TOWN OF MILLINOCKET, MAINE

Reports Required by *Government Auditing Standards* and OMB Circular A-133

For the Year Ended June 30, 2014

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Reports Required by *Government Auditing Standards*
and OMB Circular A-133
For the Year Ended June 30, 2014

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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*

Town Council and School Committee
Town of Millinocket, 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 of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Millinocket, Maine as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Millinocket, Maine's basic financial statements and have issued our report thereon dated December 12, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Millinocket 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 Millinocket Maine's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Millinocket 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given those 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

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 the Town of Millinocket 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters involving internal control over financial reporting that we have reported as "Other Comments".

Town of Millinocket Maine's Response to Findings

The Town of Millinocket Maine's responses to the findings and "Other Comments" identified in our audit are described in the accompanying schedule of findings and questioned costs. The Town of Millinocket 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.

Runyon Kersteen Ouellette

December 12, 2014
South Portland, Maine

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Town Council and School Committee
Town of Millinocket, Maine

Report on Compliance for Each Major Federal Program

We have audited the Town of Millinocket, Maine's compliance with the types of compliance requirements described in *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Town of Millinocket, Maine's major federal programs for the year ended June 30, 2014. The Town of Millinocket, 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Millinocket, 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 the Town of Millinocket, 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 the Town of Millinocket, Maine's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Millinocket, 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, 2014.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED

Report on Internal Control over Compliance

Management of the Town of Millinocket, 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 the Town of Millinocket, 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 OMB Circular A-133, 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 the Town of Millinocket, 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 a 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 the 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

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 Millinocket, Maine as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise of the Town of Millinocket, Maine's basic financial statements. We issued our report thereon dated December 12, 2014, 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 OMB Circular A-133 and is not a required part of the 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.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133, CONTINUED

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.

December 12, 2014
South Portland, Maine

TOWN OF MILLINOCKET, MAINE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA number	Pass-through Grantor's number	Program or award amount	Balance at June 30, 2013	Revenue Recognized		Expenditures		Transfers	Balance at June 30, 2014
					Federal	Other	Federal	Other		
U.S. Department of Education, direct:										
Teacher Incentive Fund	84.374A	N/A	$ 232,880	(224)	232,880	-	232,521	-	-	135
Rural Education Achievement Program (REAP)	84.358A	N/A	7,461	(271)	7,461	2,978	7,461	2,707	-	-
U.S. Department of Education, passed through Maine Department of Education:										
Title IA - Disadvantaged	84.010	3057	255,882	124	255,882	-	255,112	-	-	894
State Grants Individuals with Disabilities Act	84.027	3046	141,424	(4,751)	141,424	-	144,477	-	-	(7,804)
Title V - State Grant for Innovative Programs	84.298	1072	-	(7,893)	-	-	-	-	-	(7,893)
Title IIA - Improving Teacher Quality	84.367	3042	47,240	9,549	47,240	-	47,350	-	-	9,439
Preschool Grant	84.173	6241	4,055	(2,354)	4,055	-	4,055	-	-	(2,354)
Total U.S. Department of Education				(5,820)	688,942	2,978	690,976	2,707	-	(7,583)
U.S. Department of Agriculture, passed through Maine Department of Education:										
National School Lunch Program	10.555	013-3024-05	N/A	38,395	123,460	90,078	123,460	111,548	15,000	31,925
School Breakfast Program	10.553	013-3014-05	N/A	-	67,826	-	67,826	-	-	-
Summer Lunch Program	10.559	013-3027-05	N/A	(156)	12,953	2,915	12,953	3,219	-	(460)
Food Donation Program	10.555	013-6134-05	N/A	-	14,865	-	14,865	-	-	-
Total U.S. Department of Agriculture				38,239	219,104	92,993	219,104	114,767	15,000	31,465
U.S. Department of Justice, passed through Town of Old Town, Maine:										
2013 Byrne Justice Assistance Grant	16.738	None	1,048	-	1,109	124	1,109	124	-	-
Total U.S. Department of Justice				-	1,109	124	1,109	124	-	-
U.S. Department of Transportation, passed through the Maine Bureau of Highway Safety:										
2013 "Driver Sober, Maine" Impaired Driving	20.601	AL 13-049	4,000	-	2,187	-	2,187	-	-	-
Direct program:										
Airport Improvement Program	20.106	N/A	2,235,854	(29,449)	436,805	25,867	460,651	25,867	-	(53,295)
Total U. S. Department of Transportation				(29,449)	438,992	25,867	462,838	25,867	-	(53,295)
Totals				**$ 2,970**	**1,348,147**	**121,962**	**1,374,027**	**143,465**	**15,000**	**(29,413)**

See accompanying notes to schedule of expenditures of federal awards.

TOWN OF MILLINOCKET, MAINE
Notes to Schedule of Expenditures of Federal Awards
June 30, 2014

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*, requires a schedule of expenditures of federal awards showing total expenditures for each federal award program as identified in the Catalog of Federal Domestic Assistance (CFDA).

SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity - The accompanying schedule includes all federal award programs of the Town of Millinocket, Maine for the fiscal year ended June 30, 2014. The reporting entity is defined in the notes to basic financial statements of the Town of Millinocket, Maine.

B. Basis of Presentation - The information in the accompanying schedule of expenditures of federal awards is presented in accordance with OMB Circular A-133.

   1. Pursuant to OMB Circular A-133, 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 - OMB Circular A-133 establishes the level of expenditures or expenses to be used in defining major federal award programs. Major programs for the Town of Millinocket, 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's fund financial statements.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified?	no
Significant deficiencies identified?	yes
Noncompliance material to financial statements noted?	no

Federal Awards

Internal Control over major programs:	
Material weaknesses identified?	no
Significant deficiencies identified?	none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
20.106	Airport Improvement Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	yes

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

SIGNIFICANT DEFICIENCY

2014-001 Preparation of Financial Statements (Repeat)

Auditing Standards 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. This means that these individuals would need to have the knowledge of all the various financial statement disclosure requirements in addition to an understanding of fund financial statements and government-wide financial statements. 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 assist in the preparation of the financial statements and the related disclosures. When the auditing firm prepares the financial statements, the Town must assign a competent management level individual to oversee this service. Additionally, management must review, approve and accept responsibility for the financial statements and related notes.

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 generally accepted accounting principles, and as a result, we are required to report this as such in this letter.

Management's response/corrective action plan:
Currently, the benefits that would be derived do not, in our opinion, outweigh the costs that would need to be incurred.

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

OTHER COMMENTS

Segregation of Duties

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. For example, having an employee with no cash receipts or disbursement responsibility perform the bank reconciliation, is considerably more effective in meeting the applicable specific internal accounting control objectives. Similarly, internal accounting control is enhanced when the employee who handles the accounting for an asset, such as cash, is denied access to the asset; for example, the employee who maintains cash records should not be authorized to sign checks without a responsible co-signer.

Because of the small size of the Town's accounting staff, ideal segregation of duties is not practical. 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.

We suggest that cautious review of financial transactions, such as a review of bank reconciliations, which are done by the Town Manager, continue to be performed by responsible officials. We also recommend that monthly financial reports be reviewed in depth to identify possible financial fluctuations of unusual nature.

Management's response/corrective action plan:
Currently, the benefits that would be derived from ideal segregation of duties do not, in our opinion, outweigh the costs that would need to be incurred. This issue has been downgraded to a management letter comment due to some improvements and reassignment of certain functions.

Use of Purchase Orders

During our testing of controls over the cash disbursement process, we noted that the Town was not consistent in its use of purchase orders. A purchase order system is to control spending and to help ensure that the Town pays only for approved/budgeted expenditures. We recommend that the existing purchasing order policy be reviewed by all departments and adhered to. All departments should use the purchase order system and follow the same guidelines. We also recommend that the current policy be amended to exempt small or routine purchases from the purchase order process as the paperwork could impede various departments from achieving their day-to-day tasks.

Management's response/corrective action plan:
A purchase order protocol has been established and should be in place December 11, 2014. A copy has been given to all department heads to review and will be in place immediately after the Council has approved it.

Contact person(s) responsible for monitoring and maintaining corrective action procedures:
Peggy Daigle, Town Manager, 723-7000

Section III – Federal Award Findings and Questioned Costs

NONE

Section IV - Status of Prior Year Findings and Questioned Costs for Federal Awards

NONE