

Berry Talbot Royer

CERTIFIED PUBLIC ACCOUNTANTS



MANAGEMENT LETTER

Board of Selectmen
Town of Chebeague Island
Chebeague Island, Maine

In planning and performing our audit of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Chebeague Island (the Town) as of and for the fiscal year ended June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town'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 financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. During our audit, we noted certain matters that are opportunities for strengthening internal controls and operating efficiency and are presented for your consideration. Our comments and recommendations have been discussed with appropriate members of management. Many of the items are reiteration of prior management letter recommendations, but are important enough to be repeated.

Bank Reconciliation

As noted in prior letters, some of our time during the audit was spent resolving the differences between the bank and the general ledger cash account in order to arrive at a proper cash reconciliation. We recommend that the town compare the adjusted bank balance for the operating checking account per the bank reconciliation to the general ledger cash account balance each month. In addition, all reconciling items should be promptly investigated and adjusted (if necessary) with adequate explanations. (Old outstanding checks should be researched and cleared up.) If needed, we are available to answer questions and give guidance for this crucial process during the course of the year.

Reserves

During the audit, we noted that the reimbursement to the town's operating account for reserve expenditures had not been done. The Town should transfer these monies to the operating accounts on a timely basis. The operating cash account balance will reflect a balance that is available for normal operating expenses.

Review of Balance Sheet Accounts

We noted that there are no regularly performed review of accounting transactions and month end reconciliations pertaining to the balance sheet. This situation may allow errors to exist within the books for some time, and not get corrected and adjusted until the audit process is underway. To strengthen controls, we suggest a regular review of accounting transactions be done each month. Following our recommendation after field work, the Town Administrator has started to review activity in various balance sheet accounts.

Approval of Disbursements

Segregation of duties is important in order to maintain internal controls. Because of the limited number of town staff, ideal segregation of duties is not practical and certain functions, ideally performed by separate individuals, cannot be accomplished. The Town Administrator not only prepares accounts payable and payroll warrants, he also has check signing authority and controls the general ledger. These functions are not compatible. The Town has implemented our recommendation that all checks above \$500 have dual signatures. We suggest continuing cautious review of the financial transactions by responsible Town officials.

Continuous Staff Training in the Use of Software Functions

Since we believe technology training is essential and fiscally prudent, we recommend and encourage you to contact Harris Company for its schedule of periodic training sessions relating to the effective use of the different aspects of their software applications, i.e., such as handling purchase orders in the software.

Cross-training

Redundancy is important in all positions held by Town employees. At least two individuals should be able to perform each job function. Should an employee leave, go on a vacation, or become ill for an extended period, someone else can temporarily, but competently, fill that post. We strongly recommend that a second person be trained as backup for critical job functions.

Conclusion

Management letters are intended to be critical of accounting processes, or internal control features that do not provide adequate safeguards, or they address areas that could be operationally more efficient. The comments and recommendations will aid the Town in attaining its objectives of strengthening internal controls, and maximizing its efficiency by improving the utilization of its resources.

The Town is to be commended on taking steps to implement many of the recommendations.

We wish to express our appreciation for the cooperation and courtesies extended to us by the Town Administrator, and the Town's staff during our audit. We want to emphasize that our comments and recommendations are not intended to reflect upon the honesty, integrity or competence of any individual in the Town.

We are available to discuss this further at your convenience, and provide any assistance requested.

This report is intended solely for the information and use of the Board of Selectmen, 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.



Certified Public Accountants
January 30, 2015

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Communication with Those Charged with Governance

Board of Selectmen
Town of Chebeague Island
Chebeague Island, Maine

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Town of Chebeague Island, Maine (the Town) for the year ended June 30, 2014. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information to you in our letter dated June 6, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Town changed accounting policies related to reporting assets and liabilities by adopting Statement of Governmental Accounting Standards (GASB Statement) No. 65, Items Previously Reported as Assets and Liabilities, in the fiscal year ended June 30, 2014. Accordingly, there is no cumulative effect of the accounting change as of the beginning of the year reported and the application of existing policies was not changed during the year. We noted no transactions entered into by the Town during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the town's financial statements was:

Management's estimate of depreciation expense is based on useful lives and the straight-line depreciation method and management's estimate of accrued compensated absences is based on number of hours and pay rate. We evaluated the key factors and assumptions used to develop the depreciation expense and accrued compensated absences in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent and clear.

Difficulties Encountered in Performing the Audit

We encountered **no difficulties** in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. The following material misstatements detected as a result of audit procedures were approved and posted by management:

- 1) Adjustments to correct, and to record additional accounts receivable for the Special Revenue Funds
- 2) Adjustments to correct misposted revenues
- 3) Adjustments to record accrued payroll in the General Fund and to record additional accounts payable in the Special Revenue Funds
- 4) Adjustments to correct misposted expenditures
- 5) Adjustments to reclass transactions from the General Fund to the proper Special Revenue Funds
- 6) Adjustments to correct beginning balances in various General Fund accounts
- 7) Adjustments to correct reserve account activity

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that **no such disagreements** arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 30, 2015.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Town's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison schedule which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the non-major governmental funds' combining balance sheet and combining statement of revenues, expenditures and changes in fund balances, combining schedule of general fund reserves for capital expenditures, the school department's statement of revenues, and expenditures - budget and actual - budgetary basis, the statement of departmental operations and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction of Use

This report is intended solely for the information and use of the Board of Selectmen and management, and is not intended to be and should not be used by anyone other than these specified parties.



Certified Public Accountants
January 30, 2015