

# MAINE STATE LEGISLATURE

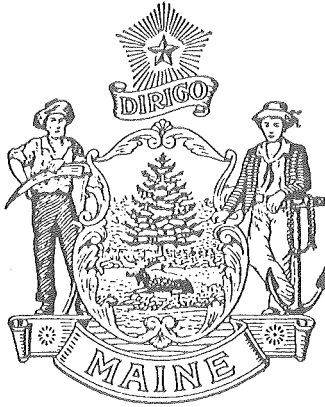
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# STATE OF MAINE



## EIGHTY-FIFTH ANNUAL REPORT OF THE STATE AUDITOR 1993

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RODNEY L. SCRIBNER, C.P.A.  
STATE AUDITOR





**Brenda L. McIntyre**  
June 12, 1962 - May 30, 1993

This report is dedicated to Brenda L. McIntyre, a thoughtful and caring friend.

Brenda began her career in state government in June 1986 with the Department of Inland Fisheries and Wildlife. In August 1986 she became a Clerk Typist II for the Unorganized Territories within the Department of Audit and in 1988 was promoted to Clerk Typist III.

Brenda's adventurous spirit, wonderful sense of humor, and kind-hearted personality brought smiles to the faces of those around her. All of us at the Department of Audit will miss her.

**"Moonshine"**

When the moon comes over the mountain the moonshines,  
When Brenda is out late it means the moonshines.  
When Brenda has that silly grin and giggle the moonshines.  
When Brenda sleeps late in the morning, watch out for moonshine.  
When you wanna have a beautiful day, just find good ole moonshine.  
When you find her she'll surely make the moonshine.

By, Maureen Macant'Saoir

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STATE OF MAINE  
DEPARTMENT OF AUDIT

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AUGUSTA, MAINE 04333

Area Code 207  
Tel. 287-2201  
FAX 287-2351



RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

December 3, 1993

Honorable John R. McKernan, Jr., Governor  
Honorable Dennis L. Dutremble, President of the Senate  
Honorable John L. Martin, Speaker of the House of Representatives  
Members of the 116th Legislature


The Annual Report of the State Auditor for the year ended June 30, 1992 is submitted in accordance with Title 5, MRSA, Section 244 which states, in part:

The State Auditor... shall conduct a continuous postaudit... of the state government. He shall prepare and publish a report for each fiscal year setting forth the essential facts of such audit in summary form....

The Department of Audit conducts audits in accordance with generally accepted government auditing standards. The Annual Report is a summary of the department's activities at the state, county and municipal levels. It also includes compliance and financial items extracted from the comprehensive annual Single Audit of the State of Maine. For the complete audit of the state's financial position and results of operations, please refer to the 1992 Single Audit which was completed in September 1993 and delivered to most federal and state departments and agencies.

The legislature, departments, agencies, organizations and government officials with whom we work have assisted and supported the department's efforts. This cooperation has been essential to us in performing audits, reporting findings and recommending action. This report reflects that combined effort to improve the state's financial reporting practices.

Sincerely,

  
Rodney L. Scribner, CPA  
State Auditor

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**RODNEY L. SCRIBNER, CPA  
STATE AUDITOR**

Rodney L. Scribner, a Certified Public Accountant, is the State Auditor for Maine. Prior to becoming State Auditor in 1987, Mr. Scribner held key positions in state government including those of Commissioner of Finance and Administration, State Treasurer, State Budget Officer, State Controller and Assistant Legislative Finance Officer. He is also a former Deputy Director of the Federal Revenue Sharing Program.

Mr. Scribner is a Commissioner of the Maine Small Business Commission and is a member of the Maine Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the Maine Association of Professional Accountants. He is on the boards of the New England Intergovernmental Audit Forum, the Senior Spectrum and the Children's Castle.

In 1989 Mr. Scribner received the American Institute of Certified Public Accountants Outstanding Public Service Award. In 1990 Mr. Scribner was the recipient of the Inspector General's Integrity Award from the U.S. Department of Health & Human Services for outstanding leadership in enhancing staff professionalism and the quality of the Maine Single Audit.

**STATE AUDITORS**

**TERMS OF OFFICE**

Charles P. Hatch	1907 - 1910
Lamont A. Stevens	1911 - 1912
Timothy F. Callahan	1913 - 1914
J. Edward Sullivan	1915 - 1916
Roy L. Wardwell	1917 - 1921
Elbert D. Hayford	1922 - 1940
William D. Hayes, CPA	1940 - 1944
Fred M. Berry	1945 - 1956
Michael A. Napolitano	1957 - 1964
Armand G. Sansoucy	1965 - 1968
Michael A. Napolitano	1969 - 1970
William L. Otterbein	1970 - 1970
Raymond M. Rideout, Jr.	1971 - 1976
Rodney L. Scribner, CPA	1977 - 1977
George J. Rainville	1977 - 1984
Robert W. Norton	1985 - 1987
Rodney L. Scribner, CPA	1987 -

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## OVERVIEW

The Department of Audit is organized under the Executive Branch of state government. The State Auditor is not a member of the Governor's cabinet but is elected by the legislature. The State Auditor administers the Department of Audit and reports directly to the legislature. The department is organized into three units: Departmental Bureau, Municipal Bureau, and Unorganized Territories. Please refer to the accompanying chart, page 2, for the specific duties of each.

The department is authorized to perform financial and compliance audits of state, county and municipal governments. The department's duties include:

- Performing annual postaudits of all accounts and other financial records of state government, including the Judiciary and the Executive Department of the Governor but excluding the Governor's Expense Account;
- Serving as staff agency to the legislature or Governor, upon request, for investigating any aspect of the state's finances;
- Installing uniform accounting systems and performing annual postaudits of all accounts and financial records for counties on a fee for services basis;
- Installing uniform accounting systems and performing audits for cities, towns and villages on a fee for services basis;
- Installing uniform accounting systems and ensuring that an annual audit and postaudit of the municipal cost component is conducted;
- Performing postaudits of all accounts and financial records of any organization requesting or receiving an appropriation from state government; and
- Issuing the annual State of Maine Single Audit Report, the Annual Report of the State Auditor, audit reports for approximately 100 municipalities, school units and counties, organizations that receive state appropriations, and for special audits requested by the legislature or Governor.

**Department of Audit**  
**Organizational Chart - Positions Authorized**

**State Auditor**  
Rodney L. Scribner, CPA

**Deputy State Auditor**  
Richard H. Foote, CPA

**Departmental Bureau**

General Fund

2 Director of Audits  
8 Auditor III  
8 Auditor II  
3 Auditor I  
1 Business Manager I

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Total - 22 Positions

Primary Function:

To perform the Single Audit of the State of Maine, perform independent post audits of state agencies, serve as staff agency to the Legislature or to the Governor, and to safeguard the assets of the state.

**Municipal Bureau**

Other Special Revenue Fund

1 Director of Audits  
6 Auditor III  
3 Auditor II  
5 Auditor I  
1 Administrative Secretary  
1 Clerk Typist III  
1 Secretary

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Total - 18 Positions

Primary Function:

To provide audit services to municipalities, counties and school administrative units; establish accounting systems for counties and municipalities.

**Unorganized Territories**

Other Special Revenue Fund

1 Fiscal Administrator  
1 Secretary

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Total - 2 Positions

Primary Function

To ensure that the Unorganized Territories Education and Service Fund is expended consistent with statute; publish an annual financial report of the fund.

## AUDIT OPERATIONS

### Departmental Bureau

The Departmental Bureau is responsible for the audit of the State of Maine. The department made a significant change five years ago when it performed the audit on a statewide rather than departmental basis. This statewide approach provides audit efficiencies as well as a consolidated Single Audit Report on the financial operations and position of the state and identifies problems within individual organizational units and programs.

The Departmental Bureau publishes the State of Maine Single Audit Report annually. The report meets the requirements of the Single Audit Act of 1984 (Act) which requires state and local governments that receive \$100,000 or more of federal financial assistance in any fiscal year to have a comprehensive financial audit in accordance with the Act. The Single Audit Report for 1992 covers the state's expenditures of \$3.3 billion including \$1.1 billion of federal expenditures.

The objectives of the Single Audit are:

- To audit the state's financial statements in accordance with professional auditing standards;
- To assess the state's compliance with federal and state laws and regulations which could have a material effect on the state's financial statements, financial schedules and on major federal financial assistance programs; and
- To assess the adequacy of internal controls and selected administrative controls relating to the management of federal financial assistance programs.

### Municipal Bureau

The Municipal Bureau conducts audits of counties, cities and towns, school administrative units and other quasi-municipal corporations upon request.

The statutes provide that each county, municipality and quasi-municipal corporation have an annual post audit made of its accounts, covering the last complete fiscal year, by the State Department of Audit or by a qualified public accountant. Upon request, the Municipal Bureau conducted 77 audits for the fiscal year ended June 30, 1992.

### Unorganized Territories

Although operating out of the offices of the Department of Audit, the Fiscal Administrator of the Unorganized Territories is not part of the audit staff.

The Fiscal Administrator provides oversight and monitors the financial activities of the Unorganized

Territories, a geographic area encompassing approximately half of the state. Responsibilities of the Fiscal Administrator include:

- Reviewing and analyzing the budgets and expenditures of the Unorganized Territories Education and Services Fund;
- Reporting to the legislature and county commissioners on budgets and expenditures of the Unorganized Territory Education and Services Fund; and
- Publishing an annual financial report of the fund.

## SINGLE AUDIT REPORT OF THE STATE OF MAINE FISCAL YEAR ENDED JUNE 30, 1992

This section of the Annual Report of the State Auditor contains information excerpted from the State of Maine Single Audit Report for the fiscal year ended June 30, 1992. The Single Audit Report, required by federal and state law, is a comprehensive annual report that addresses the financial condition of the state, compliance with state and federal laws and regulations, reports on internal controls, and other findings and recommendations.

Information excerpted from the 1992 Single Audit Report includes: qualifications to the financial statement opinion, identified instances of material noncompliance with laws and regulations, and other matters identified as reportable conditions.

This report does not include all instances of noncompliance reported in the Schedule of Findings and Questioned Costs in the Single Audit Report and in the Management Letter. Also, this report does not include the complete report language, notes to the financial statements or supplementary information required for the Single Audit Report. We encourage legislators, government officials, citizens of the state and other interested parties to review the Single Audit Report. A copy is available at the Department of Audit, Key Plaza Building, 286 Water Street, Augusta, Maine.

### Financial Statement Presentation

The opinion on the state's financial statements is qualified because of the following departures from generally accepted accounting principles (GAAP):

- Not all organizational units are included in the financial statements;
- Up-to-date records are not available to support the amounts reported in the general fixed assets account group, i.e., land, buildings and equipment; and
- Certain accruals are not recorded.

Although we have not reprinted the financial statements in this report, we have provided graphs on pages 13 and 14 that represent percentages of revenues and expenditures, as presented in the statements.

### Compliance With Laws and Regulations

The Single Audit Report also includes four reports relating to compliance with laws and regulations. Two of the four reports cite material instances of noncompliance with laws and regulations.

The Independent Auditor's Report on Compliance with Laws and Regulations Based on an Audit of Component Unit Financial Statements Performed in Accordance with Government Auditing Standards discloses as a material instance of noncompliance that debt payment procedures do not comply with state law.



The Independent Auditor's Report on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs states:

The result of our audit procedures for the major federal financial assistance programs ... disclosed that the State of Maine did not have adequate systems in place to ensure that subrecipients [of federal funds] are audited or monitored in compliance with federal regulations.

The following departments had findings:

- Department of Human Services
- Department of Labor
- Department of Defense and Veterans Services.

Internal Controls

The internal control structure of state government consists of those policies and procedures established by the government that safeguard its assets and resources and that provide reasonable assurance that the assets and resources are used in a manner consistent with its stated directions. Acceptable internal controls that are in place and functioning as designed help ensure the proper conduct of the government's business. Findings on internal controls are categorized as reportable conditions and material weaknesses.

Reportable Conditions

We noted certain matters relating to the state's internal control structure and operations within the category that we consider to be reportable conditions in conformity with standards established by the American Institute of Certified Public Accountants.

Reportable conditions are those internal controls that have significant deficiencies in their design and operation. These conditions, in our judgement, could adversely affect the state's ability to record, process, summarize, and report financial data that is consistent with assertions in its financial statements. These conditions could also affect the state's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

We identified 16 reportable conditions within 5 departments or agencies. The description, nature and agencies where we found reportable conditions are identified in detail in the Schedule of Reportable Conditions in the fiscal year 1992 Single Audit Report, pages 75 - 91.

Material Weaknesses

We considered certain reportable conditions to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the elements in the internal

control structure does not reduce to a relatively low level the risk of a) errors or irregularities in amounts that would be material in relation to the state's financial statements; or b) noncompliance with laws and regulations that would be material to a federal financial assistance program which may occur and not be detected within a timely period by employees in the normal course of performing their duties.

Two material weaknesses that we identified are summarized below. A complete description can be found in the 1992 Single Audit Report, pages 65 and 71..

1. The State of Maine accounting system does not meet the reporting requirements of generally accepted accounting principles (GAAP). We identified 8 significant problem areas in the state's accounting system. These material weaknesses adversely affect the state's ability to account for and report financial data. Similar weaknesses have been noted in prior years.

This means that the state's accounting system does not make it possible to fairly present and fully disclose the state's financial position and results of operations of the funds and account groups in conformity with GAAP.

2. Federal monies administered by the State of Maine are frequently passed through to subrecipients. The state is responsible for ensuring each subrecipient's compliance with federal laws and regulations. Accordingly, the state is required to determine a) whether subrecipients have met audit requirements; and b) whether subrecipients spent federal funds according to the programs' related laws and regulations.

We found that subrecipients were not adequately monitored or audited. We noted that four agencies and departments administering 27 separate programs were not in compliance.

The state receives approximately \$1.1 billion in federal funds. Inadequate monitoring and auditing of subrecipients places the state at risk of losing federal assistance.

#### Status of Unresolved Significant or Material Findings

The Department of Audit annually reviews and follows up on prior period significant or material findings that have not been resolved. For a detailed review of these unresolved findings please refer to the 1992 Single Audit Report. A list of those findings and cross references to the Single Audit Report follows.

**State of Maine**  
**Status of Unresolved Significant or Material**  
**Findings and Recommendations**  
**For the Years Ended Prior to June 30, 1992**

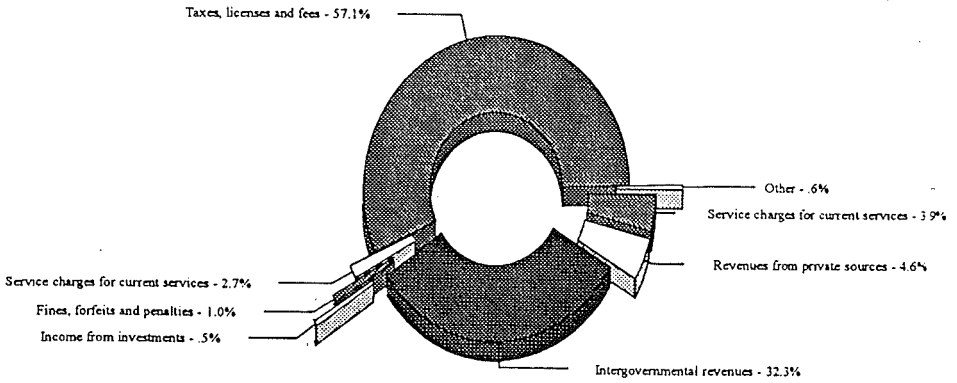
Significant or material findings and recommendations which have not received corrective action are restated as referenced below. Other significant or material findings and recommendations have either been resolved or are no longer applicable in the current year.

<u>Agency/Finding</u>	<u>Report Reference</u> <u>(Page Number)</u>	
	<u>1991</u>	<u>1992</u>
<b>Department of Administrative and Financial Services</b>		
Accounting system does not comply with GASB principles	62	65
 <b>Department of Administrative and Financial Services - Bureau of Accounts and Control</b>		
Incorrect use of prepaid expense	74	78
Deferred Compensation Plan assets/liabilities not recorded	75	79
 <b>Department of Administrative and Financial Services - Bureau of General Services</b>		
Incomplete General Fixed Assets Account Group records	69	81
 <b>Department of Administrative and Financial Services - Bureau of Taxation</b>		
Inadequate tax reconciliations and revenue recognition procedures overstate General Fund fund balance	79	82

**State of Maine  
 Status of Unresolved Significant or Material  
 Findings and Recommendations  
 For the Years Ended Prior to June 30, 1992**

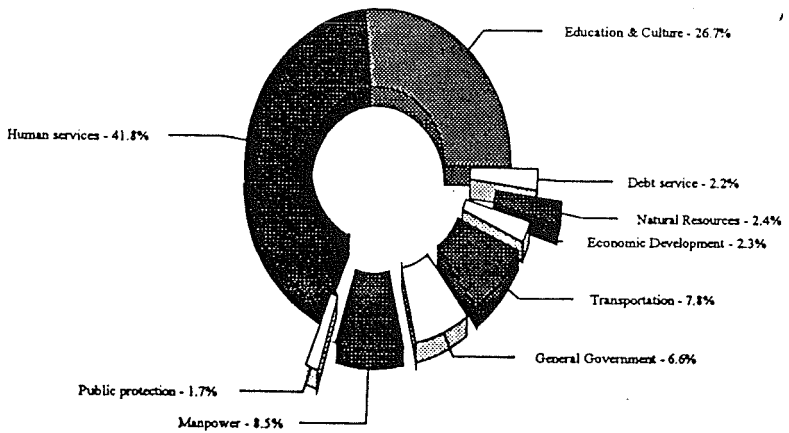
<u>Agency/Finding</u>	<u>Report Reference</u> <u>(Page Number)</u>	
	<u>1991</u>	<u>1992</u>
<b>Department of Administrative and Financial Services - Division of Financial and Personnel Services</b>		
Maine Uniform Accounting and Auditing Practices Act (MAAP) not effectively administered	76	84
<b>Department of Corrections</b>		
Subrecipient audits	66	71
<b>Department of Defense and Veterans' Services</b>		
Subrecipient audits	66	71
<b>Department of Human Services</b>		
Subrecipient audits	65	71
<b>Department of Labor</b>		
Subrecipient audits	65	71

## Revenues by Source (All Governmental Fund Types)

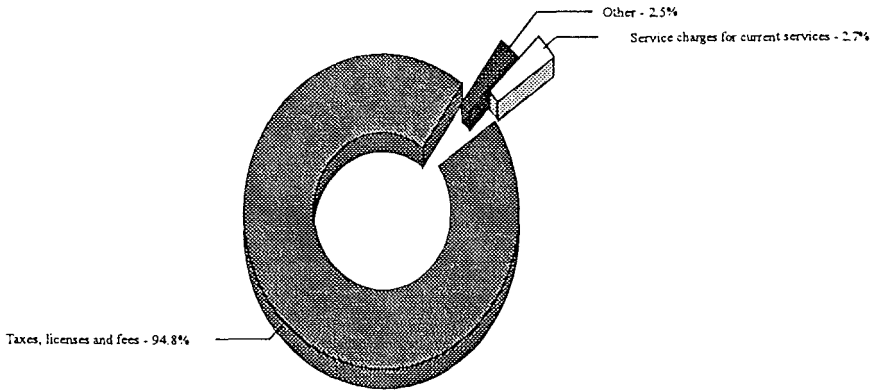



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## Expenditures by Function (All Governmental Fund Types)



## Revenues by Source (General Fund)



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## Expenditures by Function (General Fund)

