



STATE OF MAINE
OFFICE OF THE STATE AUDITOR

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DIRECTOR OF AUDIT and ADMINISTRATION

August 20, 2014

Town of Orient Selectmen (see below)
82 School House Road
Orient, ME 04471

Dear Selectmen,

The Office of the State Auditor conducted a limited procedures engagement of the Town of Orient. We have completed our report and it will be available on the Office of the State Auditor website at <http://www.maine.gov/audit/reports.htm>, in the section for Other Reports.

We thank the Town of Orient Selectmen and Treasurer for providing space, time and all of the documentation required to complete this audit.

Sincerely,

A handwritten signature in blue ink that reads "Pola A. Buckley".

Pola A. Buckley, CPA, CISA
State Auditor

Enclosure

Selectman Victor Alexander, Chairman

Selectman Pamela Bourgeois

Selectman Dale Foley

State of Maine
Office of the State Auditor
Report on Limited Procedures Engagement – Town of Orient, ME
Report Issued On 8/20/14

Summary

We received complaints from Town of Orient taxpayers regarding alleged mismanagement of town funds. The purpose of our engagement was to determine the validity of these complaints by researching town records, examining annual financial statements/independent auditor's reports, interviewing town officials, or using any other method deemed appropriate.

Background

Orient is a small town located in Aroostook County on U.S. Rt. 1 between Houlton and Danforth. Based on the 2010 census data there are 147 people, 63 households and 39 families residing in the town. During the vacation, hunting and fishing seasons the town's population increases due to the influx of out-of-State property owners.

The town operates under a selectmen form of government and is incorporated under the laws of the State of Maine. As of June 30, 2013 the town's financial position was as follows:

| | <u>\$000's</u> |
|---------------------|----------------|
| Total Assets: | 423 |
| Total Liabilities: | 40 |
| Total Revenue: | 445 |
| Total Expenditures: | 477 |

Procedures

Our procedures included:

- reviewing background information about the town,
- understanding the complaints/allegations received from taxpayers,
- analyzing the town's audited financial statements,
- determining the validity of the complaints/allegations using various audit procedures, and
- reporting on the results of our audit procedures.

Results

Taxpayer Complaints/Allegations

- \$65,000 in disputed and unaccounted for missing funds regarding payments to SAD #70.
Results: Review of the tuition bills from SAD #70, Orient expense reports, and interviews with the selectmen provided no evidence of a \$65,000 payment to SAD #70. No exceptions noted.
- \$75,000 was raised for education in the 2013-2014 town meeting and SAD #70 has no record of receiving the money.
Results: Based on the audit work conducted it can be concluded that the Town of Orient was billed on June 28, 2012 for prior student tuition in the amount of \$73,789.15. The balance in the account used to pay tuition was \$41,517.12 prior to the Tax Anticipation Note. The Town of Orient selectmen, on July 5, 2012, approved a \$75,000 Tax Anticipation Note to assist in the tuition owed to SAD #70. The Machias Savings Bank loan was made on July 6, 2012 and

deposited into Orient's bank account on July 13, 2012. A check for \$73,789.15 was made out to SAD #70 and cashed on August 1, 2012.

It appears the Tax Anticipation Note of \$75,000 was appropriately approved, documented, received and repaid for the purpose of paying student tuition due to a lack of funds in the community municipal account. No exceptions noted.

- \$44,730.12 was overdrawn from the education fund in 2012 and not explained.
Results: The \$44,730.12 "overdrawn" was simply a difference between actual expenditures and budgeted expenditures as indicated in the annual financial statements. When actual expenditures are compared to the amount available (balance from prior year plus budgeted expenditures), the town underspent education funds by \$9,006.28. Furthermore, a letter from the CPA firm hired to complete the annual financial statements indicates the information provided from the Treasurer at that time did not appear to be complete when compared to the Orient School Department financial statements. An additional analysis was conducted and education expenditures appear reasonable. No exceptions noted.
- \$775,000 in grant money was missing from the Maine Department of Education.
Results: Research into a potential missing \$775,000 was conducted and it was discovered that the Maine Department of Education paid \$1.5 million back to the U.S. government for false information submitted to the U.S. Department of Education under the Migrant Education Program. Maine falsely represented the number of eligible migratory children for fiscal year 2002 through 2004 and MSAD District #14 was one of the districts that misrepresented the number of eligible children. This case was investigated by the Office of the U.S. Attorney for the District of Maine, the U.S. DOE, Office of the Inspector General, Office of General Counsel and the Civil Division of the Department of Justice and was settled in 2009. No exceptions noted.
- A \$75,000 loan was executed by two selectmen from a local bank in the town's name for SFY 2013 and not explained.
Results: A Tax Anticipation Note of \$75,000 was appropriated, approved, documented, received and repaid for the purpose of paying student tuition due to a lack of funds in the community municipal account. This is the same issue as the second bullet in this section. No exceptions noted.
- MBA Company was paid by the Town of Orient to reevaluate property and the revaluation was never completed.
Results: Article 27 for fiscal year 2003 was voted to raise funds for a revaluation of the town's property. MBA Company was hired to complete the revaluation. MBA Company states the town's records were completed and updated. The current selectmen do not believe the valuations were completely updated and there was no attempt to determine if MBA Company's services were completed or to get the money back if they found they were not complete. Based on our audit procedures it can be concluded that MBA Company was paid with the majority of the funds raised, the payments were properly approved and documented on the signed warrants and that some property was revalued. No exceptions noted.
- A J.C. Penny credit card, in the town's name, was used by the former town Clerk/Treasurer/Tax Collector to purchase personal items and then reimburse the town.
Results: The current Treasurer has not seen any credit card statements in the town's name. The town's electronic files were reviewed from 2004 through 2014 and there were no J.C. Penny

charges. The only similar transactions were on the Machias Savings debit card for Sears. A review of the charges does not indicate any personal purchases. No exceptions noted.

- The board allowed the former town Clerk/Treasurer/Tax Collector to keep agent fees in lieu of getting a raise.
Results: Article 16 and Article 18 for fiscal year 2003 and 2004 respectively, were in the town's warrant as a way to pay the town Clerk/Tax Collector/Treasurer. This was a method of paying these positions that the town had adopted in the past. The town publicly documented its method of payment. No exceptions noted.
- \$138,837.50 was reported as cash on hand for 2013 but the local audit reflected \$22,837.05.
Results: According to bank statements, the Urban-Rural Initiative Program (URIP) had a fund balance of \$138,837.50 for the 2013 fiscal year. We were unable to determine any fund that held a balance of \$22,837.05. No exceptions noted.
- A \$6,334 personal withdrawal in 2004 by the former town Clerk/Treasurer/Tax Collector has not been paid back.
*Results: According to the 2004 audited financial statements, Administration expenditures exceeded appropriations by \$6,334. A detailed analysis and review was conducted over the expenditures from 2004 through 2012 for which the former town Clerk/Treasurer/Tax Collector was responsible. See results under **Additional Audit Testing and Analysis**.*
- In 2008 residents had a 75% tax increase without prior warning.
Results: The Town of Orient's tax rate has fluctuated significantly from 2005 through 2012. Although there was a 75% increase in the year 2008 there was also a 36% and 40% decrease in the years 2006 and 2010 respectively. Over the eight year period there was an average of a 6% increase in the tax rate per year. Property values increased each year, averaging 8% per year over the eight year period as well. Orient's tax rates compare favorably to the Aroostook County average. For every year analyzed the Town of Orient's tax rate was less than the average. Therefore, although there have been significant swings in the tax rate, the Town of Orient is below average when compared to the rest of the county. The tax rates appear reasonable. No exceptions noted.

Additional Audit Testing and Analysis for the time period of 10/31/03 through 3/30/12

- Review of checks written from the Town of Orient:
*Results: Two checks amounting to \$1,475 were written in 2006, payable to a town resident, and were subsequently endorsed in the name of the payee and cashed. Records indicate that the payment was recorded as repair services. The payee of the check stated she never provided repair or any other goods or services to the town, and that she never received, endorsed or cashed the two checks made payable to her. **Exceptions noted (2006)**.*
- Comparison of checks and point of sale transactions from the bank statements to the town warrants.
*Results: Checks and point of sale transactions totaling \$752,698 do not appear on the town warrants for approval by town officials. This difference includes many routine transactions and could simply be the result of human error and lack of adequate internal controls. **Exceptions noted.***

A further analysis was conducted to compare the purchasing activity at local retailers and checks payable to "cash" between the former town Clerk/Treasurer/Tax Collector and the current town Clerk/Treasurer/Tax Collector.

Results: The average yearly total amount spent for each retailer and checks payable to "cash" were compared as follows:

| <u>Retailer</u> | <u>Former \$ per year</u> | <u>Current \$ per year</u> |
|-----------------------|---------------------------|----------------------------|
| Bartlett's Country | 137 | 0 |
| Grand Lake Variety | 77 | 13 |
| Knights Yankee Grocer | 174 | 0 |
| Marden's | 34 | 0 |
| Sears | 231 | 0 |
| Shop N Save | 176 | 0 |
| Staples | 308 | 240 |
| Walmart | 1,253 | 79 |
| Check payable to cash | 574 | 0 |

Differences exist in the spending patterns between the former and current town Clerk/Treasurer/Tax Collector. These differences could be due to a lack of adequate internal controls. It is undeterminable whether the differences are appropriate or not. No exceptions noted.

- Analysis of salaries paid to the former town Clerk/Treasurer/Tax Collector and her husband as a Selectman.

Results:

1. *The average payments to the former town Clerk/Treasurer/Tax Collector over the time period audited appears appropriate when compared to the current salary of the position. No exceptions noted.*
2. *The dollar amount paid to the Selectman appears reasonable. The pattern of payments to the selectman had the following exceptions:*
 - a. *There was a possible duplicate payment for mileage in March 2007 for \$59.*
 - b. *In 2009 13 checks were issued to the Selectman for 12 months of work with the 13th check being issued in December 2009 with the memo stating it was for February. This appears to be an advanced payment. In 2010 the Selectman only received 11 checks.*
 - c. *In 2011 13 checks were issued to the Selectman. The 13th check was for \$117.94. This appears to be an overpayment.*

*The exceptions noted with the pattern of payments could be due to a lack of adequate internal controls. **Exceptions noted.***

- Review of miscellaneous withdrawals from the bank statements.
Results: There were several transactions withdrawing money from the town's checking account without documentation of where the money was deposited. Machias Savings Bank provided the documentation for the withdrawals and corresponding deposits. The funds associated with each transaction were accounted for properly. No exceptions noted.
- Revenue analysis
Results: Revenue was compared on a year to year basis by account type from 2004 through 2013. The changes from year to year appear reasonable. No exceptions noted.

- Review of a \$50,000 investment in the name of the town with McDonald Investments.
Results: Two of the three current selectmen expressed concern over an investment made around fiscal year 2000 through 2003. It appears an investment account was opened in the town's name with a series of transactions occurring between the town's investment account and checking account. When the account closed the final redemption was transferred to the town's checking account. No exceptions noted.
- Review of a large variance in the food pantry fund from 2012 to 2013 based on our expenditure analysis of the town's audited financial statements.
Results: The town correctly approved, appropriated and transferred funds for the food pantry. The difference from 2012 to 2013 was due to the separation of the food pantry from the town funds as it was decided the food pantry should be its own entity. No exceptions noted.

Conclusion and Recommendations

From the audit work conducted it appears internal controls should be improved to minimize the risk associated with the town's fiduciary responsibilities. We recommend that policies and procedures be developed containing sufficient internal controls. These improved controls should include:

- Ensuring that information included on town warrants is complete and accurate.
- That there is proper segregation of duties including that the payee names and dollar amounts for each withdrawal (i.e. check) appearing on the bank statement should be compared to the same information appearing on the warrant and what is recorded in the accounting system. Discrepancies should be reported directly and in person in a formal meeting with town officials. The person responsible for identifying and reporting these discrepancies should not be the person performing accounting functions for the town.

Acknowledgement and Thanks

Thank you to the Town of Orient Selectmen and Treasurer for providing space, time and all of the documentation required to complete this audit.

Sincerely,



Pola A. Buckley, CPA, CISA
State Auditor