

**KENNEBEC VALLEY COMMUNITY ACTION
PROGRAM**

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

September 30, 2007

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Reports Required by *Government Auditing Standards*
and OMB Circular A-133
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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**

Board of Directors
Kennebec Valley Community Action Program

We have audited the financial statements of Kennebec Valley Community Action Program (a Maine nonprofit organization) as of and for the year ended September 30, 2007, and have issued our report thereon dated February 15, 2008. 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 Kennebec Valley Community Action Program's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kennebec Valley Community Action Program's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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

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 combination of control deficiencies, that adversely affects the organization'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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2007-1 to be a significant deficiency in internal control over financial reporting.

**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**

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kennebec Valley Community Action Program'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 an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2007-2.

We noted certain matters that we reported to management of Kennebec Valley Community Action Program in a separate letter dated February 15, 2008.

Kennebec Valley Community Action Program's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Kennebec Valley Community Action Program's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the finance committee serving as the audit committee, Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gibson, Tolcin & Marten, LLC

February 15, 2008
Augusta, Maine



**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Directors
Kennebec Valley Community Action Program

Compliance

We have audited the compliance of Kennebec Valley Community Action Program (a Maine nonprofit organization) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended September 30, 2007. Kennebec Valley Community Action Program'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 its major federal programs is the responsibility of Kennebec Valley Community Action Program's management. Our responsibility is to express an opinion on Kennebec Valley Community Action Program'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 Kennebec Valley Community Action Program'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 Kennebec Valley Community Action Program's compliance with those requirements.

In our opinion, Kennebec Valley Community Action Program complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2007.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

Internal Control Over Compliance

The management of Kennebec Valley Community Action Program 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 Kennebec Valley Community Action Program's internal control over compliance with 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 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 Organization's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 basic financial statements of Kennebec Valley Community Action Program as of and for the year ended September 30, 2007, and have issued our report thereon dated February 15, 2008. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133, CONTINUED**

This report is intended solely for the information and use of management, the finance committee serving as the audit committee, Board of Directors, and federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gibson, T. Clain & Martin, LLC

February 15, 2008
Augusta, Maine

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Schedule of Expenditures of Federal Awards
Year ended September 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA number	Award number	Award term	Federal expenditures
U.S. Department of Health and Human Services:				
Direct Awards:				
Head Start	93.600	01CH1119/42	09/01/06-08/31/07	304,166
Head Start	93.600	01CH1119/41	09/01/05-08/31/06	2,355,084
Total U.S. Department of Health and Human Services/Direct Awards				2,659,250
Pass-through:				
Family Planning Association of Maine:				
Family Planning - Teen Male Comm. Partnership Project	93.217	FPA-2007-MALE	07/01/06-06/30/07	1,500
Family Planning - Clinical	93.217	FPA-2008-03	07/01/07-06/30/08	12,298
Family Planning - Clinical	93.217	FPA-2007-03	07/01/06-06/30/07	82,803
Family Planning - Life Education	93.217	FPA-2008-33	07/01/07-06/30/08	2,964
Family Planning - Life Education	93.217	FPA-2007-33	07/01/06-06/30/07	9,112
Total U.S. Department of Health and Human Services/FPA				108,677
Pass-through State Department of Health and Human Services:				
Head Start	93.600	CFS-07-1406A	10/01-06-09/30/07	42
Community Services Block Grant	93.569	CFS-07-7004A	10/01-06-09/30/07	385,861
Social Services Block Grant/Child Care	93.667	CFS-07-1028	10/01-06-09/30/07	64,564
Child Care Mandatory & Matching Funds of the CCDF	93.596	CFS-07-1028	10/01-06-09/30/07	250,134
Child Care & Development Block Grant	93.575	CFS-07-1028	10/01-06-09/30/07	185,359
Social Services Block Grant/KV Van Regular	93.667	CSC-07-4004A	10/01-06-09/30/07	51,973
Social Services Block Grant/KV Van Protective	93.667	CSC-07-4011A	10/01-06-09/30/07	41,502
Total U.S. Department of Health and Human Services/DHHS				979,435
Pass-through Maine State Housing Authority:				
Low-Income Home Energy Assistance/REACH IV	93.568	None	08/01/06-09/30/08	178,397
Low-Income Home Energy Assistance/Fuel Assistance	93.568	None	07/01/06-06/30/07	225,461
Low-Income Home Energy Assistance/Fuel Assistance	93.568	None	07/01/07-09/30/08	83,940
Low-Income Home Energy Assistance/Weatherization Program	93.568	None	10/01/06-09/30/07	537,287
Total U.S. Department of Health and Human Services/Maine State Housing Authority				1,025,085
Total U.S. Department of Health and Human Services				4,772,447
U.S. Department of Energy:				
Pass-through:				
Maine State Housing Authority:				
Weatherization Assistance for Low-Income Persons	81.042	None	04/01/07-03/31/08	224,297
Weatherization Assistance for Low-Income Persons	81.042	None	04/01/06-03/31/07	243,988
Total U.S. Department of Energy				468,285
U.S. Department of Agriculture:				
Pass-through:				
State Department of Health and Human Services:				
Child & Adult Care Food Program	10.558	FP-07-008	10/01/06-09/30/07	93,783
Total U.S. Department of Agriculture/DHHS				93,783
Pass-through Western Maine Community Action:				
Rural Community Development Initiative	10.446	None	01/01/06-12/31/07	4,815
Rural Community Development Initiative	10.446	None	07/01/04-12/31/06	1,211
Total U.S. Department of Agriculture/WMCA				6,026
Pass-through:				
State Department of Agriculture, Food & Rural Resources:				
Emergency Food Assistance Program	10.568	G507048	01/01/07-12/31/07	10,086
Emergency Food Assistance Program	10.568	G306086	01/01/06-12/31/06	7,046
Total U.S. Department of Agriculture/DAFRR				17,132
Total U.S. Department of Agriculture				116,941

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Schedule of Expenditures of Federal Awards, Continued
Year ended September 30, 2007

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA number	Award number	Award term	Federal expenditures
U.S. Department of Transportation:				
Pass-through Maine Department of Transportation:				
Formula Grants for Other Than Urbanized Areas	20.509	ME-18-X040	07/01/07-06/30/09	26,602
Formula Grants for Other Than Urbanized Areas	20.509	ME-18-X039	07/01/06-06/30/08	206,986
Formula Grants for Other Than Urbanized Areas - RTAP	20.509	ME-18-X040	07/01/07-06/30/08	-
Formula Grants for Other Than Urbanized Areas - RTAP	20.509	ME-18-X039	07/01/06-06/30/07	1,784
Federal Transit Administration Standard Lease Agreement	20.500	ME-03-0047	01/25/2007-01/24/11	31,461
Federal Transit Administration Standard Lease Agreement	20.500	ME-03-0047	01/24/2007-01/23/14	79,926
Federal Transit Administration Standard Lease Agreement	20.513	ME-16-0025	05/11/05-05/10/09	-
Total U.S. Department of Transportation				346,759
U.S. Department of Housing & Urban Development:				
Pass-through Maine Department of Economic and Community Development:				
Community Development Block Grant - Town of Waterville	14.228	None	09/01/05-Open	275,072
Community Development Block Grant - Town of Rockland Phase 1	14.228	None	07/01/04-Open	-
Community Development Block Grant - Town of Rockland Phase 2	14.228	None	07/01/05-Open	2,500
Community Development Block Grant - Town of Rockland Phase 3	14.228	None	07/01/06-Open	143,912
Community Development Block Grant - Town of Rockland Phase 4	14.228	None	07/01/07-Open	41,119
Total U.S. Department of HUD/Maine DECD				462,603
Pass-through Maine State Housing Authority:				
Home Investment Partnerships Program/Home Rehabilitation	14.239	None	01/01/07-12/31/07	182,954
Home Investment Partnerships Program/Maine American Dream Initiative	14.239	None	01/01/06-Open	123,692
Home Investment Partnerships Program/Home Rehabilitation	14.239	None	02/01/06-12/31/06	413,989
Total U.S. Department of HUD/Maine State Housing Authority				720,635
Pass-through HUD Housing Council:				
Housing Counseling Assistance Program	14.169	FY2007	01/01/06-12/31/06	35,000
Total U.S. Department of HUD/HUD Housing Council				35,000
Total U.S. Department of Housing & Urban Development				1,218,238
U.S. Department of Treasury:				
Pass-through NeighborWorks America:				
NeighborWorks	21.000	None	Open	88,306
Total U.S. Department of Treasury/NeighborWorks America				88,306
Total Federal Awards				\$ 7,010,976

See accompanying notes to schedule of expenditures of federal awards.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
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 Kennebec Valley Community Action Program for the fiscal year ended September 30, 2007. The reporting entity is defined in Notes to Financial Statements of Kennebec Valley Community Action Program.
- 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 Kennebec Valley Community Action Program 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 accrual basis of accounting, which is consistent with the reporting in the Organization's financial statements.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Schedule of Findings and Questioned Costs
September 30, 2007

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 not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	Yes

Federal Awards

Internal Control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	No
Type of auditor's report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)?	No

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
20.500	Federal Transit – Capital Investment Grants
20.509	Formula Grants for Other than Urbanized Areas
81.042	Weatherization Assistance for Low-Income Persons
93.568	Low-Income Home Energy Assistance

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Schedule of Findings and Questioned Costs, Continued

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

2007-1 – Fraud Risk Assessment and Monitoring Program

Criteria –

In today's environment and with current regulatory requirements, there is a greater need for organizations to understand and address fraud risk. Antifraud risk programs, controls and monitoring not only help promote a strong control environment but can be used to target specific areas where there is a risk of asset misappropriation or fraudulent financial reporting to the organization.

Condition Found, Cause, Effects and Recommendations –

During the work performed on understanding internal control, we noted that although the Organization has adopted an anti-fraud policy as part of its Accounting & Financial Practices and Procedures Manual, it has not yet implemented a formal fraud risk assessment and monitoring program. The current lack of a written antifraud program appears to be related only to the implementation of recent accounting and auditing standards. Lack of an antifraud program may cause management and/or employees to perceive that there is an opportunity for fraudulent financial reporting or misappropriation of assets without consequences. By implementing an effective antifraud program, the likelihood of fraud occurring can be reduced, and the risk of misstatements within the financial statements and related disclosures can also be reduced. We recommend that management, along with the Board of Directors, develop a written antifraud program that includes performing a risk assessment to determine where current fraud risk factors exist, review its existing antifraud controls and make them part of the program, and perform ongoing monitoring procedures.

Questioned Costs

None

Management Response

The agency's management agrees with the recommendation above and recognizes the importance of insuring strong internal controls which includes the detection of fraud. We are currently in the process of taking the procedures that we have in place and developing a formal plan that will include risk assessment and monitoring procedures. This is a topic at our monthly meetings at both the management and board levels.

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Schedule of Findings and Questioned Costs, Continued

2007-2 – Documentation of Salaries & Fringe Benefits Charged to LIHEAP “Other Benefits”

Criteria –

Charges to the “Other Benefits” under the LIHEAP program administered by MaineHousing must be recorded on time sheets that specifically document time spent on performing a needs assessment, counseling, and assistance with energy vendors in conjunction with the LIHEAP intake process in order for them to be allowable. MaineHousing rules require that the time be documented on specific forms that were to be provided by the funding source.

Condition Found, Cause, Effects and Recommendations –

During our review of monitoring reports received by Kennebec Valley Community Action Program for the LIHEAP program during the year ended September 30, 2007, we noted that MaineHousing had questioned costs totaling \$169,229 for “Other Benefits” charged to the program between October, 2005 and October, 2007. The time spent by program staff performing activities relating to “Other Benefits” was not documented on the required forms, and MaineHousing could not substantiate the charges as being allowable under the “Other Benefits” category by the supporting documentation that was available. Kennebec Valley Community Action Program has not received any specific forms for documenting salaries charged to “Other Benefits”, and did not maintain a system to document the specific activities of staff involved in the intake process beyond that of their current time system which meets federal requirements. We recommend that Kennebec Valley Community Action Program comply with the requirements for documentation of salaries and fringe benefits charged to the “Other Benefits” component of the Low-Income Home Energy Assistance Program as administered by MaineHousing.

Questioned Costs

MaineHousing has questioned \$169,229 of charges to the Low-Income Home Energy Assistance Program by the Organization between October, 2005 and October, 2007.

Management Response

In 2004, KVCAP did a major update to our timesheet system to enhance it and ensure compliance with federal guidelines for time charged to grants. Since the monitoring conducted by MaineHousing, the program has implemented the use of the specific form designed by the funding source to track time charged to the Other Benefits portion of the grant and are supplementing our current timesheets with this document. We have supplied MaineHousing with documentation to the time charged that is in question and have requested a waiver of repayment of the questioned costs. At the time of publication, we have not heard back regarding our request.

Section III - Findings and Questioned Costs for Federal Awards

NONE

KENNEBEC VALLEY COMMUNITY ACTION PROGRAM
Summary Schedule of Prior Audit Findings

NONE