CITY OF BREWER, MAINE

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

For the Year Ended
June 30, 2012

CITY OF BREWER, MAINE
Reports Required by *Government Auditing Standards*
and OMB Circular A-133
For the Year Ended June 30, 2012

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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*

City Council
City of Brewer

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 City of Brewer, Maine, as of and for the year ended June 30, 2012, which collectively comprise the City of Brewer, Maine's basic financial statements and have issued our report thereon dated December 20, 2012. 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

Management of the City of Brewer, Maine, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Brewer, 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 City of Brewer, Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Brewer, Maine's internal control over financial reporting.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 City of Brewer, 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 matters that we reported to management of the City of Brewer, Maine in a separate letter dated December 20, 2012.

This report is intended solely for the information and use of the City Council, management, others within the entity, and 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.

Runyon Kersteen Ouellette

December 20, 2012
South Portland, Maine

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

City Council
City of Brewer

Compliance

We have audited the City of Brewer, Maine's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Brewer, Maine's major federal programs for the year ended June 30, 2012. The City of Brewer, Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Brewer, Maine's management. Our responsibility is to express an opinion on the City of Brewer, Maine's compliance based on our audit.

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 City of Brewer, 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. Our audit does not provide a legal determination on the City of Brewer, Maine's compliance with those requirements.

As described in item #2012-1 in the accompanying schedule of findings and questioned costs, the City of Brewer, Maine, did not comply with requirements regarding suspension and debarment that are applicable to its Congressional Earmark Grant. Compliance with such requirements is necessary, in our opinion, for the City of Brewer, Maine, to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Brewer, Maine complied, in all material respects, with the 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, 2012.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED

Internal Control Over Compliance

Management of the City of Brewer, Maine, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Brewer, Maine's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance 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 City of Brewer, 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 a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

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 City of Brewer, Maine as of and for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012, which contained unqualified opinions on those financial statements. Our audit was performed for the purpose of forming opinions on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the scheduled of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED

The City of Brewer, Maine's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City of Brewer, Maine's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the City Council, management, others within the entity, 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.

Runyon Kersteen Ouellette

December 20, 2012
South Portland, Maine

CITY OF BREWER, MAINE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	ARRA Funds?	Federal CFDA number	Pass-through grantor number	Program or award amount	Balance at June 30, 2011	Revenue Recognized		Expenditures		Balance at June 30, 2012
						Federal	Other	Federal	Other	
U.S. Department of Education,										
Passed through Maine Department of Education:										
Title IA - Basic Disadvantaged Program		84.010	013-3107	292,462	-	255,298	-	255,244	-	54
Special Education Grants to States		84.027	013-3046	349,517	-	439,104	-	439,104	-	-
Part B Section 619 Preschool		84.173	013-6241	7,111	-	5,048	-	5,048	-	-
Title IIA - Improving Teacher Quality		84.367	013-3042	83,414	-	98,556	-	98,556	-	-
ARRA - Education Jobs Grant	Yes	84.410	013-3099	236,297	-	236,297	-	236,297	-	-
Total U.S. Department of Education					-	1,034,303	-	1,034,249	-	54
U.S. Department of Agriculture, passed through										
Maine Department of Education:										
National School Lunch Program - Breakfast Program		10.553	013-3014	N/A	-	37,301	-	37,301	-	-
National School Lunch Program - Donated Commodities		10.555	N/A	N/A	-	28,946	-	28,946	-	-
National School Lunch Program - Subsidized Hot Lunch		10.555	013-3023	N/A	59,070	230,247	326,534	230,247	286,213	99,391
Passed through Rural Development:										
Water & Waste Grant Program (2005 Sewer system improvements - loans)		10.760	N/A	2,488,000	-	34,486	3,598	34,486	3,598	-
Water & Waste Grant Program (2007 Sewer system improvements - loans)		10.760	N/A	2,624,000	-	140,468	-	142,568	-	(2,100)
Water & Waste Grant Program (Septage)	Yes	10.781	ME-92-22/22	865,000	(86,398)	758,915	-	672,517	-	-
Water & Waste Grant Program (WPCF Bulkhead)	Yes	10.781	ME-92-23/24	3,150,000	(272,290)	2,952,628	-	2,679,742	-	596
Water & Waste Grant Program (Tibbetts / Jeffereson St CSO Projects)	Yes	10.781	ME-92-25/26	1,420,000	(118,671)	1,012,831	-	894,160	-	-
Passed through Maine Forestry Service:										
Community Forestry Recovery Grant		10.664	N/A	795	795	786	-	786	795	-
Total U.S. Department of Agriculture					(417,494)	5,196,608	330,132	4,720,753	290,606	97,887
U.S. Department of Housing and Urban Development:										
Direct program:										
EDI Special Projects Grant - Mersinger Bldg Acg and Demo (B-05-SP-ME-0114)		14.251	N/A	248,000	-	42,145	50,000	44,355	-	47,790
EDI Special Projects Grant - City Hall Rehab - Elevator (B-06-SP-ME0452)		14.251	N/A	321,750	(7,112)	24,659	-	24,659	-	(7,112)
Passed through Maine Office of Community Planning and Development:										
CDBG - Housing Rehab		14.228	N/A	250,000	(1,217)	-	-	-	-	(1,217)
CDBG - Housing Rehab		14.228	G504310	302,000	11,347	-	-	-	-	11,347
CDBG - Housing Rehab		14.228	N/A	300,000	-	156,202	50,238	156,202	51,060	(822)
Total U.S. Department of Housing and Urban Development					3,018	223,006	100,238	225,216	51,060	49,986

CITY OF BREWER, MAINE
Schedule of Expenditures of Federal Awards, Continued
Year ended June 30, 2012

Federal Grantor/Pass-through Grantor/Program Title	ARRA Funds?	Federal CFDA number	Pass-through grantor number	Program or award amount	Balance at June 30, 2011	Revenue Recognized		Expenditures		Balance at June 30, 2012
						Federal	Other	Federal	Other	
U.S. Environmental Protection Agency:										
Direct program:										
Brownfield Revolving Loan		66.818	N/A	1,000,000	144,714	-	55,000	-	-	199,714
Passed through Maine Department of Health and Human Services:										
Drinking Water (Watershed Protection Mty Pnd Ease)		66.468	N/A	735,000	(13,418)	-	-	-	-	(13,418)
Passed through Maine Department of Environmental Protection:										
Clean Water (Street Sweeper, plus energy audit)		66.458	N/A	203,752	-	-	-	19,050	-	(19,050)
Total U.S. Environmental Protection Agency					131,296	-	55,000	19,050	-	167,246
U.S. Department of Justice - Bureau of Justice Assistance:										
Bulletproof Vest Partnership Program 2009		16.607	N/A	1,591	(675)	-	-	-	-	(675)
Bulletproof Vest Partnership Program 2010		16.607	N/A	1,408	-	589	589	589	1,178	(589)
Edward Byrne Memorial Justice Assistance Grant - FY10		16.738	PEN-01-09	3,299	7	-	-	-	-	7
Edward Byrne Memorial Justice Assistance Grant - FY11		16.738	N/A	3,390	-	3,390	-	-	-	3,390
Equitable Sharing Program		16.922	N/A	93,186	148,109	93,186	300	145,044	-	96,551
Drug Enforcement Agency		16.004	N/A	17,202	-	15,409	-	14,145	-	1,264
Total U.S. Department of Justice - Bureau of Justice Assistance					147,441	112,574	889	159,778	1,178	99,948
U.S. Department of Treasury:										
Equitable Sharing Program		21.xxx	N/A	N/A	91,182	-	-	23,194	-	67,988
U.S. Small Business Administration:										
Congressional Earmark		59.059	N/A	1,280,000	982,699	1,280,000	-	1,280,000	890,672	92,027
U.S. Department of Energy:										
Passed through the Maine Public Utilities Commission:										
Federal Energy Efficiency Conservation Block Grant	Yes	81.128	N/A	78,968	(5,808)	-	-	-	-	(5,808)
Totals					**$ 932,334**	**7,846,491**	**486,259**	**7,462,240**	**1,233,516**	**569,328**

See accompanying notes to schedule of expenditures of federal awards.

PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-133 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 City of Brewer, Maine for the fiscal year ended June 30, 2012. The reporting entity is defined in Notes to Basic Financial Statements of the City of Brewer, 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 levels of expenditures or expenses to be used in defining major federal financial award programs. Major programs for the City of Brewer, Maine have been identified in the attached Schedule of Findings and Questioned Costs - Summary of Auditor's Results.

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 City's fund financial statements.

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	Unqualified
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 programs:	
Material weaknesses identified?	No
Significant deficiencies identified?	None reported
Type of auditor's report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	Yes

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.027, 84.173	Special Education Cluster
10.760, 10.781	Water & Waste Grant
59.059	Congressional Earmark

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000
Auditee qualified as low-risk auditee?	No

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

None

Section III - Findings and Questioned Costs for Federal Awards

#2012-1 U.S. Small Business Administration, for the Period July 1, 2011 through June 30, 2012, CFDA #59.059 Congressional Earmark

Statement of Condition: The City did not verify that all the entities with which they were contracting were not suspended or debarred.

Criteria: If a contract is expected to equal or exceed $25,000, the City must verify that the entities with which they are contracting are not suspended or debarred. This verification process may be accomplished by checking the *Excluded Parties List System (EPLS)* maintained by the General Services Administration (GSA), collecting a certification from the entity, or adding a clause or condition to the entity's contract.

Effect: The City may have contracted with parties that are suspended or debarred.

Cause: The City verified its primary contractor as not being suspended or debarred, but through what appears to be an oversight, failed to verify all required contractors paid more than $25,000 with the Congressional Earmark grant.

Recommendation: Verify that all of the required entities with which the City is contracting are not suspended or debarred.

Questioned Costs: None

Management Response/corrective action plan:

While the City did obtain a debarment certification from its primary contractor on the project, through an oversight, it did not complete this requirement for all of the project contractors. To avoid this in the future, the City has included this condition to all of its bid specifications templates. Bid specifications become part of the City's contract with the entity that wins the bid.

Anticipated completion date for corrective action:
We anticipate corrective action to begin immediately.

Contact person responsible for corrective action:
Karen Fussell, Finance Director, 207-989-8440

Section IV - Summary Schedule of Prior Year Audit Findings for Federal Awards

#2011-1 - U.S. Department of Education, for the Period July 1, 2010 through June 30, 2011, CFDA #84.027, 84.173, 84.391, 84.392 Special Education Cluster

Statement of Condition: The aforementioned program had excess cash balances on hand for excessive periods of time.

Criteria: Circular A-102 (Common Rule) requires the draw downs of funds be made as close as possible to the time of making ultimate distributions. Time should be minimized between the transfer of funds and the ultimate disbursement of funds by the recipient.

Effect: Excess cash on hand could result in the payment of funds being delayed or denied.

Cause: Allowable cost expenditures under the aforementioned grant from July 1, 2010 through June 30, 2011 were not sufficient to prevent cash overflows, as defined by the State of Maine, for certain months.

Recommendation: Request for payments, which are accomplished in the application cash requirement schedule, should be timed such that they are received in the later periods of the grant resulting in these payments being reimbursements for expenditures already made rather than advances. If advances are made, procedures should be in place to minimize the time elapsing between the transfer of funds from the State of Maine and ultimate disbursement.

Questioned Costs: None

Status: The School Department changed drawdown procedures to comply with State of Maine and federal regulations. There was no excess cash on hand during the fiscal year ended June 30, 2012.