

MAINE STATE LEGISLATURE

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STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 1987

VOLUME 2 OF 2



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STATE DEPARTMENT OF AUDIT
Augusta, Maine 04333

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STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 1987

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DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Auditor's Report on Supplementary Information Schedule
of Federal Financial Assistance

President of the Senate and the
Speaker of the House of Representatives

We have examined the component unit financial statements of the State of Maine oversight unit for the year ended June 30, 1987, and have issued our qualified report thereon dated August 8, 1988. Our examination of such component unit financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Our examination was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The Schedules of Federal Financial Assistance for the year ended June 30, 1987, which accompany this report, are prepared primarily on the basis of cash disbursements, consequently, expenditures are recognized when disbursed rather than when the obligation is incurred.

The Schedules of Federal Financial Assistance do not include the federal grants, contracts and agreements of those activities and programs which are part of the reporting entity and have been appropriately excluded as more fully described in Note 1A to the component unit financial statements. In addition, the Schedules do not include federal grants, contracts and agreements as they relate to the Military Bureau.

The Schedules of Federal Financial Assistance, which accompany this report, are presented for the purpose of additional analysis and are not a required part of the component unit financial statements. The information in the schedules has been subjected to the auditing procedures applied in the examination of the component unit financial statements and, in our opinion, which is based, insofar as it relates to the Division of Community Services, on the report of other auditors, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Rodney L. Scribner CPA
Rodney L. Scribner CPA
State Auditor

August 8, 1988

State of Maine
Schedule of Federal Financial Assistance - Major Programs
June 30, 1987

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
<u>Department of Defense and Veterans' Services</u>			
Federal Emergency Management Agency	83.516	Disaster Assistance	\$ 3,847,941
Total			<u>3,847,941</u>
<u>Department of Education and Cultural Services</u>			
U.S. Dept. of Education	84.010	Educationally Deprived Children-LEAs	12,920,997
	84.027	Handicapped-State Grants	6,826,647
	84.032	Higher Education Act Insured Loans	3,025,816
U.S. Dept. of Agriculture	10.550	Food Distribution Program	5,607,096
	10.555	National School Lunch Program	12,066,013
Total			<u>40,446,569</u>
<u>Department of Human Services</u>			
U.S. Dept. of Health and Human Services	13.658	Foster Care-Title IV-E	4,023,514
	13.667	Social Services Block Grant	13,188,553
	13.714	Medical Assistance Program	207,419,829
	13.780	Assistance Payments-Maintenance Assistance	56,016,167
	13.783	Child Support Enforcement	3,884,850
	13.802	Social Security-Disability Insurance	3,209,730
	13.992	Alcohol and Drug Abuse and Mental Health Block Grant	3,631,325
	13.994	Maternal and Child Health Service Block Grant	3,461,836
U.S. Dept. of Education	84.126	Rehabilitation Services-Basic Support	7,701,361
U.S. Dept. of Agriculture	10.557	Special Supplemental Food Program-Women, Infants, Children	8,515,235
	10.558	Child Care Food Program	3,324,706
	10.561	State Matching Grants for Food Stamp Program	4,695,543
Total			<u>319,072,649</u>
<u>Department of Labor</u>			
U.S. Dept. of Labor	17.207	Employment Service	4,185,625
	17.225	Unemployment Insurance - Administrative Grant	8,733,023
	17.250	Job Training Partnership Act	10,746,660
Total			<u>23,665,308</u>

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
<hr/> Executive Department - Planning Office <hr/>			
U.S. Dept. of Housing & Urban Development	14.228	Community Development Block Grants	\$ 10,417,406
Total			<hr/> 10,417,406 <hr/>
<hr/> Executive Department - Community Services <hr/>			
U.S. Dept. of Health and Human Services	13.789	Low Income Home Energy Assistance	24,191,453
Total			<hr/> 24,191,453 <hr/>
<hr/> Department of Transportation <hr/>			
U.S. Dept. of Transportation	20.205	Highway Planning and Construction	57,250,163
Total			<hr/> 57,250,163 <hr/>
<hr/> Office of Energy Resources <hr/>			
U.S. Dept. of Energy	----	Petroleum Violation Escrow Funds	6,254,334
Total			<hr/> 6,254,334 <hr/>
Total Federal Financial Assistance - Major Programs			<hr/> \$485,145,823 <hr/>

State of Maine
Schedule of Federal Financial Assistance - Non-major Programs
June 30, 1987

Schedule R

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
<hr/> Department of Administration <hr/>			
U.S. Environmental Protection Agency	66.702	Asbestos Hazards Abatement Assistance	\$ 17,355
Total			<hr/> 17,355 <hr/>
<hr/> Department of Agriculture <hr/>			
U.S. Dept. of Agriculture	10.025	Plant and Animal Disease and Pest Control	52,531
	10.156	Federal-State Marketing Improvement Program	16,000
	10.475	Cooperative Agreement-Meat and Poultry Inspection	326,953
	10.901	Resource Conservation and Development	25,825
	10.950	Agriculture Statititcal Reports	19,936
U.S. Environmental Protection Agency	66.700	Pesticides Enforcement Program	102,614
Total			<hr/> 543,859 <hr/>
<hr/> Department of Defense and Veterans' Services <hr/>			
Federal Emergency Management Agency	83.403	Emergency Mgmt. Institute-Field Training Program	51,751
	83.503	Emergency Management Assistance	568,652
	83.505	State Disaster Preparedness Grants	18,379
	83.508	Radiological Instrumentation	36,666
	83.509	Facility Survey, Engineering and Development	37,810
	83.511	Radiological Protection Planning and Development	26,575
	83.514	Population Protection Planning	134,151
U.S. Veterans Administration	64.101	Burial Expenses Allowance for Veterans	32,447
Total			<hr/> 906,431 <hr/>
<hr/> Department of Education and Cultural Services <hr/>			
U.S. Dept. of the Interior	15.904	Historic Preservation Fund-Grants-In-Aid	252,003
U.S. Dept. of Education	84.002	Adult Education-State Administered Program	622,455
	84.003	Bilingual Education	48,886
	84.004	Civil Rights Technical Assistance and Training	249,936
	84.009	Education of Handicapped Children	508,680
	84.011	Migrant Education-Basic State Formula Grant Program	2,971,549
	84.012	Educationally Deprived Children-State Admin.	170,219
	84.024	Handicapped Early Childhood Education	138,085
	84.029	Special Education Personnel Development	81,608

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Education and Cultural Services (cont.)			
U.S. Dept. of Education (cont.)	84.034	Library Services	\$ 475,500
	84.035	Interlibrary Cooperation	119,323
	84.048	Vocational Education-Basic Grants to States	2,962,126
	84.069	Grants for State Student Incentives	260,560
	84.121	Vocational Education Act of 1963	40,693
	84.122	Discretionary Grant	13,996
	84.146	Transition Program for Refugee Children	81,265
	84.151	Improving School Programs-State Block Grant	2,348,024
	84.154	Public Library Construction	79,506
	84.159	Handicapped-Special Studies	97,645
	84.164	Grants for Strengthening the Skills of Teachers	202,648
	84.167	Library Literacy	7,136
	84.173	Handicapped-Preschool Incentive Grants	238,142
	84.176	Congressional Teacher Scholarship	34,526
	84.185	Robert C. Byrd Scholarship	388
	84.186	Drug Free Schools and Communities Program	6,634
U.S. Dept. of Agriculture	10.553	School Breakfast Program	865,147
	10.556	Special Milk Program for Children	72,088
	10.559	Summer Food Service Program for Children	239,419
	10.560	State Admin. Expenses for Child Nutrition	221,701
	10.564	Nutrition Education and Training Program	88,191
Nat'l Foundation for Arts and Humanities	45.003	Promotion of the Arts-Artists-In-Education	97,061
	45.004	Promotion of the Arts-Literature	6,100
	45.007	Promotion of the Arts-State Programs	326,814
	45.015	Promotion of the Arts-Folk Arts	35,000
	45.127	Humanities Instruction in Elem. and Secondary Schools	9,272
Total			13,972,326
Department of Environmental Protection			
U.S. Environmental Protection Agency	66.001	Air Pollution Control Program Support	659,141
	66.419	Water Pollution Control	1,012,939
	66.433	State Underground Water Source Protection	61,125
	66.438	Construction Management Assistance	815,728
	66.454	Water Quality Management Planning	193,911
	66.801	Hazardous Waste Management Program	309,858
	66.802	Hazardous Substance Response Trust Fund	173,665
	66.804	State Underground Storage Program	114,383
Total			3,340,750

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
<hr/> Department of Inland Fisheries and Wildlife <hr/>			
U.S. Dept. of the Interior	15.600	Anadromous Fish Conservation	\$ 110,000
	15.605	Fish Restoration	778,931
	15.611	Wildlife Restoration	874,844
	15.612	Endangered Species Conservation	50,000
Total			<hr/> 1,813,775 <hr/>
<hr/> Department of Human Services <hr/>			
U.S. Dept. of Health and Human Services	13.118	AIDS Activity	164,462
	13.130	Primary Care Services	171,565
	13.262	Occupational Safety and Health Research Grants	140,016
	13.268	Childhood Immunization Grants	154,453
	13.283	Centers for Disease Control-Investigations and Tech. Assist.	184,001
	13.628	Development of Operational Definitions for Children	13,326
	13.633	Grants for Supportive Services and Senior Citizens	1,499,370
	13.635	Special Programs for the Aging-Nutrition Services	2,222,962
	13.645	Child Welfare Services	1,260,827
	13.647	Social Services Research and Demonstration	42,545
	13.652	Adoption Opportunities	26,295
	13.659	Adoption Assistance	403,716
	13.668	Special Programs for the Aging-Title IV	203,205
	13.669	Child Abuse and Neglect State Grants	60,987
	13.671	Family Violence Prevention and Services	10,231
	13.672	Child Abuse Challenge Grants	29,370
	13.673	Dependent Care Planning & Development Grant	5,940
	13.777	Survey and Certification of Health Care Providers	611,795
	13.787	Refugee and Entrant Assistance	1,054,353
	13.790	Work Incentive Program	593,069
	13.977	Sexually Transmitted Diseases Control Grant	49,626
	13.987	Health Programs for Refugees	9,648
	13.988	State Based Diabetes Control Programs	126,532
	13.991	Preventive Health and Health Services Block Grant	823,045
	-----	Cooperative Health Statistics System	(8,373)
	-----	Voluntary Foster Care	24,748
	-----	Superfund	66,491
	-----	New Vocational Rehabilitation Program-SSA	171,314
	-----	Cancer Control Program Capacity	5,388
U.S. Dept. of Education	84.128	Rehabilitation Services-Special Projects	34,998
	84.129	Rehabilitation Training	36,855
	84.132	Centers for Independent Living	356,392
	84.177	Independent Living Services, Older/Blind	107,732

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
<hr/> Department of Human Services (cont.) <hr/>			
ACTION	72.001	Foster Grandparents Program	\$ 220,724
U.S. Dept. of Agriculture	10.550	Food Distribution	643,448
	-----	Food Stamp Work Registration and Job Search Contract	258,224
U.S. Dept. of Justice	16.575	Crime Victim Assistance	193,459
U.S. Dept. of Labor	17.235	Senior Community Service Employment Program	400,634
Total			<hr/> 12,373,373 <hr/>
<hr/> Judicial Department <hr/>			
U.S. Dept. of Justice	16.541	Juvenile Justice and Delinquency Prevention	8,605
U.S. Dept. of Transportation	20.600	State and Community Highway Safety	56,375
U.S. Dept. of Health and Human Services	13.669	Child Abuse and Neglect State Grants	6,391
Total			<hr/> 71,371 <hr/>
<hr/> Department of Labor <hr/>			
U.S. Dept. of Labor	17.002	Labor Force Statistics	600,151
	17.006	Economic Growth and Employment Projections Data	84,829
	17.202	Certification of Foreign Workers for Temp. Employment	19,704
	17.203	Labor Certification for Alien Workers	229,884
	17.225	Trade Readjustment Act (FUBA)	2,768,842
	17.225	Unemployment Compensation Ex-Postal Workers	68,025
	17.225	Unemployment Compensation Federal Employees	477,955
	17.225	Unemployment Compensation Ex-Servicepersons	624,730
	17.225	Federal Supplemental Compensation	(40,218)
	17.225	Supplemental Unemployment Assist./Previously Uncovered Svcs.	(521)
	17.232	CETA Closeout	(20,895)
	17.245	Trade Adjustment Assistance	1,700,436
	17.246	Employment & Training Assist.-Dislocated Workers	1,546,289
	17.500	Occupational Safety and Health	268,066
	17.600	Mine Health and Safety Grants	49,258
	17.801	Disabled Veterans Outreach Program	317,847
	17.804	Local Veterans Employment Representative Program	265,466
Total			<hr/> 8,959,848 <hr/>

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Public Safety			
U.S. Dept. of Justice	16.573	Criminal Justice Block Grants	\$ 347,231
U.S. Dept. of Transportation	20.218	Motor Carrier Safety Assistance Program	30,048
	20.600	State and Community Highway Safety	749,299
Total			1,126,578
Executive Department - Planning Office			
U.S. Dept. of Commerce	11.305	State and Local Economic Development Planning	46,454
	11.419	Coastal Zone Management-Program Administration Grants	1,196,387
	11.421	Energy Impact Formula Grants	25,841
Total			1,268,682
Executive Department - Community Services			
U.S. Dept. of Health and Human Services	13.792	Community Services Block Grant	1,937,609
U.S. Dept. of Energy	81.042	Weatherization for Low Income Persons	2,844,455
U.S. Dept. of Agriculture	10.568	Temporary Emergency Food Assistance	274,700
Passed through Maine State Housing Authority:			
U.S. Dept. of Housing and Urban Development	----	Central Heating Improvement Program	206,504
Total			5,263,268
Department of Transportation			
U.S. Department of the Interior	15.145	Indian Grants-Economic Development	21,006
U.S. Dept. of Transportation	20.102	Airport Improvement	8,580
	20.308	Local Rail Service Assistance	140,251
	20.500	UMTA Capital Improvement Grants	75,166
	20.505	UMTA Technical Studies Grants	1,854,930
	20.507	UMTA Capital and Operating Assistance Formula Grants	644,842
	20.509	Public Transportation for Nonurbanized Areas	859,039
Total			3,603,814

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Marine Resources			
U.S. Dept. of Commerce	11.405	Anadromous and Great Lakes Fisheries Conservation	\$ 74,170
	11.407	Commercial Fisheries Research and Development	212,307
	-----	Liason Services- New England Fish Management Council	41,250
	-----	Law Enforcement	5,841
	-----	Shrimp Separator Trawl	9,688
	15.600	Anadromous Fish Conservation	50,869
	-----	Aquatic Education	35,782
Total			429,907
Department of Mental Health and Retardation			
U.S. Dept. of Health and Human Services	13.242	Mental Health Research Grants	461,138
	13.244	Mental Health Clinic or Service Related Training Grants	149,496
	13.608	Child Welfare Research and Demonstration	25,323
	13.630	Basic Supports and Advocacy Grants	270,469
	13.631	Developmental Disabilities-Special Projects	136,797
	13.668	Special Programs for the Aging-Title IV	63,638
U.S. Dept. of Education	84.024	Handicapped Early Childhood Education	106,222
Total			1,213,083
Department of Corrections			
U.S. Dept. of Justice	16.540	Juvenile Justice & Delinquency Prev.-Allocation to States	213,637
	-----	Criminal Justice Information Clearing House	27,396
Total			241,033
Department of Conservation			
U.S. Dept. of Agriculture	10.063	Agricultural Conservation Program	61,545
	10.064	Forestry Incentives Program	67
	10.664	Cooperative Forestry Assistance	205,520
	10.904	Watershed Protection and Flood Prevention	1,525
U.S. Dept. of the Interior	15.808	Geological Survey-Research and Data Acquisition	68,784
	15.916	Outdoor Recreation-Acquisition, Development and Planning	716,994
Nuclear Regulatory Commission	77.001	Radiation Control-Training Assistance & Advisory Counseling	22,900

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
<u>Department of Conservation (cont.)</u>			
U.S. Dept. of Energy	81.065	Nuclear Waste Disposal Siting	\$ 59,575
Total			<u>1,136,910</u>
<u>Public Utilities Commission</u>			
U.S. Dept. of Transportation	20.700	Pipeline Safety	10,845
Total			<u>10,845</u>
Total Federal Financial Assistance - Non-major Programs			<u>56,293,208</u>
Total Federal Financial Assistance			<u>\$541,439,031</u>



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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Auditor's Report on Internal Accounting Controls Based
Solely on a Study and Evaluation Made as a Part of an
Examination of the Component Unit Financial Statements

To the President of the Senate and the
Speaker of the House of Representatives

We have examined the component unit financial statements of the State of Maine, for the year ended June 30, 1987, and have issued our qualified report thereon dated August 8, 1988. As part of our examination, we made a study and evaluation of the system of internal accounting control of the State of Maine, to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office Standards for Audit of Governmental Organizations, Programs, Activities, and Functions. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- o Billings
- o Receivables
- o Cash receipts
- o Purchasing and receiving
- o Accounts payable
- o Cash disbursements
- o Payroll
- o Inventory control
- o Property and equipment
- o General ledger

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the State of Maine is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the State of Maine, taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the State of Maine may occur and not be detected within a timely period. In our letter to management, we have separately communicated our observations and recommendations regarding other matters.

AGENCY/PROGRAM	CONDITION
Department of Educational and Cultural Services	Loans are available through the department to students participating in post graduate education in the field of medicine and to students meeting the criteria of the Blaine House Scholars Program. These loans must be repaid either by cash repayment or by return service in the state. Laws establishing these two loan programs permit repayment over a number of years once the repayment phase is entered. Repayment is not required until the program of education is complete.
Educational loans receivable	In our current audit we noted that loans made to Post Graduate Health Professions Program recipients still in school and some loans made to Blaine House Scholars are not established as loans receivable nor otherwise recorded on the records of the State Controller. State assets are therefore understated by the amounts not recorded (\$7,282,626). We also noted that the related reserve for uncollectible accounts was established at 100% of the recorded receivables balance. Per discussion with department personnel this was done so that the dedicated revenue balance would represent only the cash available for expenditure. A combination of new personnel and new programs was the reason other receivables were not recorded.

AGENCY/PROGRAM

CONDITION

Amounts to be repaid to the state represent an asset and should be recorded. Preferred accounting practices require those assets recorded in advance of the appropriate timing for revenue recognition to be offset by a credit to deferred revenue. We therefore recommend that the department record all amounts due the state on the records of the State Controller along with appropriate credit entries either to revenue for those amounts measurable and available or, to deferred revenue for those amounts not yet available for revenue recognition. We also recommend that the department annually age the loans receivable so that an adjustment may be made that will ensure that a sufficient reserve for uncollectible accounts is established.

Department of Educational and Cultural Services

Maine's School Finance Act of 1985 provides for state subsidies to local educational agencies (LEAs). We examined distributions which had been made to 85 LEAs and noted variances which totaled \$93,123.00 in 17 of them.

Errors in distribution of state subsidies to local educational agencies

Incorrect allocation computations were primarily the result of errors in consolidation of supporting data.

Each LEA receives a copy of their allocation and agency personnel rely in part on the LEA's review to detect errors. The agency has since strengthened their internal supervisory review process to prevent similar errors in the future.

We recommend that supervisory personnel periodically spot-check and verify the transferral and accumulation of data.

Department of Administration, Bureau of Data Processing

A review of accounts receivable records for computer services provided to user agencies revealed that unbilled receivables for the month of June 1987 were not accrued. The total amount due to the bureau for services provided in June of 1987 was \$751,056.98. The billings for the receivable amounts which comprise this total did not transpire until the subsequent month - after the expiration of the 1986-87 fiscal year.

Understatement of revenues

This practice resulted in an understatement of revenues and an understatement of assets (due from other funds) for the 1986-87 fiscal year. Generally accepted governmental accounting principles regarding proprietary funds assert that revenue should be recognized on the accrual basis and that revenues should be recognized in the accounting period in which they are earned and become measurable.

AGENCY/PROGRAM

CONDITION

We recommend that unbilled receivables be accrued and thus recognized as revenue in the fiscal year in which they are earned. Because rate-setting procedures depend on an accurate accounting of revenue and expenses at selected times, we further recommend that the accrual of unbilled receivables be performed on a monthly basis to properly reflect the financial position of the centralized computer operations as well as to provide more accurate reporting of profit and loss by cost center.

Bureau administrative personnel concurred with our recommendation and indicated that the recommendation was being carried out in fiscal year 1988.

Department of Transportation

Fixed asset acquisitions funded through bond appropriations, federal funding or general funds are not recorded on the appropriate enterprise fund records.

It has been determined that acquisitions of capital assets using bond appropriations, federal funds or general funds have been capitalized in the General Fixed Assets group. Fixed assets thus recorded have not been transferred from the General Fixed Assets Account Group to the appropriate fixed asset accounts within the various enterprise funds. Consequently, the fixed asset accounts of the enterprise funds are understated, as follows:

Augusta State Airport:

Land	\$ 70,220.22
Buildings	85,215.07
Structures and Improvements	<u>5,173,346.11</u>

5,328,781.40

Marine Ports:

Equipment	<u>19,500,000.00</u>
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Island Ferry Service:

Land	86,000.00
Buildings	72,825.57
Structures and Improvements	280,635.40
Equipment	<u>46,738.72</u>

486,199.69

Total

\$25,314,981.09

Included in the Augusta State Airport total is \$5,271,000.00 which was reported as Construction in Process at June 30, 1984 and incorrectly journal transferred to the General Fixed Asset Account Group.

Accumulated depreciation and depreciation expense, as recorded, are also understated due to the lack of inclusion of the incorrectly recorded fixed assets in the depreciation calculations, as follows:

AGENCY/PROGRAM

CONDITION

Augusta State Airport	\$ 14,131.56
Marine Ports	2,295,000.00
Island Ferry Service	<u>280,885.52</u>
Total	<u>\$2,590,017.08</u>

We recommend that appropriate corrections to the Continuing Property Records, Fixed Asset Accounts, Reserve for Depreciation and associated expense accounts be made. We also recommend that Continuing Property Records be examined and adjusted, as necessary, on an annual basis to insure that enterprise fund capital acquisitions are properly recorded.

In general, Department of Transportation administrative personnel concur with this finding.

Department of Finance - Bureau of Taxation	Amounts due as a result of sales and/or use tax assessments made by the bureau's audit division are not recorded as receivables/revenue on the records of the State Controller. Also, amounts paid prior to final reconsideration of the amount assessed are credited to accounts receivable but have not been established as accounts receivable. As a result of these payments General Fund receivables, revenues and fund balance were understated by \$995,878.00 at June 30, 1987. In addition, substantial time may elapse from initial assessment to final reconsideration. Assessments are controlled during this time period through the use of 3" x 5" index cards. This weak control could result in assessment records being lost or improperly altered.
Control over and recognition of tax revenues resulting from audit assessments	

Bureau personnel indicated that assessments have not been booked due to the substantial number of adjustments that take place prior to final reconsideration. They also indicated that additional staff would be made available to reduce the backlog of assessments under reconsideration.

We recommend that assessments be established as receivables once the bureau has completed its final reconsideration. Partial payments received prior to final reconsideration and credited to receivables should be established as receivables/revenue. We also recommend that assessments be numbered and that a detail ledger control of such assessments be maintained. If assessments are abated, evidence of proper authorization of the abatement should be retained and noted in the ledger.

AGENCY/PROGRAM	CONDITION
Department of Administration - Bureau of Data Processing	An examination of agency equipment records revealed a lack of sufficient detail information to support and substantiate depreciation schedules used in the valuation of assets. Inadequate maintenance of these records in prior periods resulted in unreliable asset and depreciation information for financial reporting purposes.
Inventory valuation	<p>We therefore recommend that the bureau perform a complete physical inventory of capital equipment items and that the related records be maintained on a current basis (i.e., additions, retirements, etc.). We further recommend that the bureau assign values to those items found which are not currently catalogued on the inventory listing (through the use of original purchase orders when available or via best estimate through current cost comparison if original purchase orders are not available); review past financial records to determine total depreciation charged which was not applicable to current inventory items and compare this amount to the original valuation of inventory to which it applies to determine if equipment has been depreciated beyond its original value; and finally, document procedures followed to bring inventory and depreciation records up-to-date to provide an audit trail for the verification of inventory valuation (when the previously described recommendations have been implemented).</p> <p>Agency personnel concur with the recommendations and have initiated efforts to implement them.</p>
Department of Mental Health and Mental Retardation	
Augusta Mental Health Institute	During our review of accounts receivable records for Augusta Mental Health Institute, we noted that, as of May 1988, billings for patient care and treatment were 23 months behind. Medicare billings for the period July 1986 - May 1988 are now being generated and mailed while billings to other payers are now almost all current. We also noted that posting of receipts was approximately 2 months behind. In addition, we noted that pharmaceutical services rendered are not billed.
Billings for patient care and treatment not up to date	

AGENCY/PROGRAM

CONDITION

Billing delays are primarily the result of converting from a manual to a computer billing system, which is neither fully functional nor efficient. Bills cannot be generated without extensive manual review and corrections. The billing section is understaffed for the demands of current and retro billings and the manual rework required of the computer system output.

General fund revenue is understated as Medicare reimbursements are recorded at time of receipt, not as services rendered are billed. Agency estimates of such reimbursement revenue for the 23 month period ranged from \$1.2 million to \$2 million. There is also a possibility of lost General Fund revenue due to the following: loss of interest income; loss of payments due to insurers' limited payments having been made to other providers who are more timely in their submission of bills; not having billed for all reimbursable services provided; lack of time to pursue delinquent accounts; and the lesser likelihood of receiving payment on old bills. Receivable records also do not present a true picture of financial position due to the delays in posting transactions.

Agency administrative personnel indicated their agreement with our findings. They are now reviewing and researching ways to revise the billing system and have been catching up old bills 2-3 months at a time every 2-3 weeks. Most billings are now current except for Medicare bills, which must go in order.

To permit timely and efficient processing of complete and accurate bills, as well as posting of payments, we recommend that a workable billing system be installed/implemented. We also recommend that additional personnel be brought in to catch up posting billings and posting of transactions, and that all reimbursable services rendered be billed.

Department of Mental
Health and Mental
Retardation

Errors in rate structure
resulting in under-
recovery of Medicaid
reimbursements to
General Fund

For the period July 1, 1983 - June 30, 1987, Department of Mental Health and Mental Retardation (M.H.M.R.) patient care and treatment billing rates, as established by the Maine Department of Human Services, were understated, resulting in underrecovery of Medicaid reimbursement revenue to the General Fund. Daily reimbursement rates were understated due, in part, to the effects of incorrectly including in the rate structure a penalty that had been assessed in 1982, and, in part, to improperly incorporating census changes and certified bed changes that affected the occupancy rate and therefore the reimbursement rate.

AGENCY/PROGRAM

CONDITION

With the aid of an outside consultant, M.H.M.R. personnel detected these errors and an additional reimbursement of \$1,698,854 for this period was received in June of 1988, via Health and Human Services audit revision settlements. This reimbursement pertained to Augusta and Bangor Mental Health Institutes. Lesser amounts may be obtainable for other state mental health agencies.

We recommend that agency personnel continue their efforts to obtain all available reimbursements at the highest possible reimbursement rate.

Department of Finance -
Bureau of Accounts
and Control

At June 30, 1987 recorded assets were overstated and expenditures understated by \$2,599,096, due to improper use of the prepaid expense account.

Improper Use of
prepaid expense

In the General Fund a \$2,460,920 debit to prepaid expense (rather than to expenditures) was made as the balancing entry to the amount recorded as "Due to" other agencies for services received. In the General and Special Revenue Funds, we noted other debits to prepaid expense of \$206,130. Those entries had been made to avoid deficits which would have been created by recording expenditures to accounts in which sufficient funds were not available.

Administrative personnel of the bureau indicated that their current coding procedures were a long standing practice, but agreed in principle that proper coding would be to record expenditures rather than prepaid expense in the above situations.

To present an accurate picture of financial position and to record expenditures in the period in which the obligations are incurred, we recommend that use of the prepaid account be limited to those situations where the obligation or expenditure is for goods or services to benefit a future period. We also recommend that the system be more closely monitored to avoid the overexpenditure of available funds.

Department of Finance -
Bureau of Accounts
and Control

Funds entrusted to the
state not recorded on
the Controller's
official records

The State of Maine is accountable for amounts received from participants in a Deferred Compensation Plan as well as from representative payee and guardianship relationships and for patient/inmate funds at state institutions. At June 30, 1987 such Deferred Compensation assets were approximately \$34.9 million and other assets approximately \$1.7 million. Responsibility for those funds was not reflected on the official accounting records of the state.

AGENCY/PROGRAM

CONDITION

Past practice has been that Deferred Compensation Plan assets are reflected in the State Controller's Annual Financial Report but not otherwise reflected in state accounting records. Other referenced funds have not been centrally recorded.

So that state accounting records will present a more accurate record of agency activity and financial liabilities, we recommend that all funds or assets in the custody of the state or any of its individual agencies be recorded on the official accounting records of the state.

Bureau administrative personnel indicated general agreement with our recommendation.

Department of Transportation - Motor Transport Services

Motor Transport Service revenues and expenses are understated due to incorrect coding of vehicle repair and fuel sales transactions.

Revenues and expenses understated

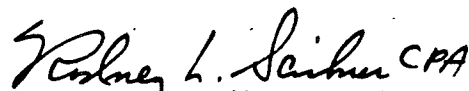
Motor Transport Service does not record any expenses or revenues as a result of fuel sales to, or vehicle repairs for, other state agencies. Fuel sales are recorded as a credit to fuel inventory and as a debit to due from other funds. When payment is received, cash is debited and due from credited. Vehicle repair costs are credited to inventory and debited to work in progress. When payment is received, cash is debited and work in progress credited. At no time are the transactions recorded as revenues or expenses.

To accurately reflect the actual results of operations in the financial statements, we recommend that Motor Transport Service record expenses for the costs associated with fuel sales and repair services rendered, and record revenue for receipts in payment of such expenses.

Department of Transportation administrative personnel concur with the recommendation.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our examination of the 1987 financial statements, and this report does not affect our report on the financial statements dated August 8, 1988.

This report is intended solely for the use of management and the cognizant agency and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the legislature, is a matter of public record.


Rodney L. Scribner, CPA
State Auditor

August 8, 1988



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DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Auditor's Report on Internal Controls (Accounting and
Administrative) - Based on a Study and Evaluation Made as a
Part of an Examination of the Component Unit Financial Statements
and the Additional Tests Required by the Single Audit Act

President of the Senate and the
Speaker of the House of Representatives

We have examined the component unit financial statements of the State of Maine oversight unit for the year ended June 30, 1987, and have issued our qualified report thereon dated August 8, 1988. As part of our examination, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office, the Single Audit Act of 1984, and the provisions of OMB Circular A-128, Audits of State and Local Governments. For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs in the following categories:

Accounting Controls

- Revenue
- Purchasing and receiving
- Expenditures
- Payroll
- Inventory control
- General ledger

Administrative Controls

- General Requirements
 - o Political activity
 - o Davis-Bacon Act
 - o Civil rights
 - o Cash management
 - o Relocation assistance and real property acquisition
 - o Federal financial reports

- Specific Requirements
 - o Types of services
 - o Eligibility
 - o Matching level of effort
 - o Reporting
 - o Cost allocation
 - o Special requirements
 - o Monitoring subrecipients

The management of the State of Maine, is responsible for establishing and maintaining internal control systems used in administering federal financial assistance programs. In fulfilling that responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study included all of the applicable control categories listed above. During the year ended June 30, 1987, the State of Maine expended 90% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Maine, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Maine, did not extend beyond this preliminary review phase.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of the State of Maine. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of the State of Maine. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of the State of Maine.

Also, our examination, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

However, our study and evaluation and our examination disclosed the following condition that we believe results in more than a relatively low risk that errors or irregularities in amounts that would be material to a federal financial assistance program may occur and not be detected within a timely period.

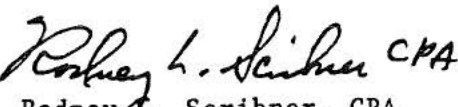
<u>State Agency</u>	<u>Program</u>	<u>Federal Catalog No.</u>
Department of Educational and Cultural Services	Food Distribution Program	10.550

Federal Food Distribution Program commodities are accounted for by unit of measurement primarily to control inventory. It is the belief of personnel of the Department of Education and Cultural Services that federal donated commodities remain the property of the federal government until such time as they are delivered to the recipient agencies, and that title to the goods never vested with the State of Maine. As a consequence, no recognition of the Food Distribution program is reflected in the State's financial statements. However, 7 CFR states that title to the donated foods passes to distributing agencies upon their acceptance of the foods at time and place of delivery (Chapter 11, §250.5(b)(6)(f)).

Effective control over and accountability for all assets is required by OMB Circular 102, Attachment G, Section 2(c). In order to ensure compliance with the circular and with federal regulations, and correctly record assets in state records, we recommend that monetary values be assigned to commodities and commodities transactions be accounted for by these values as well as by quantity.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our examination of the 1987 component unit financial statements and (2) our examination and review of the State's compliance with laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance program. This report does not affect our reports on the component unit financial statements and on the state's compliance with laws and regulations dated August 8, 1988.

This report is intended solely for the use of management and the U.S. Department of Health and Human Services and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which, upon acceptance by the legislature, is a matter of public record.

 CPA
Rodney L. Scribner, CPA
State Auditor

August 8, 1988



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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Auditor's Report on Compliance at the
Component Unit Financial Statement Level

To the President of the Senate and the
Speaker of the House of Representatives

We have examined the component unit financial statements of the State of Maine oversight unit for the year ended June 30, 1987, and have issued our qualified report thereon dated August 8, 1988. Our examination was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting Office and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the State of Maine is responsible for the State's compliance with laws and regulations. In connection with our examination referred to above, we selected and tested transactions and records to determine the State's compliance with laws and regulations noncompliance with which could have a material effect on the component unit financial statements of the State.

The results of our tests indicate that for the transactions tested the State of Maine complied with those laws and regulations referred to above, except as described in the attached schedule. Those instances of noncompliance were considered by us in evaluating whether the component unit financial statements are presented fairly in conformity with generally accepted accounting principles. With respect to the transactions not tested, nothing came to our attention to indicate that the State of Maine had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

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

August 8, 1988

Schedule of Findings/Noncompliance with
Laws and Regulations Affecting the
Component Unit Financial Statements

Agency

Public Utilities Commission

1987 assessment
recorded in 1988
fiscal year

Fiscal year 1987 recorded revenues and receivables were understated and 1988 fiscal year revenues overstated by \$2,218,999.00 as an entry was not made in fiscal 1987 to record the May assessment made on each utility operating in the state.

35-A M.R.S.A. Section 116 requires the annual assessment to be levied prior to May 1st (at which time the revenue should be recognized) and utilities to pay the assessment on or before July 1st of each year. Assessment billings were mailed to the utilities within the required time frame, however the journal entry to record the billing was not prepared until July 23, 1987. We recommend that the assessment journal be prepared and recorded on a timely basis. Administrative personnel of the Public Utilities Commission concur with our recommendation.

Department of Professional
and Financial Regulation -
Bureau of Insurance

Late billing of assessments

Title 24-A, Section 237, Maine Revised Statutes Annotated of 1964, as amended, promulgates that "the expense of maintaining the Bureau of Insurance shall be assessed annually by the Superintendent of Insurance against all insurers licensed to do business in this State...." Other provisions in the applicable law state, in part, that "on or before April 20th of each year, the superintendent shall notify each insurer of the assessment due...and that "payment shall be made on or before June 1st."

A review of assessments levied on insurers in the 1986-87 fiscal year revealed that the notifications of total assessments due of \$752,748.00 were not forwarded to the respective insurers as of April 20th. This was apparently the result of ineffective scheduling of staff time on the part of bureau administrative personnel. Our review also disclosed that these assessments due were not established as taxes receivable as of the prescribed billing date and were not recognized on the records of the State Controller until the subsequent accounting period. This was apparently due, in part, to the untimely preparation of the assessment notifications. As a result, revenues and taxes receivable for the 1986-87 fiscal year were understated and the respective accounts for the 1987-88 fiscal year were overstated.

Schedule C
(Cont'd.)

We recommend that assessments be billed on or before April 20th of each year and that the assessments be recorded and recognized as taxes receivable/revenue at the date of billing in order to present fairly the financial position and results of the financial operations of the bureau. Administrative personnel of the Bureau of Insurance concur with the recommendation.

Action on Prior Year Recommendations Regarding the
Component Unit Financial Statements

Fiscal year 1986 audits were conducted on an agency by agency basis. Eighty of these audits were reviewed and the following findings noted:

<u>Area of Audit Finding</u>	<u>Number of Audits With Finding</u>
Capital Equipment	36
Travel Advances	16
Attendance and Leave Records	18
Vehicle Records	9
Cash Receipts/Deposits	30
Accounts Receivable Records	19
Prenumbered Receipts	6
Supplies Records	9
Petty Cash Records	9

In general these findings related to incorrect or untimely use or reconciliation of the referenced records and the findings did not have a material effect on the component unit financial statements. Similar conditions were noted during our current audit and are detailed in the relevant sections of our report.

Also, 5 M.R.S.A. Section 1621 requires that at least once in every 4 years an audit of the books of the state be made by auditors other than those employed by the State Department of Audit. Review of the outside auditors report for the 4 year period ending June 30, 1986 disclosed two broad areas of concern (understaffing in the Bureau of Accounts and Control and deficient accounting policies) that they believed resulted in more than a relatively low risk that errors or irregularities might occur that would be material in relation to the financial statements of the state. Their recommendations were as follows:

Understaffing in the Bureau of Accounts and Control

- Staffing requirements of the Bureau should be evaluated
- A new staff training program be started
- A comprehensive "Pre-audit Guide" be prepared

Deficient Accounting Policies

The state should convert from its present cash basis method of accounting to "Generally Accepted Accounting Principles"

These recommendations have received corrective attention to the extent that in 1988 the state entered into a multiyear contract with Price Waterhouse for design and implementation of a Financial and Administrative Systems Plan, which specifically includes a statewide accounting system that will allow G.A.A.P. requirements to be met.



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STATE AUDITOR

Auditor's Report on Compliance at the Federal

Financial Assistance Program Level (Major and Nonmajor Programs)

President of the Senate and the
Speaker of the House of Representatives

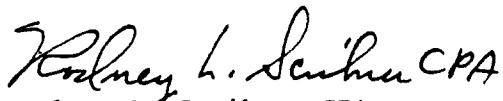
We have examined the component unit financial statements of the State of Maine oversight unit as of and for the year ended June 30, 1987, and have issued our qualified report thereon dated August 8, 1988. Our examination was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Standards for Audit of Governmental Organizations, Programs, Activities, and Functions, issued by the U.S. General Accounting office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the State of Maine is responsible for the State's compliance with laws and regulations. In connection with the examination referred to above, we selected and tested transactions and records from each major federal financial assistance program and certain nonmajor federal financial assistance programs. The purpose of our testing of transactions and records from those federal financial assistance programs was to obtain reasonable assurance that the State of Maine had, in all material respects, administered major programs, and executed the tested nonmajor program transactions, in compliance with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements; noncompliance with which we believe could have a material effect on the allowability of program expenditures.

Our testing of transactions and records selected from major federal financial assistance programs disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they relate are identified in the accompanying schedule of findings and questioned costs.

In our opinion, which is based, insofar as it relates to the Division of Community Services, on the report of other auditors, subject to the effect of the ultimate resolution of those instances of noncompliance referred to in the preceding paragraph, for the year ended June 30, 1987, the State of Maine administered each of its major federal financial assistance programs in compliance, in all material respects, with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

The results of our testing of transactions and records selected from nonmajor federal financial assistance programs indicate that for the transactions and records tested the State of Maine complied with the laws and regulations referred to in the second paragraph of our report, except as noted in the accompanying schedule of findings and questioned costs. Our testing was more limited than would be necessary to express an opinion on whether the State of Maine administered those programs in compliance in all material respects with those laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures; however, with respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the State of Maine had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

 CPA
Rodney L. Scribner CPA
State Auditor

August 8, 1988

Schedule of Compliance Findings and Questioned Costs
For the Year Ended June 30, 1987

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Defense and Veteran's Services</u>		
Disaster Assistance Program CFDA #83.516	The Federal Emergency Management Agency (FEMA) requires Financial Status Reports (SF269) and Federal Cash Transactions Reports (SF272) to be filed for each program, per OMB Circular A-102 Attachment H. Our examination disclosed that none of the required reports has been prepared and submitted.	Recommendation: We recommend that the aforementioned reports be prepared and submitted as soon as possible.
Status of federal funds has not been reported as required.		Auditee Response: Management concurred with our finding.
	Questioned Costs: None	
<u>Department of Education and Cultural Services</u>		
Maine Guaranteed Student Loan Program CFDA #84.032	As a result of a guaranty agency review of the Maine Department of Educational and Cultural Services (DECS) by the U.S. Department of Education, Region I, Office of Student Financial Assistance, questioned costs of (\$1,436,789.76) for administrative cost allowances was repaid to the federal government.	Recommendation: We recommend that the repaid costs be recovered from the U.S. Department of Education.
(1) Administrative cost disallowances, returned to the federal grantor agency, are allowable charges under the Maine Guaranteed Student Loan Program.	In reviewing the federal review report during our audit of fiscal year ended June 30, 1986, we determined that all but a small portion of the questioned amounts paid represented legitimate expenses of the State and that repayment should not have been made. Department personnel researched the questioned amount after receiving the 1986 audit report, and discovered an additional reimbursement of (\$258,604.00) to the federal government.	Auditee Response: Corrective action has been undertaken by management.
	Questioned Costs: (\$1,695,393.76)	
(2) Accounting system is inadequate, and does not provide accurate reports of activity.	A basic requirement of the four agreements between the U.S. Department of Education and the Department of Education and Cultural Services (DECS) concerning the Maine Guaranteed Student Loan Program is that the department maintain administrative and fiscal procedures as are necessary to insure proper and efficient administration of the program. During the audit of fiscal year ended June, 1986, findings were made concerning the inadequate accounting system for the Maine Guaranteed Student Loan Program (MGSLP). DECS has engaged the firm of Touche Ross to assist in developing an improved accounting system for the MGSLP, but as of the audit of the fiscal year ended June 30, 1987, no changes in the accounting system have been made.	Recommendation: We recommend that the review of the accounting system and of internal controls be completed and necessary changes be implemented.
<u>Prior year finding</u>		Auditee Response: Management concurred with our finding.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(2) Cont'd.	Improvement is needed to provide internal control, to provide an accurate representation of account and program activity, and to prevent the possibility of incurring unallowable costs.	
	Questioned Costs: None	
Department of Education and Cultural Services Division of Special Education		
Handicapped State Grant CFDA #84.027	Direct costs are those that can be identified specifically with a particular cost objective. Typical direct costs include compensation of employees for the time and efforts devoted specifically to the execution of grant programs. (OMB Circular A-87 Attachment A (E) (1). Our examination disclosed personnel costs being charged to the Handicapped State Grant for Division of Special Education employees who did not work exclusively for the grant program. No questioned cost can be determined due to the fact that no basis for allocation exists.	Recommendation: In order to comply with OMB Circular A-87, to fairly charge the federal program for personnel costs, and to prevent questioned costs, we recommend that a cost allocation plan be developed that would charge the Handicapped State Grant according to benefits received.
(1) Payroll costs are being improperly charged to Handicapped State Fund	A cost allocation plan is required to support the distribution of any joint costs related to the grant program. (OMB Circular A-87 Attachment A (J) (1)).	Auditee Response: Management concurred with our findings.
	Questioned Costs: None	
(2) Cash disbursed to Subrecipients is not based on need; no attempt is made to minimize federal cash on hand.	The Division of Special Education sends a list of subrecipient payees and amounts to the Department of Education and Cultural Services, Finance Division, for payment. The first payment is for 25% of the sub-grant award; equal monthly payments are made for the months of December through June. Cash requirements of subrecipients are not considered and no attempt is made to monitor subrecipient cash on hand.	Recommendation: In order to be assured of compliance with regulations governing use and management of federal cash (OMB Circular A-102, Attachment G, Section (e) and 34 CFR Section 74.61 (e) and Section 74.92) we recommend that an estimated cash flow statement for expenditures be submitted as part of the subrecipients' applications. More frequent reporting of expenditures is also recommended, as well as a provision to adjust cash payment amounts if surplus cash on hand is noted.
	Questioned Costs: None	Auditee Response: Management concurred with our finding.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(3) Administrative costs exceeded allowable limits.	<p>Federal regulations governing this program impose restrictions relative to the amount of administrative costs chargeable to the grant program (34CFR \$300.620).</p> <p>Comparison of the allowable versus actual administration costs revealed that the allowable maximum amount available was exceeded.</p> <p>Additionally, during the course of our examination it was determined that legal fees, which should have been recorded as administrative expenses, had been misclassified and recorded as supportive services. All legal fees are being questioned in this audit report as not having been equitably distributed and are not included in the above listed questioned cost. Had this not been the case, the amount questioned herein would have been greater due to misclassification of costs.</p> <p>Questioned Cost: \$23,981.68</p>	<p>Recommendation: We recommend that adequate controls be instituted to both properly monitor administrative costs and insure costs are properly classified.</p> <p>Auditee Response: Management concurred with our finding.</p>
(4) No control of capital assets purchased by sub-recipients is maintained.	<p>Anticipated purchases of capital assets by sub-recipients of Division of Special Education grants are detailed in grant applications, and total expenditures for capital asset acquisition are included in the annual report. However, the division relies on audits of sub-recipients to identify any deficiencies in the property management system, and to provide assurance that the provisions of OMB Circular A-102, Attachment N, are being implemented. The division does not maintain inventory records of capital equipment purchased with federal funds at the sub-recipient level.</p> <p>Questioned Costs: None</p>	<p>Recommendation: We recommend that the Division of Special Education establish and maintain inventory records of capital assets purchased with federal funds by sub-recipients and perform a periodic inventory of those assets.</p> <p>Auditee Response: Management concurred with our finding.</p>
<p>Department of Education and Cultural Services</p> <p>Chapter I - Education Consolidation and Improvement Act of 1981 (Educationally Deprived Children)</p> <p><u>CFDA #84.010</u></p>	<p>A local educational agency submitted a detailed budget to the Education Consolidation and Improvement Act (ECIA) office that included purchase of a file cabinet and a storage cabinet. Requests for materials, supplies and equipment must be approved by the ECIA office. Approval to purchase was denied but the storage cabinet was purchased and charged to the program.</p> <p>Questioned costs: \$580.00</p>	<p>Recommendation: We recommend that the ECIA office recover the cost of the disallowed expenditure.</p>
(1) A disapproved purchase was charged to the Chapter I grant program.		

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(2) Subrecipient agreements do not contain prohibitions against discrimination.	<p>Agreements between the Department of Education and Cultural Services (DECS) and sub-grantees of the Federal Compensatory Education Program provide no requirements for compliance with Title VI of the Civil Rights Act of 1964, with Executive Order #11375 (Equal Employment Opportunity), the Rehabilitation Act of 1973, or the Age Discrimination Act of 1975. Signed assurances were stated to be required of Local Educational Agencies (LEAS), but those assurances were not able to be found.</p>	<p>Recommendation: In order to prevent non-compliance with federal requirements, we recommend the inclusion of discrimination prohibitions in DECS sub-grant agreements.</p>
<p>Department of Educational and Cultural Services</p>	<p>Questioned Costs: None</p>	<p>Auditee Response: Corrective action has been implemented.</p>
<p>Food Distribution Program CFDA #10.550 The Department of Education and Cultural Services has not verified eligibility of recipient agencies. <u>Prior year finding</u></p>	<p>Distributing agencies are required to determine eligibility of recipient agencies, or recipients of donated food (7 CFR §250.6). Specifically, eligible recipient agencies are: school and school food authorities, charitable institutions, summer camps, state agencies, disaster organizations, state correctional institutions for minors, service institutions, nutrition programs and nutritional child care institutions.</p> <p>Other than a general statement of assurance of compliance with all requirements and regulations, which is included on the agreement between the distributing agency and the recipient agency, the distributing agency has not verified recipient eligibility. This could result in ineligible organizations receiving federal commodities.</p>	<p>Recommendation: We recommend that program officials obtain and review supporting documentation to verify recipient eligibility.</p> <p>Auditee Response: Corrective action has been undertaken.</p>
<p>Department of Education and Cultural Services <u>Various Federal Programs</u> Legal fees incurred by the Department are not distributed equitably.</p>	<p>With the exception of certain charges assessed the Vocational Technical Institute System, legal fees charged by the Attorney General's Office and miscellaneous attorney's expenses paid directly by the department are being recorded as federal program costs exclusively. Federal program charges are not based upon actual benefits received or provided to those programs or upon any cost allocation plan which equitably distributes costs to programs benefiting from the services rendered.</p>	

Program

Findings/Amount of Questioned Costs

Recommendation/Auditee Response

OMB Circular A-87 states that for a cost to be allowable under a grant program the cost must be necessary, reasonable and allocable thereto, to the extent of benefits received.

Questioned Costs: As the equitability of charges to Federal grant programs cannot be demonstrated or documented, all legal fees assessed the various Federal programs are being questioned, as follows:

<u>CFDA No.</u>	<u>Program</u>	<u>Amount</u>
10.560	State Administrative Expense for Child Nutrition	\$ 6,317.00
15.904	Historic Preservation Fund - Grants-in-Aid	3,142.00
84.004	Civil Rights Technical Assistance and Training	3,175.00
84.012	Educationally Deprived Children - State Administration	9,502.00
84.027	Handicapped - State Grants	41,343.70
84.032	Higher Education Act Insured Loans	8,608.00
84.048	Vocational Education - Basic Grants to States	<u>6,332.00</u>
	Total Questioned Costs	<u>\$78,419.70</u>

Recommendation:

We recommend that an allocation plan be developed and implemented whereby legal costs incurred may be distributed equitably to both the State and Federal programs which benefit from the services being provided.

Auditee Response:

Management concurred with our finding.

Maine Department of Transportation Highway Planning and Construction

CFDA #20.205

- (1) An overcharge of \$75.00 was made to the Federal Highway Administration through equipment usage charges.

The Location and Environment Division of the Maine Department of Transportation (MDOT) is responsible for establishing and adjusting usage rates for surveying equipment charged to the Federal Highway Administration (FHWA).

When entries in the Maine Department of Transportation's equipment usage log were compared with journal entries charging programs for equipment use, it was determined that the Federal Highway Administration had been overcharged \$75.00 for the period November 1, through December 31, 1986, as a result of human error.

Questioned Cost: \$75.00

Recommendation:

We recommend that the Maine Department of Transportation prepare a correcting journal entry to properly credit the FHWA projects for the usage fee overcharge.

Auditee Response:

Management concurred with our finding. A journal to properly credit the FHWA project for the usage fee overcharge has been prepared and is in process.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(2) Payments made to a consultant exceeded the contracted maximum of \$10,340.00 by \$20,184.68.	<p>In accordance with Federal Highway Administration and State Regulations, Maine Department of Transportation (MDOT) contracts require that any changes to the original terms be agreed to in writing and incorporated in a "supplemental agreement." This requirement was not followed in the case of a consultant on a relocation project. Payments exceeded the contracted maximum of \$10,340.00 by \$20,184.68. No supplemental agreement was written.</p> <p>Questioned Costs: \$20,184.68</p>	<p>Recommendation: We recommend that the MDOT institute procedures to monitor contract balances in order to prevent payments in amounts or for activities not in accordance with the terms of the agreement.</p> <p>Auditee Response: Management concurred with our finding. Corrective action has been implemented.</p>
(3) The Federal Highway Administration has been overbilled \$5,502.23 through equipment usage charges.	<p>The Location and Environment Division of the Maine Department of Transportation is responsible for establishing and adjusting usage rates on surveying equipment charges to the Federal Highway Administration. One piece of equipment was purchased for \$30,687.31 with state funds in June, 1981. The Federal Highway Administration (FHWA) agreed to contribute to the purchase through equipment usage charges.</p> <p>FHWA approved a method of determining charges based on the purchase price, plus the cost of maintenance agreements, divided by an eight-year useful life. That yearly figure was to be divided by an anticipated daily usage factor to determine a daily rental rate. The rate was to be charged to Federal and non-Federal projects based on actual usage, and a manual usage/charge record was to be maintained. The FHWA approved the above plan with the condition that the rate be recalculated and adjusted annually if necessary, to account for actual costs.</p> <p>Billings to the FHWA through usage charges totaled \$36,189.54, \$5,502.23 more than the purchase price of the equipment (Questioned Cost: \$5,502.23). The overcharge occurred because no one in the department is responsible for monitoring the equipment's balance.</p> <p>Questioned Costs: \$5,502.23</p>	<p>Recommendation: We recommend that the department analyze the current balances in the equipment account (adjusting for any charges/credits properly applicable to the balance) and credit the appropriate FHWA projects for usage charges in excess of the purchase price, if applicable. In addition, we recommend that the department assign the responsibilities of monitoring equipment usage balances to a specific individual who can inform management if any action is required.</p> <p>Auditee Response: Management concurred with our finding. A journal to properly credit the several FHWA projects for usage fee overcharge has been prepared and is in process. The FHWA-approved method of determining certain equipment charges based on the purchase price, plus cost of maintenance agreements, divided by the eight-year useful life is being closely monitored by a specific individual. In addition, this process is being terminated on the equipment remaining in the program and no new equipment will be purchased in this program.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<p>(4) The Maine Department of Transportation has no procedures in place to properly identify and accumulate education and training costs, to insure that only allowable costs are charged to federal programs.</p> <p><u>Prior year finding</u></p>	<p>Section 260.407 (b) of 23 CFR states, "Claims for Federal and reimbursement of costs incurred may be submitted following established procedures to cover 75 percent of the cost of tuition and direct educational expenses (including incidental training, equipment, and program materials) exclusive of travel, subsistence, or salary of trainees." The Maine Department of Transportation (MDOT) is not following established procedures to identify and accumulate education and training costs. As a result the Federal Highway Authority (FHWA) has been charged \$2,235.41 for unallowable salaries and travel costs associated with education and training. The lack of procedures that could provide adequate control over all MDOT training-related costs makes it impossible to provide assurance to the federal government that only eligible participating costs are being submitted for reimbursement. In addition, the state's share of training costs cannot be considered for budgeting and other planning needs due to the inaccurate and inconsistent methods being used to record them.</p> <p>Questioned Costs: \$2,235.41</p>	<p>Recommendation:</p> <p>In order to comply with the Federal-Aid Highway Program Manual and with 23 CFR §260.407, and in order to strengthen internal control, we recommend the following: (1) That MDOT credit the Federal Highway Administration projects \$2,235.41 for ineligible education and training costs, (2) that the MDOT Staff Development Co-ordinator advise personnel who attend education/training sessions as to proper coding of salary and expense vouchers, and (3) that MDOT advise all supervisors to review vouchers for proper coding before approving them.</p> <p>Auditee Response:</p> <p>Management concurred with our finding. Corrective action has been undertaken.</p>
<p>Department of Labor Bureau of Employment and Training Programs Job Training Partnership Act</p> <p><u>CFDA #17.250</u></p>	<p>(1) Excessive cash was on hand during the period of audit.</p> <p>Federal regulations require the establishment of procedures that will minimize the time elapsing between the receipt of advanced funds and disbursement 20 CFR Subpart C, Section 629.31(b). During the period of audit, there were large amounts of cash on hand for extended periods of time. For all but the first four months of the fiscal year, the average daily balance of cash on hand was approximately 10 times the average daily disbursements.</p> <p>In addition, the cash balances on the books of the Bureau of Employment and Training Programs were not reconciled to the State Controller's records.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the Bureau reconcile cash balances to the State Controller's records at least monthly and implement procedures to minimize the time elapsing between the receipt and disbursement of cash.</p> <p>Auditee Response:</p> <p>Management concurred with our finding.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(2) Large amounts of cash were held for extended periods of time by sub-grantees.	<p>Procedures must be in place to minimize the time elapsing between the receipt of advanced funds and disbursement, in accordance with 20 CFR, Subpart C, §629.31(b). A review of cash reports from sub-recipients and repayments from sub-recipients at program close-out revealed large sums of cash on hand.</p> <p>A lack of financial monitoring by the state administrative unit and the service delivery area may have contributed to the problem.</p> <p>Questioned Costs: None</p>	<p>Recommendation: We recommend that the Bureau of Employment and Training Program and the Service Delivery Area monitor the cash level of sub-recipients and verify that cash balances are kept to a minimum. Further, requests for other than a reasonable number of days' cash needs should not be approved.</p> <p>Auditee Response: Management concurred with our finding.</p>
(3) Statues of federal equipment cannot be determined.	<p>Section 629.41(a) of 20 CFR requires that personal or real property procured with JTPA funds or transferred from programs under the Comprehensive Employment and Training Act (CETA) must be used for authorized purposes. Section 692.41(b) states that the JTPA program must be reimbursed the fair market value of any unneeded property retained by the governor for use in a non-JTPA program, and that the proceeds from the sale of any property or transfer of property to a non-JTPA program must be used for authorized purposes.</p> <p>The status of items purchased with federal financial participation could not be determined (as required by OMB Circular A-102, Attachment N (2)(d)(i)(f)) as inventory records are incomplete.</p> <p>Questioned Costs: None</p>	<p>Recommendation: To comply with the federal requirements referenced above, we recommend that a physical inventory be taken. We also recommend that the Bureau of Employment and Training Programs do whatever research is necessary to identify non-expendable property purchased with JTPA funds, or transferred from CETA, to determine the present status of the property. Further, JTPA should be compensated for all equipment no longer being used in the program.</p> <p>Auditee Response: Management concurred with our finding but does not believe that the value of any items disposed of is significant.</p>
<p>(4) Capital equipment inventory records.</p> <p><u>Prior year finding</u></p>	<p>OMB Circular A-102, Attachment N (Property Management Standards) requires certain procedures to be included in a grantee's standards for non-expendable property. One requirement is the accurate maintenance of property records, including a description of the property, an identifying number (e.g., serial number), funding source, holder of title, acquisition date, percentage of Federal financial participation, location, use and condition of the property, unit acquisition cost and ultimate disposition data. Property records must be maintained for three years after disposition of the equipment (20 CFR §629.35(e)). Our examination disclosed that an accurate inventory of capital assets was unavailable for review.</p> <p>Questioned Costs: None</p>	<p>Recommendation: In order to properly account for, and exercise control over, assets purchased with federal funds, we recommend that a physical inventory be taken, and that it be reconciled to the records of the Bureau of Purchases and the State Controller. We further recommend that the inventory be verified on a periodic basis.</p> <p>Auditee Response: Management concurred with our finding.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(5) No system or method to ensure that auditors of sub-grantees are advised of JTPA financial and compliance requirements has been developed.	<p>The State Administrative Manual for the JTPA program requires that the recipients shall have financial and compliance audits of JTPA sub-recipients conducted in accordance with Section 164 of the Act and 20 CFR 629.42. Section 164 (a)(3) of P.L. 97-300 specifies that the audits be conducted in accordance with applicable auditing standards set forth in the financial and compliance element of the Standards for Audit of Governmental Organizations, Programs, Activities and Functions issued by the Comptroller General of the United States. Section 629.42(a) of 20 CFR States that at least once every two years, the State shall perform or have performed, on a timely basis, independent financial and compliance audits of the Title II and III funds received by the State and shall be responsible for assuring that audit requirements are met with respect to Private Industry Councils, Service Delivery Area grant recipients, and other sub-recipients receiving Title II and III funds throughout the State.</p> <p>As the state designee, the Bureau of Employment and Training Programs is to provide a method of insuring that auditors are advised of JTPA program financial and compliance requirements. There have been no procedures developed to insure that sub-grantees are aware of audit standards or that sub-grantees inform their auditors about financial and compliance requirements.</p> <p>Questioned Costs: None</p>	<p>Recommendation: In order to assure complete audits, and be certain that the bureau is in compliance with PL 97-300, Section (a)(3) and 20 CFR §629.42(a), we recommend that the bureau develop guidelines to assist sub-recipients in preparing requests for proposals for audit services.</p> <p>Auditee Response: Management responded that corrective action has been undertaken.</p>
(6) Excess cash is being maintained in the Direct Delivery Unit participant payroll clearing account.	<p>The state is required to establish procedures that will minimize the time elapsing between the receipt of advanced federal funds and the disbursement of these funds (20 CFR 629.31(b). On June 30, 1987, the reconciled balance of a payroll clearing account was \$50,621.01, which amount exceeded double the total disbursements from the account for the month of June, 1987.</p> <p>Funds deposited should be for the minimum amount required to meet immediate payroll needs.</p> <p>Questioned Costs: None</p>	<p>Recommendation: We recommend that procedures be established whereby only minimum cash balances are maintained.</p> <p>Auditee Response: Management responded that corrective action has been undertaken.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<p>Department of Human Services Child Care Food Program <u>CFDA #10.558</u></p>		
<p>(1) One service provider was reimbursed for unapproved costs.</p>	<p>During the fiscal year ended June 30, 1987, a local service provider submitted charges, and was reimbursed, for a meal type not approved in its annual agreement. The cost is allowable only if included in the agreement, per 7 CFR §226.11.</p> <p>Charges are submitted to the Department of Human Services (DHS) via monthly claim forms. On these forms, the provider submitted a total of \$12,629.57 for the period September 1, 1986 - May 30, 1987 for meal reimbursements, when only \$7,898.71 was allowed. DHS discovered the error during a supervisory review in fiscal year ended June 30, 1988, and issued approval of the meal type retroactive to October 1, 1987; however, the agreement and claim forms for fiscal year ended June 30, 1987, were not revised.</p> <p>Questioned Costs: \$4,730.86</p>	<p>Recommendation: We recommend that the department recover the questioned amount from the sub-recipient.</p> <p>Auditee Response: Management concurred with our finding.</p>
<p>(2) The Department of Human Services does not require participating child care facilities to submit certain required information in their annual agreement.</p>	<p>As a minimum, the application approval process for child care centers shall include submission of current eligibility information on enrolled children (7 CFR §226.6(b)). Sponsoring organizations must provide assurances that children enrolled in the program are eligible for free or reduced-price meals.</p> <p>The Department of Human Services does not require such submission or assurances.</p> <p>Questioned Costs: None</p>	<p>Recommendation: In order to comply with 7 CFR §226.6 (b)(2) and (3), we recommend that the department require child care organizations to submit required documentation as part of the application approval process.</p> <p>Auditee Response: Management stated that they did not feel this information was required to be submitted with the annual agreement and that this information is reviewed on site as part of their supervisory review.</p>
<p>(3) The status of an uncollected \$1,986.00 audit settlement is uncertain.</p>	<p>The Bureau of Social Services Child Care Food Program Policy Manual, Section V(E)(9) states that any amount due to the Department of Human Services (DHS) from an agency as a result of audit shall be paid immediately unless it is contested and an appeal is registered. A test of audit settlement amounts revealed that an amount of \$1,986.00, disallowed at a sub-recipient agency in February, 1987, had not been repaid to the department. It was subsequently discovered that the agency, which is no longer in business, had filed an appeal of the disallowance. This information was, however, not readily available.</p> <p>Questioned Costs: \$1,986.00</p>	<p>Recommendation: In order to recoup funds due the department, we recommend that the status of audit settlement charges be determined and maintained, and that the department make a concerted effort to recoup funds due.</p> <p>Auditee Response: Management responded that the finding would be researched.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<p>Department of Human Services</p> <p>Title IV-E Foster Care</p> <p><u>CFDA #13.658</u></p>	<p>Maine statutes and 45 CFR §1355 require that a home be licensed to receive foster care payments (MRSA 5 Chapter 1669 §8101). A test of payments made revealed a payment of \$162.08 to an unlicensed home. Routine on-site monitoring is not performed frequently enough to have disclosed the problem.</p> <p>Questioned Costs: \$162.08</p>	<p>Recommendation:</p> <p>To ensure compliance with state regulations, we recommend the use of a system of tracking licensure, which can be reviewed between on-site monitoring visits.</p> <p>Auditee Response:</p> <p>Corrective action has been implemented.</p>
<p>Department of Human Services</p> <p>Medical Assistance Program (Medicaid)</p> <p><u>CFIA #13.714</u></p>	<p>(1) The Bureau of Medical Services does not properly record durable medical equipment and does not recover the equipment when the equipment is no longer being used.</p> <p>In accordance with Medicaid procedures, the Medical Services Bureau furnishes durable medical equipment to qualified recipients. The equipment so purchased is not being inventoried nor is it being recovered for reuse when no longer needed by the individual for whom it was originally acquired.</p> <p>45 CFR is very specific regarding management, use and disposition of equipment purchased with federal funds. Subpart G, §95.707(a) requires equipment that is (totally) claimed in the period acquired, and is accepted for Federal financial participation as a direct cost under a single program or program activity, to be subject to property rules in Subpart O of 45 CFR §74. That section describes procedures for managing equipment which requires the accurate maintenance of property records (including: a description of the equipment, identification number, the grant under which the equipment was acquired, information needed to calculate the federal share of the equipment, the acquisition date and cost of the equipment, the location, use and condition of the equipment and the date such information was reported, and all pertinent information on the ultimate transfer, replacement, or disposition of the equipment). In addition, §74.140 requires a physical inventory reconciled to the records every two years, a control system which will insure safeguards against loss, damage or theft, procedures to keep the equipment in good condition, and disposition procedures that will provide for competition to the extent practicable and result in the highest possible return.</p>	<p>Recommendation:</p> <p>As Medicaid program assets are not being properly recorded or safeguarded, and federal financial participation is not being reimbursed, we recommend that the Bureau of Medical Services comply with 45 CFR by developing and maintaining an inventory system for durable medical equipment.</p> <p>Auditee Response:</p> <p>Management concurred with our finding.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(2) Cont'd.	<p>The Bureau of Medical Services is not in compliance with any of the above. Sections 74.137-139 state that if the equipment is no longer needed for the original project or program, the recipient shall use the equipment (if needed) in other projects or programs, or may sell the equipment and remit the amount due in accordance with the degree of federal financial participation or, with the approval of the granting agency, use the net amount for allowable costs of the project or program.</p> <p>Questioned Costs: None</p>	
(2) Capital equipment purchased with federal funds is not consistently identified.	<p>Equipment records for those capital items purchased with federal funds must be maintained in a fashion whereby items are identified as having been purchased with federal monies together with the applicable percentage of Federal Financial Participation (FFP) (45 CFR, Subpart O, §74.140(a)). When no longer needed, disposal of capital assets requires grantor agency approval and reimbursement to the grantor agency of an amount equal to the original participation rate times the disposal price. Examination of inventory records disclosed that information relative to the identification of assets purchased with federal funds and the appropriate FFP is not being maintained.</p> <p>Questioned Costs: None</p>	<p>Recommendation: We recommend that equipment inventories be reviewed and corrected, where necessary, to include identifying information mandated by Federal Regulations.</p> <p>Auditee Response: Management concurred with our finding.</p>
(3) Medicaid provider files have not been well maintained.	<p>The state plan must provide for an agreement between the Medicaid agency and Medicaid providers which specifies record-keeping and disclosure requirements of the providers (42 CFR, Subpart C, §431.107(b)).</p> <p>Of a sample of 21 Medicaid provider files chosen at random for a detailed review, signed agreements could not be located in 10 files.</p> <p>Questioned Costs: None</p>	<p>Recommendation: In order to be able to document that the required agreements are present, we recommend that the filing system be overhauled, insuring the separation of agreements and related documents (rate calculations, licensing forms, etc.) from records of billing adjustments and other correspondence. In addition, we recommend that the Division consider implementing agreement termination dates to insure that updated information is being provided at renewal.</p>
<p>Department of Human Services</p> <p>Title IV-D: Child Support Enforcement Program</p> <p>CFDA #13.783</p> <p>(1) An invoice that included a duplicate charge was approved and paid.</p>	<p>Charges from the Office of the Sheriff for delivering a Notice of Support Debt and Demand for Payment were included twice in an invoice approved by the Bangor Child Support Enforcement regional office. This appears to be an isolated incident, the result of human error.</p> <p>Questioned Costs: \$29.83</p>	<p>Recommendation: We recommend that the regional office recover the inadvertent overpayment.</p> <p>Auditee Response: Management concurred with our finding.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(2) An incorrect amount was reported on the 9/30/86 report of administrative expenses for the Support Enforcement Location Unit	<p>Due to human error, an incorrect figure was transferred from the support schedule "Distribution of Legal Services" to the Support Enforcement Location Unit's Schedule 7 (Administrative expenses), and was reported to the U.S. Department of Health and Human Services.</p> <p>The amount charged was 63.39% of the total of \$156,077.17 for legal services, rather than 13.01%. In addition, a 5.6% indirect charge was computed using the incorrect distribution.</p> <p>Questioned Costs: \$83,035.06</p>	<p>Recommendation: We recommend that an adjustment to figures reported to the federal grantor agency be prepared and submitted.</p> <p>Auditee Response: Management concurred with our finding.</p>
(3) There is a significant backlog of paternity cases waiting for legal action.	<p>Section 302.31 of 45 CFR requires that paternity be established for a child born out of wedlock for whom there is an assignment in effect or for whom there is an application for child support services. The state has established procedures to determine paternity and is following those procedures.</p> <p>A test sample of 25 paternity cases revealed, however, that there is a backlog of cases awaiting legal action. Some have been pending for extended periods of time (e.g., two cases, referred to the Assistant Attorney General's office in 1981 and 1982, were returned to the regional offices for updating on June 7, 1988. No legal action had been taken).</p> <p>A similar finding in the U.S. Department of Health and Human Services, Office of Child Support Enforcement (OCSE), Adult Division Report No. ME-85-PR (Oct. 1, 1984 - Sept. 30, 1985) led to re-assigning enforcement agents to handle paternity cases exclusively.</p> <p>Questioned Costs: None</p>	<p>Recommendation: As a backlog still exists, we recommend that legal action be taken as soon as the cases are updated. We further recommend that the division monitor the status of cases referred for legal action to be certain of being in "substantial compliance" with OCSE standards.</p> <p>Auditee Response: Corrective measures have been undertaken.</p>
<p>Department of Human Services Alcohol & Drug Abuse Block Grant</p> <p><u>CFDA #13.992</u></p>	<p>An agreement for Special Services was executed on Sept. 23, 1986 with a termination date of Dec. 12, 1986.</p> <p>Examination of the contract revealed that no description of the services to be rendered was included. Consequently, the allowability of the charges incurred cannot be determined.</p> <p>Questioned Costs: \$170.00</p>	<p>Recommendation: We recommend that future contracts and agreements stipulate the services being provided in order to facilitate a determination of the allowability of the cost(s) incurred.</p> <p>Auditee Response: Management concurred with our finding.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(2) Drawdowns of federal cash exceed immediate cash needs. <u>Prior year finding</u>	<p>A test of cash drawdowns, expenditures and average daily cash balances revealed excess federal cash on hand. There was a 6½ - day supply of cash on hand in July 1, 1986, rising to a 92 - day supply in September, 1986 and dropping to a 5½ - day supply in November, 1986. Drawdowns were not based on immediate cash needs, but were requested in large amounts in August and September, 1986, and used in the following months.</p> <p>OMB Circular A-102, Attachment G, requires the financial management system of federal grant-supported activities to provide procedures to minimize the time elapsing between receipt and disbursement of federal funds. Section 2(e) requires the grantee to make drawdowns from the U.S. Treasury as close as possible to the time of making the disbursements.</p> <p>Questioned Costs: None</p>	<p>Recommendation: In order to be in compliance with federal regulations and to provide control of cash, we recommend that the Department of Human Services implement a system whereby cash is requested to meet immediate needs only.</p> <p>Auditee Response: Corrective action has been undertaken.</p>
(3) Program income was not properly accounted for.	<p>Program income was generated during the grant period from training fees earned through seminars presented by the Office of Alcohol and Drug Abuse Prevention. Fees of \$100.00 for registration and \$480.00 for tuition were recorded in special revenue accounts. The funds have not been recorded to the block grant account in accordance with Attachment E of OMB Circular A-102.</p> <p>Questioned Costs: \$580.00</p>	<p>Recommendation: We recommend that the federal share of program income generated through training fees be recorded to the applicable block grant accounts.</p> <p>Auditee Response: Management concurred with our finding.</p>
<p>Department of Human Services Div. of Maternal and Child Health Services Block Grant <u>CFDA #13.994</u></p> <p>Program income is not being strictly assessed, adequately accounted for or immediately deposited.</p>	<p>"Well Child" clinics are funded, in part, by the Maternal and Child Health Services Block Grant. Services are provided free of charge to eligible families and a sliding fee scale is used for people over the income guideline. These fees, however, are treated as donations by clinic staff (i.e. families over the income guidelines are invited to pay what they feel they can afford), and are collected anonymously in donation boxes.</p> <p>The donations collected are coded as miscellaneous income. The donations are, in fact, program income according to OMB Circular A-102, Attachment E (1).</p>	

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>CFDA #13.994 (Cont'd.)</u>	<p>Attachment E (5)(a-c) requires that all program income earned during the grant period be "added to funds committed to the project by the grantor and grantee and be used to further eligible program objectives, used to finance the non-Federal share of the project when approved by the Federal Sponsoring Agency, or deducted from the total project costs for the purpose of determining the net costs on which the Federal share of costs will be based." The treatment given to "Well Child Clinic" donations is not in compliance with the above sections of OMB Circular 102.</p>	<p>Recommendation: To better control the assessing/accounting for/processing of fees collected and to comply with OMB Circular A-102 and the State of Maine Manual of Financial Procedures, we recommend: (1) that fees for "Well Child Clinic" services be strictly assessed (2) that the federal share of program income generated by the clinics be reflected in the accounting records as a credit to program expenditures, and (3) that program income be immediately deposited into the State Treasury.</p>
	<p>Additionally, the collected donations are forwarded on a monthly basis to the Division of Public Health Nursing where they are kept in a locked strong box and are sent to the Department of Human Services cashier about once a month. Section 38.1 of the State of Maine Manual of Financial Procedures states that funds collected for the use of any state department or agency, shall be paid immediately into the State Treasury. OMB Circular A-102, Attachment G 2(b) requires effective control over and accountability for all funds, property and other assets. Grantees are required to safeguard all such assets and assure that they are used solely for authorized purposes.</p>	<p>Auditee Response: Management concurred with our finding.</p>
	Questioned Costs: None	
Department of Human Services (DHS)		
Social Services, Block Grant		
CFDA #13.667		
Alcohol and Drug Abuse and Mental Health Services	<p>OMB Circular A-110, Attachment F, Section (h), requires that an audit be performed "usually annually, but not less frequently than every two years." As of July, 1988, two sub-recipients of the Social Services Block Grant/the Alcohol and Drug Abuse and/or Mental Health Services Block Grant, and one sub-recipient of the Maternal and Child Health Services Block Grant had not been audited for the fiscal year ended June 30, 1986.</p>	<p>Recommendation: We recommend that the audits be completed as quickly as possible to comply with regulations and to verify the financial records of the sub-recipients.</p>
CFDA #13.992		
Maternal and Child Health Services Block Grant	Questioned Costs: None	<p>Auditee Response: Management does not concur with our finding.</p>
<u>CFDA #13.994</u>		
Three block grant sub-recipients have not been audited for the fiscal year ended June 30, 1986.		

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services		
Aid to Families with Dependent Children (AFDC)	A review of payroll records revealed erroneous allocations to three federal programs: Aid to Families with Dependent Children (AFDC), the Medical Assistance Program (Medicaid) and the Food Stamp (FS) program. The errors occurred through the use of AFDS/FS appropriation activity numbers for Medicaid employees and vice-versa.	Recommendation: In order to insure compliance with federal regulations, we recommend that the department correct the appropriation activity codes used to allocate payroll costs to federal programs.
CFDA #13.780		
Medical Assistance Program (Medicaid)		Auditee Response: Management concurred with our finding but feels that additional research is required to determine the full extent of the problem.
CFDA #13.714		
Payroll charges have been incorrectly allocated.	Payroll allocation to federal programs are allowable only in relationship to employees' time and effort devoted specifically to those programs (OMB Circular A-87, Attachment E, 1).	
	Questioned Costs: None	
Department of Human Services		
Rehabilitation Services - Basic Support	For fiscal years 1986 and 1987, indirect costs charged to the program have been inflated due to the use of an incorrect method of computation. In our audit report for fiscal year 1986 we questioned costs in the amount of \$23,374.00. This amount has been challenged by the department as also having been incorrectly calculated.	Recommendation: We recommend that the recalculated indirect cost charges and future indirect cost calculations be subjected to supervisory review to insure their propriety.
CFDA #84.126		
Indirect costs were computed incorrectly.		Auditee Response: Corrective action has been undertaken.
Prior year finding		
	Due to the complexities involved coupled with the fact that the department is currently in the process of recomputing indirect cost charges for fiscal years 1986, 1987 and 1988 which will be reflected in subsequent federal financial reports, no costs will be questioned herein.	
	Questioned Costs: None	
Office of Energy Resources Petroleum Violation		
Escrow (PVE)/Exxon Funds	The amendment to the Memorandum of Understanding between the Office of Energy Resources (O.E.R.) and Exxon Fund sub-recipients states that obligations and responsibilities of sub-recipients include assurances that minimum time elapses between request and disbursement of Federal funds, and that an interest-bearing account is used for Exxon funds.	Recommendation: We recommend that O.E.R. enforce the terms of the agreement that require agencies to minimize program cash on hand. We further recommend that cash transfers be compared routinely to reported program expenditures to determine whether sub-recipients are maintaining excessive cash balances.
Cash balances at sub-recipient agencies exceed the amount needed to meet immediate cash needs.	O.E.R. does not, however, enforce the above requirement. No evidence of cash need is required before funds are transferred to the sub-recipients. Consequently, as of December 30, 1987, monies that could be generating income remain in non-interest-bearing accounts.	Auditee Response: Corrective measures have been undertaken.
	Questioned Costs: None	

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<p>Department of Human Services</p> <p>Special Supplemental Program for Women, Infants and Children (WIC)</p>	<p>The WIC office routinely requests federal funds for two purposes, food costs and administrative expenses. A fixed amount per week is drawn down for food costs, based on a weekly average over six months of the previous year. Administrative funds are requested bi-weekly based on program payroll needs, local agency's monthly expense reports and the state agency's cash requirements as determined by the finance division of the Department of Human Services (DHS).</p>	<p>Recommendation:</p> <p>We recommend that the WIC office prepare more accurate estimates of cash requirements and review cash balances before requesting additional federal funds.</p>
<p>CFDA #10.557</p> <p>(1) Excess cash is being maintained.</p>	<p>Examination of the state controller's records for receipts and disbursements for July, 1986 through December, 1986, disclosed an increase of cash on hand from 2.4 days' supply in July, 1986 to 16.5 days' supply in December, 1986.</p>	<p>Auditee Response:</p> <p>Management concurred with our finding.</p>
<p>(2) Agreements between the Department of Human Services and local agencies do not address the need for or qualifications of, "competent professional authority."</p>	<p>OMB Circular A-102, Attachment G, requires that a financial management system of federal grant-supported activities of the state provide procedures to minimize the time elapsing between transfer of funds from the U.S. Treasury and disbursement by the grantee. Section 2(e) requires drawdowns to be made as close as possible to the time of making disbursements.</p> <p>Questioned Costs: None</p> <p>It is the responsibility of the Department of Human Services (DHS) to ensure that local programs providers have a competent professional authority on staff (7 CFR §246.6). A "competent professional authority" is an individual on the staff of the local agency authorized to determine nutritional risk and prescribe supplemental foods. The following persons are the <u>only</u> persons the State agency may authorize to serve as a competent professional authority: physicians, nutritionists (bachelor's or master's degree in Nutritional Services, Community Nutrition, Clinical Nutrition, Dietetics, Public Health Nutrition or Home Economics with emphasis in Nutrition), dietitians, registered nurses, physician's assistants (certified by the National Committee on Certification of physician's assistants or certified by the State medical certifying authority), or State or local medically trained health officials (7 CFR §246.2).</p>	<p>Recommendation:</p> <p>We recommend that D.H.S. require local agencies to include qualifications of their competent professional authority as part of the annual agreement.</p> <p>Auditee Response:</p> <p>Management does not concur with our interpretation of regulations cited.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
(2) Cont'd.	<p>There is no requirement in agreements between the department and local agencies that the agencies employ competent professional authorities.</p> <p>Questioned Costs: None</p>	
<u>Department of Administration</u>		
Bureau of Public Improvements		
<u>All Federal Programs</u>		
State procurement policies do not comply with Federal criteria.	<p>Procurement standards for the purchase of items with federal funds are delineated in OMB Circular A-102, Attachment O. Our examination disclosed that the State Bureau of Public Improvements has no provisions in its policies and procedures to insure compliance with the following sections of the aforementioned circular:</p> <ol style="list-style-type: none"> 1. Section 9 - which provides affirmative action steps to assure that small and minority businesses are afforded an opportunity to participate in contract awards. 2. Section 13H - which requires that a provision stating that the Federal grantor agency, the Comptroller General of the U.S., or any of their duly authorized representatives, shall have access to any books, documents, papers and records of the contractor which are pertinent to the contract shall be contained in the contract agreement. <p>Questioned Cost: None</p>	<p>Recommendation: We recommend that the Bureau of Public Improvements provide for the foregoing in future transactions which involve federal financial participation.</p> <p>Auditee Response: Managment concurred with our finding.</p>

SUMMARY OF THE REPORTS OF OTHER AUDITORS

The report of other auditors of the Maine Executive Department, Division of Community Services disclosed instances of non-compliance. Following is a summary of the instances of non-compliance contained in their report for the period October 1, 1985 to June 30, 1987.

All Federal Programs:

1. Inadequate practices and procedures have been used relative to the oversight, monitoring and assessment of sub-recipients.
2. Practices and procedures to collect questioned costs and to evaluate corrective measures taken as a result of sub-recipient audit findings are inadequate.

Community Services Block Grant - CFDA #13.792

An inappropriate basis for determining funding allocations to sub-recipients is being used.

Low Income Home Energy Assistance Program - CFDA #13.789

1. Required federal grantor agency reports have not been submitted in a timely manner.
2. An improper allocation percentage was used to determine amounts available for weatherization purposes.

Temporary Emergency Food Assistance Program - CFDA #10.568

Required federal grantor agency reports have not been submitted in a timely manner.

Weatherization Assistance for Low Income Persons - CFDA #81.042

1. Record retention requirements have not been satisfied.
2. Sub-recipient requests for budget revisions have not always received written responses.
3. Required federal grantor agency reports have not been submitted in a timely manner.

Management's Response

Management concurred with the findings reported and has indicated that corrective measures have been undertaken.

Action on Prior Year Recommendations -
Federal Financial Assistance Programs

Fiscal year 1986 Audits were conducted on an agency by agency basis. Consequently, the threshold for major/non-major program classification was significantly lower than that established for the Fiscal Year 1987 Statewide Audit. Materiality levels upon which individual Findings and Recommendations were based were also significantly reduced.

A review of all prior Findings and Recommendations applicable to Federal Financial Assistance Programs was conducted. The most prevalent issues noted among the agencies audited were as follows:

1. Excessive cash balance being maintained;
2. Inadequate capital equipment inventories;
3. Untimely submission of required federal reports.

Fiscal Year 1986 Findings and Recommendations which have not received favorable action have been restated in this audit report and are duly noted. The remainder have either been resolved, have had corrective measures instituted, or are being negotiated with the appropriate grantor agency.