

February 25, 2008

RE: FY 2007 Report on Internal Controls

To whom it may concern,

Each year, the Town of Cumberland issues an audit of the previous fiscal year's financial information. The 2007 audit was performed by Runyon, Kersteen and Ouelette (RKO). Included along with the audit itself each year is a smaller document titled "Report on Internal Control Over Financial Reporting". In this document, the auditors describe any weaknesses that they feel exist in the towns financial controls.

Unfortunately, the nature and actual wording of the auditors comments in this document are strictly governed by the *Government Auditing Standards* (GAS) issued by the Comptroller General of the United States. As a result, certain comments reappear in the report on an annual basis, and will continue to do so barring a complete restructuring of the Town of Cumberland. Similarly, other comments may sound far more severe than reality. This document will attempt to decipher each of the comments from the 2007 report as best as possible.

#### **Significant Deficiencies-**

Right away, an example of pre-set language pops up. The two examples below are categorized by GAS as "Significant Deficiencies", and thus show up on the report as such. This does not necessarily mean that the either the Town of Cumberland or RKO regard these issues as critical, merely that if they existed for a much larger entity such as General Motors, then they would represent a significant deficiency. In the case of the Town of Cumberland, they are both simply facts of life for a smaller organization.

#### **Segregation of Duties-**

The Town of Cumberland receives this comment every year, and will probably continue to do so well into the future. This comment is derived from the notion that in an ideal world, the town would be able to separate out all areas where an employee might be able to combine multiple activities in order to defraud the town. For example, if an employee in the finance office enters invoices, and also disburses them to the public, then that employee may be able to enter a fake invoice to themselves and pocket the check. The GAS solution would be to have different employees entering and disbursing checks. The Town instead opts to use existing invoice approval controls and departmental budgetary reporting as the method of control, rather than adding extra staff. The town will continue to make every effort to segregate accounting duties to avoid weaknesses as much as possible, but with a two person accounting group, achieving segregation to the level required by GAS is a virtual impossibility.

#### **Material Audit Adjustments-**

This particular comment is new for the 2007 fiscal year, a change resulting from new GAS guidelines. The comments appear because of RKO's dual role as both our auditors and also, at times, our consultants. The strict interpretation of the comment is that if the auditor needs to propose a large journal entry, then this is an action that should have been

performed by the town rather than the auditor, and as a result, the town is remiss in its duties. The 2007 RKO report explains the problems with this logic quite nicely, and we recommend reading their comments in full for the best description of the holes in this line of reasoning. In the future, the town will also work with RKO in advance of the actual audit to attempt to avoid this comment if at all possible.

### **Other Comments**

#### **Number of Funds**

In addition to the General Fund and the larger Enterprise Funds (Valhalla, Senior Housing and Sewer), the also has numerous other funds for road construction projects, grants, special projects, TIF funds, and so on. While there is no limit on the number of funds a government can set up, it is considered a good practice to maintain as few funds as possible. In FY 2006-07, the town still had too many smaller funds outstanding. This problem was mitigated at the end of the year, when the town consolidated more than ten of these smaller funds. However, it will take a number of years to whittle down to the smallest possible number, so this comment may reappear for a few more years.

#### **Val Halla Inventory**

This comments primarily applied to the food inventory for the Viking Grill. With the decision in the fall of 2007 to use Personal Touch Catering for all food services, this comment has since been rendered irrelevant to present conditions.

If you have any questions or concerns about these comments, please do not hesitate to contact me at (207) 829-2205 x303, or email at [akimball@cumberlandmaine.com](mailto:akimball@cumberlandmaine.com).

Sincerely,

Alex Kimball  
Finance Director  
Town of Cumberland