

CITY OF BREWER, MAINE

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

For the Year Ended June 30, 2011

CITY OF BREWER, MAINE
Reports Required by *Government Auditing Standards*
and OMB Circular A-133
For the year ended June 30, 2011

<u>Report</u>	<u>Page</u>
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1-2
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	3-5
Schedule of Expenditures of Federal Awards	6-7
Notes to Schedule of Expenditures of Federal Awards	8
Schedule of Findings and Questioned Costs:	
Section I - Summary of Auditor's Results	9
Section II - Findings Required to be Reported Under <i>Government Auditing Standards</i>	10
Section III - Findings and Questioned Costs for Federal Awards	11
Section IV - Status of Prior Year Findings and Questioned Costs for Federal Awards	12
Corrective Action Plan	13

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, 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 City of Brewer, Maine as of and for the year ended June 30, 2011, which collectively comprise the City of Brewer, Maine's basic financial statements and have issued our report thereon dated December 20, 2011. 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 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 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 the 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 the 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, 2011.

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.



December 20, 2011
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, Maine

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, 2011. 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's compliance with those requirements.

As described in item #2011-1 in the accompanying schedule of findings and questioned costs, the City of Brewer, Maine, did not comply with requirements regarding cash management that are applicable to its Special Education – Grants to States program (#84.391). 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 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, 2011.

**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 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 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 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 the 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, 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, 2011, and have issued our report thereon dated December 20, 2011, 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 schedule of expenditures of federal awards is presented for 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 information 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, 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.

A handwritten signature in cursive script that reads "Ryan Kurtz Ouellette".

December 20, 2011
South Portland, Maine

CITY OF BREWER, MAINE
Schedule of Expenditures of Federal Awards
Year ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	ARRA Funds?	Federal CFDA number	Pass- through grantor number	Program or award amount	Balance at June 30, 2010	Revenue Recognized		Expenditures		Balance at June 30, 2011
						Federal	Other	Federal	Other	
U.S. Department of Education,										
Passed through Maine Department of Education:										
Title IA - Basic Disadvantaged Program		84.010	013-3057	291,421	4,218	291,421	-	295,639	-	-
Special Education Grants to States		84.027	013-3046	354,472	34,930	263,538	-	298,468	-	-
Part B Section 619 Preschool		84.173	013-6241	6,901	2,560	3,684	-	6,244	-	-
Title IIA - Improving Teacher Quality		84.367	013-3042	100,626	514	58,732	-	59,246	-	-
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants	Yes	84.394	020-2077	369,127	8,487	369,127	-	377,614	-	-
ARRA - Title 1A Basic Disadvantaged Program	Yes	84.389	020-3057	195,388	51,775	-	-	51,775	-	-
ARRA - Special Education Grants to States	Yes	84.391	020-3046	189,825	54,512	189,825	-	244,337	-	-
ARRA - Part B Section 619 Preschool	Yes	84.392	020-6241	4,354	(112)	4,354	-	4,242	-	-
Total U.S. Department of Education					156,884	1,180,681	-	1,337,565	-	-
U.S. Department of Agriculture, passed through										
Maine Department of Education:										
National School Lunch Program - Breakfast Program		10.553	013-7127	N/A	-	34,380	-	34,380	-	-
National School Lunch Program - Donated Commodities		10.555	013-6134	N/A	-	28,915	-	28,915	-	-
National School Lunch Program - Subsidized Hot Lunch		10.555	013-7128	N/A	45,663	224,290	346,649	224,290	333,242	59,070
Passed through Rural Development:										
Water & Waste Grant Program (2005 Sewer system improvements - loans)		10.760	N/A	2,488,000	-	5,792	-	5,792	-	-
Water & Waste Grant Program (2007 Sewer system improvements - loans)		10.760	N/A	2,624,000	-	481,475	-	481,475	-	-
Water & Waste Grant Program (Septage)	Yes	10.781	ME-92-22/22	865,000	(59,499)	-	-	26,899	-	(86,398)
Water & Waste Grant Program (WPCF Bulkhead)	Yes	10.781	ME-92-23/24	3,150,000	(195,004)	-	-	77,286	-	(272,290)
Water & Waste Grant Program (Tibbetts / Jeffereson St CSO Projects)	Yes	10.781	ME-92-25/26	1,420,000	(5,588)	-	-	113,083	-	(118,671)
Total U.S. Department of Agriculture					(214,428)	774,852	346,649	992,120	333,242	(418,289)
U.S. Department of Housing and Urban Development:										
Direct program:										
EDI Special Projects Grant - Shore stabilization (B-04-SP-ME-0311)		14.251	N/A	248,525	(64,156)	92,270	-	28,114	-	-
EDI Special Projects Grant - Mersinger Bldg Acg and Demo (B-05-SP-ME-0114)		14.251	N/A	248,000	(6,970)	78,744	-	71,774	-	-
EDI Special Projects Grant - EFP Mill Redev - Admin Bldg Elevator (B-08-SP-ME-0512)		14.251	N/A	257,250	(577)	257,249	-	256,672	-	-
EDI Special Projects Grant - City Hall Rehab - Elevator (B-06-SP-ME0452)		14.251	N/A	321,750	(7,112)	31,494	-	31,494	-	(7,112)
Passed through Maine Office of Community Planning and Development:										
CDBG - Housing Rehab		14.228	N/A	250,000	(6,127)	-	9,855	-	4,945	(1,217)
CDBG - Housing Rehab		14.228	G504310	302,000	11,347	-	-	-	-	11,347
Total U.S. Department of Housing and Urban Development					(73,595)	459,757	9,855	388,054	4,945	3,018

CITY OF BREWER, MAINE
Schedule of Expenditures of Federal Awards, Continued
Year ended June 30, 2011

Federal Grantor/Pass-through Grantor/Program Title	ARRA Funds?	Federal CFDA number	Pass- through grantor number	Program or award amount	Balance at June 30, 2010	Revenue Recognized		Expenditures		Balance at June 30, 2011
						Federal	Other	Federal	Other	
U.S. Environmental Protection Agency:										
Direct program:										
Brownfield Revolving Loan		66.818	N/A	1,000,000	91,444	-	55,000	1,730	-	144,714
Passed through Maine Department of Health and Human Services:										
Drinking Water (Interconnect and Intake WA projects)		66.468	N/A	793,000	(93,596)	-	93,596	-	-	-
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 (Jefferson Street CSO)	Yes	66.458	N/A	750,877	-	9,933	-	9,933	-	-
Clean Water (Street Sweeper, plus energy audit)		66.458	N/A	203,752	-	183,752	-	183,752	-	-
Total U.S. Environmental Protection Agency					(15,570)	193,685	148,596	195,415	-	131,296
U.S. Department of Justice - Bureau of Justice Assistance:										
Direct program:										
Edward Byrne Memorial Justice Assistance Grant - FY10		16.738	N/A	3,299	7	-	-	-	-	7
Violence Against Women Formula Grant	Yes	16.588	PEN	3,216	-	3,055	370	3,055	370	-
Drug Enforcement Agency		16.004	N/A	16,903	-	14,647	1,931	14,647	1,931	-
Total U.S. Department of Justice - Bureau of Justice Assistance					7	17,702	2,301	17,702	2,301	7
U.S. Department of Transportation, passed through										
Passed through the Maine Department of Transportation:										
Route 15 Earmark (So Main St - Cianbro)		20.205	N/A	-	(367)	-	367	-	-	-
Total U.S. Department of Transportation					(367)	-	367	-	-	-
U.S. Department of Homeland Security:										
Direct program:										
Assistance to Firefighters Grants		97.044	N/A	26,900	-	24,834	1,259	24,834	1,259	-
Total U.S. Department of Homeland Security					-	24,834	1,259	24,834	1,259	-
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	(69,988)	78,968	18,000	8,980	23,808	(5,808)
Total U.S. Department of Energy					(69,988)	78,968	18,000	8,980	23,808	(5,808)
Totals					\$ (217,057)	2,730,479	527,027	2,964,670	365,555	(289,776)

See accompanying notes to schedule of expenditures of federal awards.

CITY OF BREWER, MAINE
Notes to Schedule of Expenditures of Federal Awards
June 30, 2011

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 City of Brewer, Maine for the fiscal year ended June 30, 2011. 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 level of expenditures or expenses to be used in defining major federal award programs. Major programs for the City of Brewer, 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 City's fund financial statements.

CITY OF BREWER, MAINE
Schedule of Findings and Questioned Costs
For the year ended June 30, 2011

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:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.027, 84.173, 84.391, 84.392	Special Education Cluster
84.394	ARRA – Education Stabilization Fund
10.781	Water and Waste Disposal Systems for Rural Communities

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

CITY OF BREWER, MAINE
Schedule of Findings and Questioned Costs, Continued

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

NONE

CITY OF BREWER, MAINE
Schedule of Findings and Questioned Costs, Continued

Section III - Findings and Questioned Costs for Federal Awards

**#2011-1 - U.S. Department of Education, for the Period July 1, 2010 through June 30, 2011, CFDA #84.391
Special Education – Grants to States - ARRA**

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

Management's Response: *The Brewer School Department recognizes that there was a delay in expending some of the Special Education-Grants to States ARRA funds in FY2011. By June 30, 2011 all funds were fully expended. Beginning July 1, 2011 the State of Maine switched over to a reimbursement model for all federal awards. This will ensure that we will no longer have excess cash on hand in subsequent fiscal years.*

CITY OF BREWER, MAINE
Schedule of Findings and Questioned Costs, Continued

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

NONE

CITY OF BREWER, MAINE
CORRECTIVE ACTION PLAN
June 30, 2011
Karen Fussell, Finance Director
80 North Main Street
Brewer, ME 04412
(207) 989-8440

**#2011-1 - U.S. Department of Education, for the Period July 1, 2010 through June 30, 2011, CFDA #84.391
Special Education – Grants to States - ARRA**

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

Management's Response: *The Brewer School Department recognizes that there was a delay in expending some of the Special Education-Grants to States ARRA funds in FY2011. By June 30, 2011 all funds were fully expended. Beginning July 1, 2011 the State of Maine switched over to a reimbursement model for all federal awards. This will ensure that we will no longer have excess cash on hand in subsequent fiscal years.*