape Elizabeth, Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of 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 Town'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.

**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 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*.

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 28, 2022
South Portland, Maine

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Members of the Town Council
and School Board
Town of Cape Elizabeth, Maine

Report on Compliance for Each Major Federal Program

We have audited Town of Cape Elizabeth, Maine's compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of Town of Cape Elizabeth, Maine's major federal programs for the year ended June 30, 2021. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 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 Town of Cape Elizabeth, Maine's compliance.

Opinion on Each Major Federal Program

In our opinion, 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 30, 2021.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE, CONTINUED

Report on Internal Control over Compliance

Management of 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 of compliance, we considered 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 the Uniform Guidance, 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 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 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 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 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 the Uniform Guidance. 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 THE UNIFORM GUIDANCE, CONTINUED**

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Cape Elizabeth, Maine as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise Town of Cape Elizabeth, Maine's basic financial statements. We issued our report thereon dated January 28, 2022, 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 the Uniform Guidance 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.



January 28, 2022
South Portland, Maine

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/Program Title	Federal Listing Number	Pass- through Number	Total Federal Expenditures	Cluster/ Listing Totals	Passed Through to Subrecipients
U. S. Department of Education, passed through Maine Department of Education:					
Title I Grants to Local Educational Agencies	84.010	3107	\$ 29,773		-
Title IIA Supporting Effective Instruction	84.367	3042	32,569		-
COVID - Elementary and Secondary Emergency Relief Funds #1	84.425D	7006	23,099		-
COVID - Elementary and Secondary Emergency Relief Funds #2	84.425D	7041	95,510		-
COVID - Elementary and Secondary Emergency Relief Funds #3	84.425D	N/A	35,683	154,292	-
Special Education Cluster:					
Special Education Grants to States	84.027	3046	210,028		-
Preschool Grant	84.173	6247	1,299		-
Total Special Education Cluster				211,327	
Total U. S. Department of Education			427,961		-
U. S. Department of Agriculture, passed through Maine Department of Education:					
Child Nutrition Cluster:					
Summer Food Program	10.559	3016/3018	232,556		-
Donated Commodities	10.555	N/A	23,006		-
Total Child Nutrition Cluster				255,562	
Total U. S. Department of Agriculture			255,562		-
U.S. Department of Treasury, passed through Maine Department of Education:					
COVID - Coronavirus Relief Funds #1	21.019	7010	1,052,760		-
COVID - Coronavirus Relief Funds #2	21.019	7015	1,148,299		-
COVID - Coronavirus Relief Funds - Day Program	21.019	7017	57,291	2,258,350	-
Total U. S. Department of Treasury			2,258,350		-
U.S. Department of Transportation, passed through Maine Department of Transportation:					
Highway Planning and Construction Cluster:					
Highway Planning and Construction	20.205	2410300	234,379		-
Total Highway Planning and Construction Cluster				234,379	
passed through the Maine Bureau of Highway Safety:					
Highway Safety Cluster:					
HV Distracted Driving Enforcement	20.616	N/A	1,942		-
eCitation	20.616	N/A	1,275		-
Click It or Ticket	20.616	N/A	5,925		-
Total Highway Safety Cluster				9,142	
Total U.S. Department of Transportation			243,521		-
U.S. Department of Homeland Security, passed through Maine Emergency Management Agency:					
COVID - Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	N/A	6,756		-
Total U. S. Department of Homeland Security			6,756		-
Total federal awards			\$ 3,192,150		-

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF CAPE ELIZABETH, MAINE
Notes to Schedule of Expenditures of Federal Awards
For the year ended June 30, 2021

PURPOSE OF THE SCHEDULE

Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), requires a schedule of expenditures of federal awards showing total expenditures for each federal award program as identified in the Assistance Listings in the System for Awards Management.

SIGNIFICANT ACCOUNTING POLICIES

- 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, 2021. The reporting entity is defined in the Notes to Basic Financial Statements of 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 the Uniform Guidance.
 - 1. Pursuant to the Uniform Guidance, 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 - the Uniform Guidance establishes the level of expenditures or expenses to be used in defining major federal award programs. Major programs for the Town of Cape Elizabeth, Maine are identified in the summary of auditor's results in the schedule of findings and questioned costs.
- 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.
- D. Indirect Cost Rate - Town of Cape Elizabeth, Maine has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs
June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP:	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 federal programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No
Identification of major federal programs:	

<u>Listing Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>21.019</u>	<u>COVID 19 – Coronavirus Relief Funds</u>

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	No

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2021

Section II - 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. Bank statements are reconciled monthly, generally within the first week of the next month. Cash receipts and cash disbursements are segregated, with the Tax Office receiving and entering most of the incoming payments. Other offices with responsibility for cash receipts and deposits are Codes Enforcement, Police, Community Services, Recycling Center, Library, Portland Head Light, and School Lunch Program. Except for Codes Enforcement, all receipts and deposit activities are entered into the accounting system by the finance office. Cash Disbursements for both accounts payable and payroll are made through the School Business Office. A member of management, Town Manager, School Business Manager or Finance Director, must authorize electronic ACH payments. A member of the School Business Office runs and distributes the weekly and monthly expense and revenue reports. Ambulance and Sewer receivables are reconciled monthly to the statements from Medical Reimbursement Services and Portland Water District. During FY 2022, the School Business Office added an Accounting Manager position, which is overseeing the payroll withholdings and other accounts and reconciling payroll tax reports and accounts, as well as other accounting functions. This additional position is providing the School Business Manager with additional resources for maintaining the integrity of the general ledger and payroll liabilities.

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2021

Section II - 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". Although the current threshold is scheduled to increase next year and the School Department budgeted for use of fund balance next year, the School Department's unassigned fund balance of \$1,737,936 is currently about 6% of the fiscal year 2021 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 2022-2023 budget. This will decrease the unassigned fund balance, complying with the Maine Statute Title 20-A.*

School Special Revenue Funds

Accounting standards require that funds held in special revenue funds should be from specific revenue sources that are either restricted by third parties or committed by the school board. During our review of the School Department's special revenue accounts, we noted some funds that do not appear to be restricted or committed funds. We also noted that the School Department tracks all of its grants in one fund, the special revenue fund, in the accounting software. Although each grant's revenues and expenditures are assigned a specific division number, there is no way to track beginning or ending balances for each grant except in a spreadsheet. If there is a difference between the accounting software and the spreadsheet, it is difficult to determine to which grant the variance belongs.

We recommend the School Department either commit those funds that are not currently restricted or committed through School Board approval or move those funds to the General Fund. In addition, the School Department should consider tracking at least its federal grants in separate funds. If the School Department continues to track the special revenue funds in a spreadsheet, then the spreadsheet should be on a basis consistent with the accounting software (e.g., no budgeted amounts but actual revenues and expenditures only) and should be reconciled to the financial statements.

Management's Response and Corrective Action Plan: *The School Department will begin putting federal grants in separate funds. In addition, the School Department will create a spreadsheet that tracks the remaining grants based on actual revenues and expenditures, and excluding budgets. These grants will be reconciled to the audited financial statements.*

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2021

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), CONTINUED

School Lunch Fund

During our review of the fund financial statements, we noticed that the School Lunch Fund experienced a loss in the current year of \$242,542. This was after a transfer from the General Fund of \$105,500. The result was that the School Lunch Fund went from a deficit of \$246,011 to a deficit of \$488,553; almost double the beginning deficit. In order to keep the deficit from growing, the School Department should consider increasing the amount of allocation dedicated to the School Lunch Fund to offset future deficits. In addition, the School Department should come up with a plan to reduce the existing deficit.

Management's Response and Corrective Action Plan: *The Cape Elizabeth School Board will continue to address the School Nutrition deficit fund balance. As of June 30, 2021, the School Nutrition deficit fund balance was \$488,553. This a cumulative deficit balance from the past three school years. The estimated net loss for this current year is \$100,000. This net loss accounts for a budgeted transfer from the general fund in the amount of \$246,255, as well as the use of contingency monies budgeted for the purpose of COVID expenses, and/or the deficit fund balance for the School Nutrition Program. School lunches are now mandated to be free of charge to each student. The School Department now receives reimbursement for each meal served, as well as having government commodities provided for preparing the meals. This new program will help the School Nutrition deficit to continue to be reduced.*

Capital Assets

During our review of the Town's capital asset records, we identified several adjustments, including the following:

- Construction in progress additions were reduced by a net \$193K for items that were identified as non-capital in nature.
- \$1,390,440 was identified as balances included in construction in progress that had actually been completed and should have been capitalized and depreciated.
- There were 18 assets that were either missing from the capital asset list that were included last year or that had original costs that we had to correct.
- There were 11 assets identified that should have been included in current year additions that were not included and that totaled over \$924K.
- There were 83 assets for which the depreciation calculations were incorrect, either due to incorrect formulas, incorrect beginning accumulated depreciation, or both.

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2021

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

OTHER COMMENTS (NOT SIGNIFICANT DEFICIENCIES), CONTINUED

In order to improve controls over capital assets and eliminate future errors, the following procedures should be conducted by a Town employee with sufficient knowledge of the Town's projects and of capital assets:

- Review the construction in progress list each year and identify the following:
 - Projects that were completed during the fiscal year should be removed from the list and capitalized, taking into consideration any current year activity on the project.
 - Non-capital projects or maintenance should be left off of the list.
 - Projects that were started in the current year but not completed, and that are capital in nature should be added to the list.
- Review the capital asset spreadsheet when it is rolled forward and ensure that all subtotals agree with the prior year financial statements, including the following:
 - Total cost by individual category (e.g., buildings and building improvements).
 - Total cost of all assets on the list.
 - Total accumulated depreciation.
 - Any adjustments needed should flow through the current year activity, unless a prior period adjustment is warranted.
- Review the capital asset spreadsheet to ensure all current year additions have been added, including:
 - All retirements from construction in progress that are being capitalized.
 - All current year capital asset purchases/projects that were not included in construction in progress. These should include any assets paid out of the School Department or Town operating budgets, assets paid with debt proceeds (e.g., lease proceeds), and assets paid for with grant proceeds.
- Review the capital asset spreadsheet to ensure that depreciation calculations are correct as follows:
 - Current year depreciation for additions is on a half-year basis.
 - Current year depreciation for all other assets is for a full year.
 - Current year depreciation for assets at the end of their useful lives should also be on a half-year basis.
 - Total accumulated depreciation does not exceed the original cost of the asset (net book value is not negative).
- Review the capital asset spreadsheet to ensure that all current year disposals have been identified. Amounts that were disposed in the prior years should be removed from the spreadsheet.

In addition, the Town should consider investing in a capital asset software/module to track its capital assets and calculate depreciation. Such software would avoid errors in the depreciation calculations.

Management's Response and Corrective Action Plan: During FY 2022 and FY 2023, the Town and School Offices will further review this comment and work together with the departments to better track and record acquisitions and deletions. We are looking at a replacement internal financial management system, which would come on-line for FY 2024 if acquired and will determine if that system's capital asset package will fill the gap or if we will need to acquire a stand-alone system. This will be a major upgrade in our financial management system and will require significant dedicated resources to bring the replacement system on-line.

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2021

Section III - Findings and Questioned Costs for Federal Awards

NONE

TOWN OF CAPE ELIZABETH, MAINE
Schedule of Findings and Questioned Costs, Continued
June 30, 2021

**Section IV – Summary Schedule of Status of Prior Audit Findings and Questioned Costs for Federal Awards and
*Government Auditing Standards***

NONE