

December 29, 2008

Members of the Board of Selectmen
Town of Mount Desert
Mount Desert, Maine

In planning and performing our audit of the financial statements of the governmental activities, and the aggregate remaining fund information of the Town of Mount Desert, Maine as of and for the six months ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis 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 Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies and other deficiencies that we consider to be material weaknesses.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiencies constitute material weaknesses:

2008-01 Bank Reconciliations

Bank reconciliations needed to be made on a monthly basis to ensure accurate financial records. At the time of the audit, bank reconciliations had been reconciled to the computerized general ledger for the year. The Town reconciled the bank statements for the audit, but not on a monthly basis. Failure to reconcile the bank statements on a monthly basis allowed errors to go undetected and results in inaccurate and incomplete financial records. We recommend that the Town's cash account on the computerized general ledger be reconciled to the bank statements on a monthly basis. We recommend that management monitor this situation to ensure that reconciliations are completed in a timely manner. The Town plans to reconcile the bank statements on a monthly basis.

2008-02 Accounts Receivable

Accounts receivable need to be reconciled on a monthly basis to ensure accurate financial records. At the time of the audit accounts receivable reconciliations had been made. The Town has not followed up on collection of accounts receivable. Old accounts receivable are still on the detailed list as uncollected totaling \$12,976. Failure to reconcile accounts receivable allows bills to go uncollected and results in inaccurate and incomplete financial records. We

recommend that the Town's accounts receivable be reconciled on a monthly basis and additional billings be made as necessary. We recommend that management monitor this situation to ensure that reconciliations are completed in a timely manner. The Town has attempted to collect old receivable with no success.

2008-03 Payroll Liabilities

Payroll liabilities need to be reconciled on a monthly basis to ensure accurate financial records. At the time of the audit, payroll liability reconciliations had not been made. Failure to reconcile payroll liabilities, allow withholdings to be incorrect, incorrect amounts submitted to vendors, and inaccurate and incomplete financial records. We recommend that the Town's payroll liabilities be reconciled on a monthly basis. We recommend that management monitor this situation to ensure that reconciliations are completed in a timely manner. The Town is working on this area at the present time.

2008-04 Certificate of Assessment

The certificate of assessment needs to be accurate to ensure proper tax rates. An error of \$42,250 in the certificate of assessment occurred, resulting in lower tax rates for taxpayers. At the town meeting, a couple articles were passed higher than the original warrant and revenue sharing was used to reduce taxes. These changes were not reflected in the certificate of assessment. We recommend that the review the certificate of assessment and make sure it matches what was voted on at Town Meeting.

2008-05 Reserves

Reserve transfers should be done on a timely basis to ensure the most interest earnings. Transfers to reserves have not been made during the year resulting in \$46,802 owed to the reserves as of 6/30/08. By not making timely transfers, the Town may lose interest earnings from the money being held a lower yield account. We recommend that transfers to reserves are done after Town Meeting approval and transfer from reserves are done as expenditures are made. We recommend that management monitor this situation to ensure that reserve transfers are completed in a timely manner. Significant improvement has been made in this area.

2008-06 Trust Funds

Interest earned on the cemetery trust funds should be transferred to the cemetery. During the audit, we determined that the transfer of interest has not been done for a few of years. We recommend that transfers of interest earned on the cemetery trust fund be done on an annual basis.

2008-07 Financial Statement Preparation

Based on recently implemented auditing standards, inadequate design of internal control over the preparation of the financial statements being audited is deemed to be a material weakness in the internal control structure. Due to financial and time constraints to effectively prepare and evaluate the audited financial statements and detect material misstatements in those financial statements, the board and management approved the auditors to prepare the financial statements. The board and management understand and take responsibility for the financial statements.

This communication is intended solely for the information and use of management, the Board of Selectmen, and others within the organization, and is not intended to be and should not be used by anyone other than those specified parties.

Respectfully submitted,

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