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July 25, 2002

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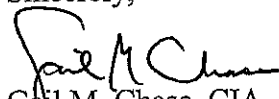
Board of Selectmen  
Town of Bowdoin  
23 Cornish Drive  
PO Box 35  
Bowdoin, ME 04287-0035

Dear Selectmen:

I am pleased to send you the Report on Internal Control Observations for the Town of Bowdoin. I hope that the recommendations in the report serve the purpose of improving internal control over public funds administered by the Town of Bowdoin, of helping to safeguard the Town's assets from loss or misuse and of protecting the reputation of the Town and its employees and elected officials.

Thank you for participating in the State's municipal outreach program, and for showing my staff the utmost courtesy. If you have any questions or comments, please do not hesitate to contact me.

Sincerely,

  
Gail M. Chase, CIA  
State Auditor

cc: Representative Deborah J. Hutton  
Senator Mary E. Small


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**Report on Internal Control Observations  
For the Town of Bowdoin, Maine**

The purpose of our report is to provide you, the oversight officials of the Town of Bowdoin, with recommendations on how to improve internal control over public funds that you administer. This report, which is the result of our work on October 15 and 18, 2001, is being submitted as part of the municipal internal control outreach program, in accordance with 30-A M.R.S.A. §5822 and the wishes of the State of Maine Legislature.

The scope of our work was limited to testing internal control in the following areas: segregation of duties, cash controls, accounting controls, numerical controls, reconciliations, reviews and approvals, and policies and procedures. Internal control is used by management to achieve an organization's objectives, and to fulfill fiduciary responsibilities. Our work was not designed to express an opinion on internal control of the Town of Bowdoin, and we do not express such an opinion. Projection of any evaluation of internal control to future periods is subject to the risk that procedures may become inadequate because of changed conditions.

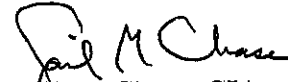
We have made the following recommendations that, if implemented, will strengthen the Town's overall internal control.

- All transactions should be recorded in the general ledger and the review of the trial balance should be documented
- A system for monitoring the accountability of used, unused and voided motor vehicle registration forms should be implemented
- Bank statements should be reconciled within 30 days of receipt and reviewed by another person
- Reconciliations of taxes receivable should be reviewed
- Adjusting journal entries should be reviewed and approved, and supported by appropriate documentation
- An analytical review of excise tax collections should be performed
- The municipal officers, or their designee, should examine the Treasurer's accounts at least every three months
- Additional written policies and procedures are needed

These recommendations, which are discussed more fully on the following pages, will help to safeguard the Town's assets from loss or misuse, as well as protect the reputation of the Town, its employees and municipal officials.

By its nature, this report is critical and does not include our observations of the positive features of the Town's internal control. However, we made inquiries, observations and limited tests of other activities in the areas of segregation of duties and cash controls and found no need to make further recommendations in these areas.

We would like to thank you and the other officials and employees of the Town of Bowdoin for the hospitality and cooperation extended to our staff. We hope that this report, which is intended for the use of the officials and employees of the Town of Bowdoin, will assist you in carrying out your responsibilities as oversight officials.



Gail M. Chase, CIA  
State Auditor

July 25, 2002

## RECOMMENDATIONS

1. All transactions should be recorded in the general ledger and the review of the trial balance should be documented

Internal control objective:

To ensure that all financial transactions have been recorded accurately and that a trial balance is taken periodically.

Procedure:

Through inquiry, we determined whether or not all financial transactions were recorded in the general ledger and whether or not the review of the trial balance was being documented.

Discussion:

Trial balances of the general ledger are being conducted and reviewed. However, we noted the tax commitment and abatements are not recorded. A trial balance is a listing of all accounts in the general ledger and their balances. It is used to verify the completeness and accuracy of the posting of financial information to the Town's records. Additionally, the review of the trial balance should be documented with the initials of the reviewer and the date that the review was performed.

*Response of Municipal Officials: The tax commitment, abatements and supplemental taxes will be recorded in the general ledger. The trial balances will be reviewed by the Selectmen, and the results of this review will be documented in the minutes to the Selectmen's meetings.*

2. A system for monitoring the accountability of used, unused and voided motor vehicle registration forms should be implemented.

Internal control objectives:

To ensure that all motor vehicle excise taxes are collected and recorded.

Procedures:

Through inquiry we determined whether or not there was an operating system for maintaining accountability of used, unused and voided motor vehicle registration forms. We then performed a test of accountability by attempting to locate all applicable copies of these forms for the month of August 2001. Finally, we performed procedures to determine whether motor vehicle excise tax transactions were recorded in the Town's records and the money deposited into the bank.

Discussion:

We were able to determine that for processed motor vehicle transactions included in our test, the excise taxes were recorded in the Town's records and the money was deposited into the bank. However, in order to ensure accountability for motor vehicle excise tax transactions, a person that is not primarily involved in processing motor vehicle registration transactions

should periodically locate all applicable copies of the motor vehicle registration forms for a specific period of time. Then, on a test basis, the amount of excise taxes included on the copies of the processed motor vehicle registration forms should be traced to the amount recorded in the Town's records and subsequently deposited into the bank.

*Response of Municipal Officials: The Selectmen have requested that the Tax Collector/Treasurer make records of motor vehicle registration transactions available to the Selectmen or their representative, on a quarterly basis, for testing.*

3. Bank statements should be reconciled within 30 days of receipt and reviewed by another person.

Internal control objectives:

To detect intentional misuse of Town assets, unintentional cash recording errors, or bank errors in a timely manner.

Procedure:

Through inquiry, we determined whether or not bank statement reconciliations were performed within 30 days of receipt and were reviewed by another person.

Discussion:

Bank account reconciliations are being performed. However, we noted that bank statement reconciliations are not always reconciled to the general ledger cash balance within 30 days of receipt. It is easier to detect errors if the bank statements are reconciled shortly after they are received in the mail. Inaccurate cash balances can cause payments to be unnecessarily delayed or temporary loans to appear necessary for the operation of the Town. Furthermore, this may result in inaccurate financial reports being prepared and distributed.

Periodically another person should review the bank statement reconciliations to determine the validity of transactions with vendors with unusual names or addresses, reasons for old outstanding checks, whether mathematical errors are contained in the reconciliations and whether duplicate payments have been made to vendors or employees. Initialing and dating the reconciliation by the reviewer will ensure that the reconciliation has been performed.

~~*Response of Municipal Officials: The Selectmen have requested that the Tax Collector/Treasurer provide a copy of the bank reconciliation within 30 days of receipt of the statements. The Selectmen will compare their bank reconciliation to the Tax Collector/Treasurer's reconciliation, and will initial and return a copy to the Tax Collector/Treasurer.*~~

4. Reconciliations of taxes receivable should be reviewed.

Internal control objectives:

To ensure that the Town receives the correct amount of tax revenue, and to ensure that accurate taxes receivable records are being maintained by Town personnel.

Procedure:

Through inquiry we determined whether or not the taxes receivable reconciliations are being reviewed.

Discussion:

Reconciliations of taxes receivable are being performed. However, an independent review of this work is not being conducted. A periodic review, documented by initialing and dating the reconciliation by the reviewer, will ensure that this reconciliation has been performed. Without this procedure, errors may occur and not be detected by management.

*Response of Municipal Officials: The Selectmen have requested that the Tax Collector/Treasurer provide a copy of the "taxes received spreadsheet" on a monthly basis, along with the related Treasurer's Receipts. The Selectmen would then perform a review of this information.*

5. Adjusting journal entries should be reviewed and approved, and supported by appropriate documentation.

Internal control objective:

To prevent erroneous financial transactions, both unintentional and intentional, from being recorded in the Town's accounting records.

Procedure:

Through inquiry we determined whether or not adjusting journal entries were being reviewed and approved, and whether or not they were adequately documented.

Discussion:

Adjusting journal entries are prepared. An independent review and approval of adjusting journal entries is not performed, nor is adequate documentation retained. Each adjusting journal entry should be signed and dated by the preparer and reviewer prior to recording the transaction in the Town's accounting records. The journal entry should include supporting documentation and a description of the reason for the entry. Without these procedures, errors or irregularities may occur and not be detected by management.

*Response of Municipal Officials: Except in very rare occasions, all journal entries have been done at year-end. However, the Chairman of the Board of Selectmen has developed a form that can be used to document journal entries in the future.*

6. An analytical review of excise tax collections should be performed.

Internal control objectives:

To help prevent fraud, and to obtain better information for budgeting excise tax revenues.

Procedure:

Through inquiry we determined whether or not an analytical review of excise taxes was being performed.

Discussion:

Oversight officials are comparing the budget to actual results on a monthly basis. However, Selectmen are not comparing current month and year-to-date motor vehicle excise tax collections to those of prior periods on an ongoing basis. The collection of these taxes, which is sometimes in cash rather than checks, poses a high risk of loss due to fraud. By performing analytical review procedures, Selectmen can determine whether excise tax collections appear to be reasonable when compared to historical collection patterns, and can determine the cause of any unusual fluctuations in revenue collection patterns.

*Response of Municipal Officials: A monthly report that compares excise tax collections to the same month of the prior year has been implemented. A three-month comparison of excise tax collections will be included on each report.*

7. The municipal officers, or their designee, should examine the Treasurer's accounts at least every three months.

Internal control objectives:

To determine whether the Treasurer is adequately maintaining the records of the Town, and to be in compliance with Maine law.

Procedure:

Through inquiry we determined whether or not the municipal officers or their designee were examining the Treasurer's accounts at least every three months.

Discussion:

The municipal officials of the Town are not reviewing the Treasurer's accounts in accordance with 30-A M.R.S.A. § 5603 (2) (B), which requires that the town's oversight officials or their designee review the Treasurer's accounts at least every three months. In addition, the results of this review should be included in the minutes of the Selectmen's meeting following the review.

*Response of Municipal Officials: The Selectmen have requested that the Tax Collector/ Treasurer provide, on a quarterly basis, a copy of the Treasurer's "disbursements spreadsheet." The Selectmen will compare the information maintained by the Selectmen, to the information contained on the Treasurer's "disbursement Spreadsheet" for the purpose of insuring compliance with 30-A M.R.S.A. § 5603 (2) (B). Upon completion of the Selectmen's review, the results will be recorded in the minutes of the Selectmen's meetings.*

8. Written policies and procedures are needed.

Internal control objectives:

To document Town policies, and to provide specific guidance to Town officials and employees for the performance of their duties.

Procedure:

Through inquiry we determined the areas where written policies and procedures were not established.

Discussion:

Written policies and procedures would serve as references for employees seeking guidance on the proper handling of transactions, methods for safeguarding assets, and personnel matters. Areas where written policies and procedures should be developed include, but are not limited to, the following:

- cash receipts management: receipting mail and over-the-counter transactions, daily cash-up and deposit procedures
- tax collection, liens and foreclosures
- preparation and distribution of monthly financial reports to monitor fiscal performance
- authorization for investment transactions, and opening and closing bank accounts
- reconciliations between general ledger control accounts and subsidiary accounting records
- implementation of excise tax collection testing and analytical review procedures
- independent recalculation of the Assessor's Certificate of Assessment
- payment approval process
- pre-numbered items inventory control
- fixed asset capitalization/inventory control
- computer security
- records retention
- personnel matters
- review procedures

In the event of employee turnover, these policies and procedures will help Town officials and new staff members understand their duties and responsibilities.

*Response of Municipal Officials: The Selectmen will work on establishing written policies and procedures for employees, and guidelines for elected and appointed officials.*