

TOWN OF CUMBERLAND, MAINE

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

June 30, 2007

**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 Cumberland, Maine

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Cumberland, Maine as of and for the year ended June 30, 2007, which collectively comprise the Town of Cumberland, Maine's basic financial statements, and have issued our report thereon dated December 5, 2007. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiencies described in the accompanying schedule of findings (2007-1 and 2007-2) to be significant deficiencies in internal control over financial reporting.

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above are material weaknesses.

During our audit we also became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. They have been identified on the attached schedule as "Other Comments".

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Cumberland, Maine's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Town Council, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



December 5, 2007
South Portland, Maine

TOWN OF CUMBERLAND, MAINE
Schedule of Findings
For the year ended June 30, 2007

SIGNIFICANT DEFICIENCY

Findings Required to be Reported Under *Government Auditing Standards*

#2007-1 - Segregation of Duties

Fundamental to proper internal controls is the division of duties in such a manner that no single individual handles the transactions completely from beginning to end. Because of the small staff in the finance office, appropriate segregation of duties is not always possible. We believe, however, that every effort should be made to segregate duties in sensitive areas such as those which involve transactions with liquid assets.

Appropriate segregation of duties helps to detect errors in a timely manner and deter improper activities. Ideal segregation of duties is not practical in the finance office of Cumberland, Maine. We wish to inform you that certain functions ideally performed by separate individuals cannot be accomplished and therefore internal accounting controls are not as strong as they might otherwise be. Examples of these incompatible duties include the following functions:

- Invoice processing preparation and disbursements of checks
- Bank reconciliations and general ledger maintenance
- Preparation and approval of journal entries
- Initiating and approving investment transactions and general ledger maintenance

Because of the limitations of the size of the Town's staff, we understand that not all of these functions can be segregated. However, to compensate for this weakness, we remind management that the monthly financial report be reviewed in depth by the Town Manager and Town Council to detect possible financial fluctuations of an unusual nature. The Town has implemented several procedures which have improved segregation of duties and we commend the Town for those efforts. These procedures are incorporated in the Town's Accounting Procedures Manual, which was completed in June 2003.

#2007-2 - Material Audit Adjustments

The recently issued Statement on Auditing Standards 112 requires external auditors to determine whether or not client personnel designated as having responsibility over the financial reporting process possess the expertise to identify all financial reporting matters in compliance with generally accepted accounting principles without the reliance on external auditors. From a practical standpoint, the costs of maintaining the expertise in-house to meet these requirements often exceed the benefit. As a result, it is common practice for governmental entities to rely on assistance from their auditing firm to identify and propose audit adjustments, some of which are material, during the preparation of the financial statements and the related disclosures and to assist in the preparation of financial statements.

Unfortunately, when this approach is taken, the Town is considered to have a control deficiency in the design of internal controls over the preparation of the financial statements in accordance with general accepted accounting principles, and as a result, we are required to report this as such in this letter. We provided management with a number of audit entries as a result of our audit procedures which we feel are more than inconsequential. We will review these entries with management to determine if they are entries which could be made prior to the audit in future years. Some of these entries arise due to the timing of our audit field work and others are proposed by management during our audit. Although we are required to report a control deficiency if we propose material audit entries we do feel that the Town's Finance Director has the ability to fulfill the review and oversight role as described above as required by Statement on Auditing Standards 112.

TOWN OF CUMBERLAND, MAINE
Schedule of Findings, Continued

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OTHER COMMENTS

Number of Funds

Although there is no limit on the number of funds a government can set up, in general, it is a good practice to only set up the number of funds considered necessary for financial reporting purposes and not for internal accounting purposes. According to NCGA Statement 1:

Governmental units should establish and maintain those funds required by law and sound financial administration. Only the minimum number of funds consistent with legal and operating requirements should be established, however, since unnecessary funds result in inflexibility, undue complexity, and inefficient financial administration.

During the audit, we noted that the Town has many capital project funds, some of which were set up for smaller individual projects or purchases of capital assets. In order to improve the tracking of funds and reduce the complexity of financial reporting, we recommend that the Town record the purchase of smaller assets and projects within the general fund, with possible designations set up for future use, or combine many of the smaller funds into one general capital projects fund. By tracking most of its smaller purchases and projects through the general fund or through one fund, the Town could use the other capital projects funds for only the major asset acquisitions and construction, for which they are intended.

Val Halla Inventory

During our inventory observation, we noted that the date of the observation was several days after the year-end and that information was not available relative to the changes in inventory between year-end and the date of the count. Although the change in the inventory between year-end and the observation date was most likely small, it is important to track the changes in inventory between the count date and year-end to ensure the accuracy of the final tally. In order to improve its inventory procedures, Val Halla should consider counting its inventory as close to year-end as possible.

During our inventory observation, we noted several errors in counting, especially in food, including counts that were written on the wrong line, and differences in actual counts. In addition, we noted that several of the errors noted during the recount were not updated on the final inventory list. We also noted several mathematical errors on the final inventory list. In order to ensure the accuracy of the count, Val Halla should consider doing the counts in teams of two. By using more than one person, the chances of missing something, not identifying something correctly, or not counting something correctly, would be less likely. In addition, someone should review the final inventory list to ensure that all final changes have been made, including corrections, and that the list is mathematically accurate.