STATE OF MAINE

SINGLE AUDIT REPORT

FISCAL YEAR ENDED JUNE 30, 1992

State Department of Audit
Rodney L. Scribner, CPA
State Auditor

State of Maine

Single Audit Report

Fiscal Year Ended June 30, 1992

Prepared by

State Department of Audit

Rodney L. Scribner, CPA, State Auditor

STATE OF MAINE

SINGLE AUDIT REPORT

FOR THE YEAR ENDED

JUNE 30, 1992

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Letter of Transmittal

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

Ms. Barbara A. Bennett
Director, National Review Center
U.S. Department of Health and Human Services

We are pleased to submit the sixth Single Audit of the State of Maine, covering the fiscal year ended June 30, 1992.

We conducted the audit pursuant to Title 5 MRSA, Chapter 11 which authorizes the State Department of Audit:

> To perform a postaudit of all accounts and other financial records of the state government or any department or agency thereof, including the Judiciary and the Executive Department of the Governor, except the Governor's expense account, and to report annually on this audit, and at such other times as the Legislature may require.

The state expended $1.054 billion in federal financial assistance. The audit was conducted to meet the requirements of the Single Audit Act of 1984, authorized under the United States Code, USC 31, Chapter 75 and the regulations established by the U.S. Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments."

The objectives of the audit were:

- To examine the state's financial statements and determine if they were presented fairly and in accordance with generally accepted accounting principles;

- To assess whether the state's systems and procedures for financial accounting, reporting and internal controls were adequate;

- To assess the state's accountability for revenues; to determine the propriety of expenditures, the extent to which funds have been expended in accordance with prescribed state and federal laws and regulations; and to examine the state's compliance with federal regulations pertaining to financial reports and claims for reimbursements; and

- To recommend corrective actions for any deficiencies noted; and to include management's responses to our findings and recommendations.

The State of Maine's accounting system and procedures, internal control, and compliance with rules and regulations have certain weaknesses which we have included in the following reports:

- Reports on Compliance and Internal Controls - include those audit findings which, in our opinion, represent material weaknesses. There are two findings which identify material weaknesses in internal control; these can be found on pages 65 and 71; one that affects compliance with state laws and regulations is on page 94.

- Schedule of Reportable Conditions - includes those audit findings which we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. The fifteen reportable conditions begin on page 75.

- Schedule of Findings and Questioned Costs - includes eighty findings which resulted from our review of the federal programs administered by the State of Maine. These findings begin on page 105.

- Management Letter - includes one hundred audit findings designed to strengthen internal controls and operating efficiencies that affect many state agencies. These findings begin on page 189.

We again must render a qualified opinion on the state's financial statements because the state does not record certain accruals as required by generally accepted accounting principles.

In addition, we do not express an opinion on the General Fixed Assets Account Group (GFAAG) because the state's accounting records for GFAAG are incomplete.

I commend the staff of the Department of Audit, whose professionalism and dedication made the preparation of this report possible. Through our efforts, and the ongoing cooperation of the Maine Department of Administrative and Financial Services and other state agencies, we will continue to provide financial information that serves the needs of governmental decision makers, federal regulators, credit rating agencies, financial institutions and interested citizens of Maine.

We would be pleased to respond to any of your questions or comments about the 1992 Single Audit Report.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

September 14, 1993

Component Unit Financial Statements

STATE OF MAINE
DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
AUGUSTA, MAINE 04333

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Tel. 287-2201
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report

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

We have audited the accompanying component unit financial statements of the State of Maine oversight unit, as of and for the year ended June 30, 1992, as listed in the table of contents. These component unit financial statements are the responsibility of the State of Maine, primary government's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

Except as discussed in the second succeeding paragraph, we conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of Office of Management and Budget Circular A-128, "Audits of State and Local Governments." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the financial activities of the primary government. Financial activities of other component units that form the reporting entity, as identified in Note 1A, are not included.

The state does not have complete financial records to support the amounts included in its General Fixed Assets Account Group. Accordingly, we were not able to satisfy ourselves about the amounts at which land, buildings, and equipment and investment in general fixed assets are recorded in the accompanying financial statements (stated at $364 million).

The state records certain revenues from federal grants as funds are received that, in our opinion, should be recorded when the grant-related expenses are incurred. The effects of this practice on Special Revenue Fund amounts due from other governments and fund balance, as of June 30, 1992, and on Special Revenue Fund revenues for the year then ended are not reasonably determinable.

In our opinion, except for the effects on the component unit financial statements of the matters discussed in the first preceding paragraph, the component unit financial statements referred to above present fairly the financial position of the State of Maine, primary government, as of June 30, 1992, and the results of its operations and the cash flows of its proprietary and similar trust fund types for the year then ended, in conformity with generally accepted accounting principles. For the reason discussed in the fourth paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the General Fixed Assets Account Group.

As described in Note 20 to the financial statements, certain fund balances have been restated.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 16, 1993
(Except for note 21,
as to which the date
is August 24, 1993)

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STATE OF MAINE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 1992
(Dollars in Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Equity in treasurer's cash pool (Note 4)	$ (35,542)	$ 96,813	$ 228	$ 3,140
Cash with fiscal agent	5,361	860	322	
Cash - other (Note 4)	95	1,844		
Deposits with U.S. Treasury (Note 4)				
Investments (Note 4)				41,815
Receivables (net of allowances for uncollectibles)				
Taxes	79,272	3,776		
Accounts	13,989	7,534		
Notes				
Loans		4		
Accrued interest				
Pension contributions				
Due from other funds (Note 17)	6,404	6,418		
Due from other governments (Note 7)		49,248		
Advances to other funds (Note 17)	2,846	13,182		
Inventories				
Other assets	12	130		
Restricted assets (Note 1E) (Note 4)				7,172
Land, buildings and equipment (Note 9)				
Accumulated depreciation (Note 9)				
Amount available in debt service funds				
Amount to be provided for retirement of general long-term debt				
Total Assets and Other Debits	$ 72,437	$ 179,809	$ 550	$ 52,127
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts payable	$ 43,121	$ 68,658	$	$ 1,578
Accrued payroll	14,160	14,822		
Lease purchase payable (Note 13)				
Workers' compensation benefits payable	2,682	2,488		
Compensated absences payable				
Tax refunds payable	10,302			
Other liabilities	3,572	74		
Due to other funds (Note 17)	13,195	11,543		
Due to other governments (Note 1E)				
Due to program participants and providers				
Deferred revenue (Note 1F)	88,964			
Advances payable (Note 17)		600		
Matured bonds payable			215	
Matured interest payable			107	
Certificates of participation payable (Note 14)				
Pension contributions payable (Note 1F)				
Bonds payable (Note 15)				
Total Liabilities	175,996	98,185	322	1,578
Fund Equity and Other Credits:				
Contributed capital				
Investment in general fixed assets (Note 9)				
Retained earnings (deficit) (Note 2)				
Fund Balances:				
Reserved for encumbrances	14,464	31,220		35,338
Reserved for retirement contributions				
Reserved for advances	2,846	13,182		
Reserved for group life insurance				
Reserved for Rainy Day Fund	756			
Reserved for other purposes	4,178	34		
Unreserved:				
Designated for subsequent year expenditures		37,188		15,211
Designated for debt service			228	
Undesignated	(125,803)			
Total Fund Equity and Other Credits	(103,559)	81,624	228	50,549
Total Liabilities, Fund Equity and Other Credits	$ 72,437	$ 179,809	$ 550	$ 52,127

The notes to the financial statements are an integral part of this statement.

Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long-Term Debt	Total (Memorandum Only)
$ 5,372	$ 12,926	$ 105,091	$	$	$ 188,028
					6,543
967	4	922			3,832
		36,420			36,420
		2,177,240			2,219,055
					83,048
3,288	260	32,100			57,171
41					41
6,836	392	37			7,269
	116	6,097			6,213
		103,975			103,975
1,757	12,217	104			26,900
					49,248
					16,028
4,857	6,240				11,097
1,214	251	547			2,154
	1,231	32,107			40,510
44,764	83,405	4,695	363,992		496,856
(13,472)	(47,247)	(393)			(61,112)
				228	228
				663,652	663,652
$ 55,624	$ 69,795	$ 2,498,942	$ 363,992	$ 663,880	$ 3,957,156
$ 8,173	$ 9,346	$ 31,864	$	$	$ 162,740
584	902	194		2,166	32,828
	196			18,110	18,306
2,000	1,510	335		86,124	95,139
461	1,336	143		25,137	27,077
					10,302
1,205	813	5,734			11,398
2,073	64	25			26,900
	1,084				1,084
		180,741			180,741
414	843				90,221
2,075	13,353				16,028
					215
					107
	16,943			15,670	32,613
				86,993	86,993
				429,680	429,680
16,985	46,390	219,036	-	663,880	1,222,372
36,699	5,001				41,700
			363,992		363,992
1,256	18,404	800			20,460
					81,022
		2,182,104			2,182,104
					16,028
		23,662			23,662
					756
684					4,896
					52,399
					228
		73,340			(52,463)
38,639	23,405	2,279,906	363,992	-	2,734,784
$ 55,624	$ 69,795	$ 2,498,942	$ 363,992	$ 663,880	$ 3,957,156

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STATE OF MAINE

Exhibit 2

COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
For the Fiscal Year Ended June 30, 1992
(Dollars in Thousands)

	Governmental Fund Types				Fiduciary Fund Type	Total
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:						
Taxes, licenses and fees	$1,366,255	$ 259,278	$	$	$ 86,157	$1,711,690
Fines, forfeits and penalties	24,893	4,775				29,668
Income from investments	1,841	1,416	16	3,355	8,125	14,753
Intergovernmental revenues	5,319	964,206			509	970,034
Revenues from private sources	3,703	132,817				136,520
Service charges for current services	38,119	76,749	2,013			116,881
Group life insurance premiums					5,788	5,788
Other	720	9,735			2,849	13,304
Total Revenues	1,440,850	1,448,976	2,029	3,355	103,428	2,998,638
Expenditures:						
General government	119,344	80,088		18,998	974	219,404
Economic development	33,952	42,512				76,464
Education and culture	795,444	71,274		20,352		887,070
Human services	559,529	812,365		10,252	6,798	1,388,944
Manpower	5,484	111,175			165,270	281,929
Natural resources	36,867	29,726		13,687		80,280
Public protection	14,576	42,239				56,815
Transportation	7,786	219,984		29,688		257,458
Debt service			73,336			73,336
Total Expenditures	1,572,982	1,409,363	73,336	92,977	173,042	3,321,700
Excess of Revenues over (under) Expenditures	(132,132)	39,613	(71,307)	(89,622)	(69,614)	(323,062)
Other Financing Sources (Uses):						
Operating transfers (net)	59,440	(29,266)	71,294	(29,493)	(1,950)	70,025
Bond proceeds				81,415		81,415
Other	76,424	456		32	(67)	76,845
Total Other Financing Sources (Uses)	135,864	(28,810)	71,294	51,954	(2,017)	228,285
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	3,732	10,803	(13)	(37,668)	(71,631)	(94,777)
Fund Balances - July 1 (as adjusted) (Note 20)	(107,291)	70,821	241	88,217	156,734	208,722
Fund Balances - June 30	**$ (103,559)**	**$ 81,624**	**$ 228**	**$ 50,549**	**$ 85,103**	**$ 113,945**

The notes to the financial statements are an integral part of this statement.

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
GENERAL AND SPECIAL REVENUE FUND TYPES
For the Fiscal Year Ended June 30, 1992
(Dollars in Thousands)

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes, licenses and fees	$1,359,378	$1,366,138	$ 6,760
Fines, forfeits and penalties	28,992	24,893	(4,099)
Income from investments	800	1,841	1,041
Intergovernmental revenues	8,353	5,319	(3,034)
Revenues from private sources	1,090	762	(328)
Service charges for current services	43,456	39,650	(3,806)
Other	563	720	157
Total Revenues	1,442,632	1,439,323	(3,309)
Expenditures:			
General government	117,607	117,746	(139)
Economic development	32,078	33,249	(1,171)
Education and culture	794,354	795,444	(1,090)
Human services	487,007	467,628	19,379
Manpower	4,867	5,484	(617)
Natural resources	38,134	36,867	1,267
Public protection	15,321	14,576	745
Transportation	2,618	7,786	(5,168)
Total Expenditures	1,491,986	1,478,780	13,206
Excess of Revenues over (under) Expenditures	(49,354)	(39,457)	9,897
Other Financing Sources (Uses):			
Operating transfers (net)	44,312	52,043	7,731
Other		2,878	2,878
Total Other Financing Sources (Uses)	44,312	54,921	10,609
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(5,042)	15,464	20,506
Fund Balances - July 1 (as adjusted) (Note 20)	27,644	27,644	
Fund Balances - June 30 (Note 3)	$ 22,602	$ 43,108	$ 20,506

The notes to the financial statements are an integral part of this statement.

Exhibit 3

Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
$ 311,986	$ 250,149	$ (61,837)	$1,671,364	$1,616,287	$ (55,077)
3,347	4,775	1,428	32,339	29,668	(2,671)
2,162	1,416	(746)	2,962	3,257	295
1,274,003	954,123	(319,880)	1,282,356	959,442	(322,914)
59,358	159,458	100,100	60,448	160,220	99,772
208,754	61,749	(147,005)	252,210	101,399	(150,811)
18,623	13,335	(5,288)	19,186	14,055	(5,131)
1,878,233	1,445,005	(433,228)	3,320,865	2,884,328	(436,537)
121,939	80,657	41,282	239,546	198,403	41,143
66,017	42,512	23,505	98,095	75,761	22,334
77,718	76,875	843	872,072	872,319	(247)
1,060,064	819,557	240,507	1,547,071	1,287,185	259,886
89,646	111,175	(21,529)	94,513	116,659	(22,146)
50,700	29,777	20,923	88,834	66,644	22,190
38,336	42,239	(3,903)	53,657	56,815	(3,158)
240,605	220,706	19,899	243,223	228,492	14,731
1,745,025	1,423,498	321,527	3,237,011	2,902,278	334,733
133,208	21,507	(111,701)	83,854	(17,950)	(101,804)
(17,049)	(20,028)	(2,979)	27,263	32,015	4,752
	455	455		3,333	3,333
(17,049)	(19,573)	(2,524)	27,263	35,348	8,085
116,159	1,934	(114,225)	111,117	17,398	(93,719)
108,683	108,683		136,327	136,327	
$ 224,842	$ 110,617	$ (114,225)	$ 247,444	$ 153,725	$ (93,719)

STATE OF MAINE

Exhibit 4

COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN RETAINED EARNINGS/FUND BALANCES ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS
For the Fiscal Year Ended June 30, 1992
(Dollars in Thousands)

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Operating Revenues:					
Sales and services	$ 189,734	$ 57,741	$	$	$ 247,475
Fees and licenses	9,907				9,907
Income from investments, net	325		482	136,063	136,870
Contributions -					
Employer				256,593	256,593
Employee				63,568	63,568
Participating districts				41,766	41,766
Other	6,036			2,560	8,596
Total Operating Revenues	206,002	57,741	482	500,550	764,775
Operating Expenses:					
Cost of sales and services	116,574	21,536			138,110
Personal services	11,253	16,727		2,989	30,969
General operating expenses	6,438	13,062		6,464	25,964
Depreciation	1,078	7,733		90	8,901
Refunds				12,124	12,124
Claim and benefit payments	3,992	1,066		203,705	208,763
Total Operating Expenses	139,335	60,124	-	225,372	424,831
Operating Income (Loss)	66,667	(2,383)	482	275,178	339,944
Nonoperating Revenues (Expenses):					
Interest revenue	397	733			1,130
Other	1,301	1,038	(390)	(24,062)	(22,113)
Total Nonoperating Revenues (Expenses)	1,698	1,771	(390)	(24,062)	(20,983)
Income before Operating Transfers	68,365	(612)	91	251,116	318,961
Operating Transfers In (Out)	(70,025)	-	-	-	(70,025)
Net Income (Loss)	(1,660)	(612)	91	251,116	248,936
Retained Earnings/Fund Balances - July 1 (as adjusted) (Note 20)	2,916	19,016	12,608	1,930,988	1,965,528
Retained Earnings/Fund Balances - June 30 (Note 2)	$ 1,256	$ 18,404	$ 12,699	$ 2,182,104	$ 2,214,464

The notes to the financial statements are an integral part of this statement.

STATE OF MAINE

Exhibit 5

COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUNDS
For the Fiscal Year Ended June 30, 1992
(Dollars in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Total
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)
Cash Flows from Operating Activities:				
Cash received from customers and users	$ 197,741	$ 56,703	$	$ 254,444
Cash paid to suppliers and vendors	(111,370)	(16,571)		(127,941)
Cash paid to employees for services	(10,774)	(16,859)		(27,633)
Cash paid for claims and benefits	(3,992)	(1,066)		(5,058)
Other operating revenues	6,037			6,037
Other operating expenses	(7,103)	(13,970)		(21,073)
Net Cash Provided by Operating Activities	70,539	8,237	-	78,776
Cash Flows from Noncapital Financing Activities:				
Operating transfers, net	(70,026)			(70,026)
Advances from (to) other funds		2,000		2,000
Other nonoperating revenues (expenses)	1,020	1,617	(390)	2,247
Net Cash Provided (Used) by Noncapital Financing Activities	(69,006)	3,617	(390)	(65,779)
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets, net	70	11,339		11,409
Interest revenue (expense)	397	733		1,130
Installment payments on lease purchase contracts		(20,155)		(20,155)
Net Cash Provided (Used) by Capital and Related Financing Activities	467	(8,083)	-	(7,616)
Cash Flows from Investing Activities:				
Sale/purchase of investments (net)			(244)	(244)
Interest on investments	325		482	807
Net Cash Provided by Investing Activities	325	-	238	563
Net Increase (Decrease) in Cash and Cash Equivalents	2,325	3,771	(152)	5,944
Cash and Cash Equivalents - July 1	4,014	10,390	198	14,602
Cash and Cash Equivalents - June 30 (Note 1E)	$ 6,339	$ 14,161	$ 46	$ 20,546
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	$ 66,667	$ (2,383)	$ 482	$ 64,766
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Interest and other investment income, net	(325)		(482)	(807)
Depreciation	1,078	7,733		8,811
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable, net	170	(67)		103
(Increase) decrease in loans/notes receivable, net	(339)	(392)		(731)
(Increase) decrease in interfund receivables	(1,712)	(1,421)		(3,133)
Increase (decrease) in accounts payable and accruals	1,566	(608)		958
Increase (decrease) in interfund payables	4,468	4,833		9,301
Increase (decrease) in deferred revenue	(1,209)	(301)		(1,510)
Increase (decrease) in other liabilities	175	843		1,018
Total Adjustments	3,872	10,620	(482)	14,010
Net Cash Provided by Operating Activities	$ 70,539	$ 8,237	$ -	$ 78,776

The notes to the financial statements are an integral part of this statement

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STATE OF MAINE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1992

1. **Summary of Significant Accounting Policies**

A. Scope of Reporting Entity

For financial reporting purposes, in conformity with generally accepted accounting principles (GAAP), the state should include all funds, agencies, boards, commissions and authorities over which the state's executive, legislative, or judicial branches exercise oversight responsibility. Oversight responsibility of the state was determined on the basis of budget adoption, funding, outstanding debt secured by revenues or general obligations of the state, authority to appoint an organization's governing board, and the organization's scope of service and financing relationship to the state.

Based on the foregoing criteria, the following entities are part of the state's operations but have been excluded from the state's component unit financial statements:

- Board of Overseers of the Bar
- Finance Authority of Maine
- Maine Educational Loan Authority
- Maine Health/Higher Education Facilities Authority
- Maine High Risk Insurance Organization
- Maine Insurance Guaranty Association
- Maine Low-Level Radioactive Waste Authority
- Maine Maritime Academy
- Maine Municipal Bond Bank
- Maine Public Utility Financing Bank
- Maine School Building Authority
- Maine State Housing Authority
- Maine Turnpike Authority
- Maine Veterans Home
- Maine Technical College System
- University of Maine System

B. Basis of Presentation - Fund Accounting

The accompanying financial statements of the state present the financial position of the various fund types and account groups, the results of operations of the various fund types, and the cash flows of the proprietary and similar trust funds. The accounts of the state are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund categories, fund types, and account groups are utilized by the state.

Governmental Fund Types

General Fund - Accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the state's major operating fund.

Special Revenue Funds - Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds include the following:

> Highway Fund - Accounts for revenues derived from registration of motor vehicles, operators' licenses, gasoline tax, and other dedicated revenues (except for federal matching funds and bond proceeds used for capital projects). The legislature allocates this fund for the operation of various Department of Transportation programs including construction and maintenance of highways and bridges, for a portion of the state police administration, and for other state programs.
>
> Other Special Revenue Funds - Account for various special purpose funds which have been established on a self-supporting basis. Revenues are generated by taxes, licenses, fees, and federal matching funds and grants.

Debt Service Fund - Accounts for the accumulation of resources, principally transfers from other funds, for the payment of general long-term debt principal and interest.

Capital Projects Fund - Accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The state also includes in this fund type proceeds from bond issues for uses other than major capital facilities.

Proprietary Fund Types

Enterprise Funds - Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Internal Service Funds - Account for the financing of goods or services provided by one department or agency to other departments or agencies of the state, or to other governmental units, on a cost reimbursement basis.

Fiduciary Fund Types

Trust and Agency Funds - Account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, and other governmental units or other funds.

Account Groups

General Fixed Assets Account Group (Unaudited) - Accounts for all general fixed assets acquired or constructed for use by the state in the conduct of its activities, except those accounted for in proprietary fund types and nonexpendable trust funds.

General Long-Term Debt Account Group - Accounts for all long-term liabilities of the state, except those accounted for in proprietary fund types and nonexpendable trust funds.

Total Columns on Combined Statements

Total columns on combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles.

C. Basis of Accounting

Governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Self-assessed taxes, principally individual income, sales and use taxes, are recorded as revenues when available to finance current expenditures.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Some such resources, usually entitlements or shared revenues, are restricted more in form than in substance. Only a failure on the part of the recipient to comply with prescribed regulations will cause a forfeiture of the resources. Such resources should be recorded as revenue at the time of receipt or earlier if the susceptible to accrual criteria are met. For other such resources, usually grants, expenditure is the prime factor for determining eligibility, and revenue should be recognized when the expenditure is made. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Proprietary fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Fiduciary fund revenues and expenses (or expenditures) are recognized on the basis consistent with the fund's accounting measurement objective. Nonexpendable trust and pension trust funds are accounted for on the accrual basis; expendable trust funds are accounted for on the modified accrual basis; agency fund assets and liabilities are accounted for on the modified accrual basis.

D. Budgetary Process

The budgeted appropriations are prepared biennially and are based on requests from department commissioners, constitutional officers and independent agencies, as revised by the Governor. The legislature has final approval over all appropriations. Transfers require approval of the Governor and/or the State Budget Officer.

Budgets are prepared on a cash basis, except that sales and income tax revenues are accrued when the tax returns are received and recorded.

Unencumbered appropriations in the General Fund lapse at year-end unless, by law, they are carried forward to a subsequent year.

Budgetary control is maintained at the account level at which appropriations or allocations are approved by the legislature. A quarterly allotment system is the principal means of budgetary control.

E. Assets, Liabilities and Fund Equity

Equity in Treasurer's Cash Pool

The Treasurer's Cash Pool, comprised primarily of short-term certificates of deposit, commercial paper, repurchase agreements, U.S. Treasury Bills and U.S. Treasury Notes, is stated at cost which approximates market value.

Investments

Investments are stated at cost at date of acquisition or fair market value at date of donation. Carrying amounts of investments would be reduced to market value for significant declines in market value judged to be other than temporary.

Deposits with United States Treasury

The federal government requires that unemployment tax receipts be deposited with the United States Treasury. Funds are drawn down as benefits are paid.

Inventories

Inventories of the governmental funds are recorded by the purchases method. Year-end inventories are not believed to be material and are not reflected on the accompanying financial statements.

Bureau of Alcoholic Beverages Enterprise Fund inventory is stated at current replacement cost. Current replacement cost is not a generally accepted accounting method; however, the effect on inventory valuation is not believed to be material. Other proprietary fund inventories are stated at cost, which approximates market, determined by either the moving weighted average or first-in, first-out methods. Inventories consist primarily of supplies and merchandise for resale.

Restricted Assets

Cash resulting from issuance of certificates of participation, $7.2 million, is classified as a restricted asset because its use is limited by construction contracts and bank financing agreements. Also classified as a restricted asset is $1.1 million held by the Risk Management Fund for the Maine Low-Level Radioactive Waste Authority. In addition, deposits totaling $32.1 million required of certain insurance companies doing business in the state are classified as restricted, as assets revert to the state for distribution to creditors only if certain circumstances transpire.

Fixed Assets

Fixed assets are recorded at historical cost, estimated historical cost, or estimated fair market value on the date donated. Expenditures/expenses which materially increase values, change capacities or extend useful lives are capitalized. The costs of normal maintenance and repairs are not capitalized. Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group. The General Fixed Assets Account Group is unaudited. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings are not capitalized. No depreciation has been provided on general fixed assets. Depreciation on proprietary fund fixed assets is computed on the straight-line method in a manner intended to amortize the cost of assets over their estimated useful lives: 2-10 years for equipment and fixtures, and 10-40 years for buildings and improvements.

Advances Payable

Starting in January 1947 and continuing through June 1987 the Highway Fund made a series of working capital advances to the Motor Transport Service Internal Service Fund for the purchase of equipment, land and buildings. The advances totaled $14.2 million. A balance of $13.2 million remains.

Encumbrances and Appropriations Carried

Encumbrance accounting, which requires that purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the Governmental Fund Types. Appropriated balances of the Governmental Fund Types are available for subsequent expenditure to the extent that encumbrances have been approved by the end of the fiscal year. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Fund Balance Reserves

The state's fund balance reserves represent those portions of fund balances that are not available for appropriation or expenditure or that are legally segregated for specific future uses.

Nonmonetary Federal Assistance

Nonmonetary federal financial assistance is not reflected in the financial statements. Inventory valuations of such assistance were approximately $22.5 million as of June 30, 1992.

Cash and Cash Equivalents

As presented in the Combined Statement of Cash Flows - All Proprietary Fund Types and Nonexpendable Trust Funds, Cash and Cash Equivalents includes Equity in Treasurer's Cash Pool, Cash - Other, and Restricted Assets, as described above.

F. Other Accounting Policies

Property Tax Revenue

Property taxes are recognized as revenue in the year for which they are levied. Property taxes levied during the current fiscal year for the subsequent period are recorded as deferred revenue during the current year.

Vacation and Sick Leave

The state permits employees to accumulate a limited amount of earned but unused vacation benefits which will be paid to employees upon separation from state service. In Governmental Fund Types and Fiduciary Fund Types, the cost of vacation benefits is recognized when payments are made. A long-term liability of approximately $25.1 million of accrued vacation benefits at June 30, 1992 has been recorded in the General Long-Term Debt Account Group and represents the state's commitment to fund these costs from future operations. Proprietary Fund Types accrue vacation benefits in the period in which they are earned. Employees' sick time is not vested; therefore expense for sick time is recorded when paid.

Deferred Revenue

Deferred revenue represents taxes receivable of $88.9 million which are not expected to be collected in time to finance expenditures of the current period. As further explained in Note 20, beginning fund balance has been restated to reflect the reclassification of $37.7 million of these receivables as deferred revenue.

Pension Contribution Payable

At June 30, 1992 pension contributions payable included $86.9 million to reflect the deferral of actuarially required pension contributions. Similar deferrals were not made in fiscal year 1991.

2. Stewardship, Compliance and Accountability

At June 30, 1992 the following funds had deficit fund balances/retained earnings as follows: General Fund $103.6 million; Alcoholic Beverages enterprise fund $2.4 million; Department of Transportation enterprise funds $800 thousand, State Lottery enterprise fund $204 thousand; State Forest Nursery enterprise fund $54 thousand; and various internal service funds $1.9 million .

The General Fund deficit resulted from recognizing tax refunds payable, deferred tax revenue, andfund liabilities in excess of accrued revenues. Measures taken to alleviate the General Fund deficit include reducing personal services expenditures through layoffs, furloughs, and scheduled government shutdowns; deferral of scheduled payments for aid to local schools, pension contributions, support payments to the Maine Maritime Academy, Maine Technical College System, and University of Maine System. The enterprise and internal service fund deficits resulted from recognizing depreciation, allowances for uncollectible accounts, and accrued liabilities for long-term workers' compensation and compensated absences. These deficits will be funded on an ongoing basis through future revenues as the liabilities come due.

3. Budget/GAAP Differences

The state does not prepare its budget in accordance with generally accepted accounting principles (GAAP). The cumulative effect on fund balances due to differences between the state's revenues and expenditures, as presented on a budgetary basis of accounting in Exhibit 3 and GAAP basis in Exhibit 2, for the fiscal year ended June 30, 1992 is:

(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balance (Exhibit 3)	$ 43,108	$110,617
Accounts payable	(45,715)	(8,929)
Accrued payroll	(16,843)	(17,311)
Due to other funds	(2,676)	(9,511)
Deferred revenue	(82,189)	
Accounts receivable	(1,920)	1,878
Due from other funds	2,676	4,880
Fund Balance (Exhibit 2)	($103,559)	$ 81,624

4. **Deposits and Investments**

The following information is provided as required by the Governmental Accounting Standards Board Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements".

Authority for State of Maine Deposits and Investments

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5, Section 135, et. seq. of the Maine Revised Statutes Annotated. State of Maine deposits must be held in depositories organized under the laws of this state or depositories located in this state, such deposits are not to exceed an amount equal to 25% of the capital, surplus and undivided profits of such depository unless fully secured by the pledge of certain securities as collateral or fully covered by insurance. Money in excess of that necessary to meet current obligations may be invested in bonds, notes, certificates of indebtedness or other obligations of the United States which mature within 24 months; in repurchase agreements secured by obligations of the United States which mature within the succeeding 24 months; in prime commercial paper, tax-exempt obligations or bankers' acceptances.

The State Treasurer may also participate in the securities loan market by lending state-owned bonds, notes or other certificates of indebtedness of the federal government if fully collateralized by treasury bills or cash. In addition, the State Treasurer may invest up to $4 million in lending institutions at a 2% lower-than-market yield, provided the financial institutions lend operating funds (at least equal to the amount of the deposit) to agricultural enterprises in this state at 2% interest rate reductions and up to $4 million in lending institutions at a 2% lower-than-market yield, provided the financial institutions lend operating funds (at least equal to the amount of the deposits) to commercial enterprises approved by the Treasurer at 2% interest rate deductions.

In some cases, deposits and investment policies of certain component units are established by governing councils or boards to whom statutes have delegated responsibility; however, all deposits, investments and repurchase agreements of State of Maine component units are specifically authorized by law.

In accordance with statutory authority, the Maine State Retirement System and Group Life Insurance Program have invested in common stocks, bonds, fixed income and convertible securities, mortgages and real estate.

The state manages a pooled cash and investment account that is available for use by all funds except those restricted by law. Each fund's equity in the pooled cash and investment account is presented as Equity in Treasurer's Cash Pool on the balance sheet. Interest income allocated to the various funds is based on their average equity balances.

Deposits

Category 1 is the amount of state deposits which are fully insured or collateralized with securities held by the state or its agent in the state's name. Category 2 is the deposits which are collateralized with securities held by the pledging financial institutions' trust departments or agents in the state's name. Category 3 is the deposits which are not collateralized at June 30, 1992. At year-end, the carrying amount of the state's deposits was $68.3 million and the bank balance was $89.9 million. The difference was due primarily to timing of transactions.

Deposits consist of Cash-Other, Deposits with U.S. Treasury, $1.084 million of Restricted Assets, and $26.966 million held in Equity in Treasurer's Cash Pool.

(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Demand and time deposits	$ 2,636	$16,575	$34,113	$ 53,324	$ 31,882
Maine Employment Security Commission deposits with U.S. Government	36,634	____	____	36,634	36,420
Total	$39,270	$16,575	$34,113	$89,958	$68,302

Investments

The State of Maine categorizes investments according to the level of credit risk that the state assumes. Category 1 includes investments that are insured, registered or held by the state's agent in the state's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the state's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the state's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interest in mutual funds and investment pools in which the Maine State Retirement System and the deferred compensation plan participate. Investments consist of Investments and $161.062 million held in Equity in Treasurer's Cash Pool.

The following summary identifies the level of credit risk assumed by the state and the total carrying amount and market value of state investments:

(Dollars in Thousands)

	Carrying Amount				Market
	Category 1	Category 2	Category 3	Total	Value
Repurchase agreements	$	$ 44,679	$	$ 44,679	$ 44,778
Cash Equivalents		1,568	2,157	3,725	3,730
Government Securities		68,426	6,367	74,793	75,709
Corporate Obligations		95,636	3,636	99,272	99,752
Equity Securities		3,209	9,461	12,670	16,404
Subtotal		213,518	21,621	235,139	240,373
Add amounts managed by the Maine State Retirement System:					
Cash Equivalents			4,846	4,846	4,849
Government Securities			124,434	124,434	139,452
Corporate Obligations			73,472	73,472	73,820
Equity Securities			538,628	538,628	595,671
	$	$ 213,518	$ 763,001	976,519	1,054,165
Add amounts not categorized because securities are not used as evidence of investments:					
Investment pools in which the Maine State Retirement System participates:					
Commingled funds				1,264,095	1,588,593
Real estate				41,333	35,214
Other				23,059	22,444
Deferred compensation plan investments				65,953	65,953
Other investments				9,158	9,158
Total Investments				$ 2,380,117	$ 2,775,527

5. **Accounts and Notes Receivable**

Taxes receivable, accounts receivable and loans/notes receivable are stated as net of allowances at fiscal year-end. At June 30, 1992 allowances for uncollectible accounts were approximately $21.2 million, $12.6 million, and $1.8 million respectively.

6. **Property Taxes**

Property taxes are assessed by the State Tax Assessor on properties located in the Unorganized Territories of Maine and on telecommunication personal properties located statewide. Such taxes are levied by April 1; property taxes are due on October 1 and formal collection procedures begin on November 1. Unpaid property taxes become a lien on March 15 of the fiscal year for which they are levied.

7. **Due From Other Governments - Grants Receivable**

Due from other governments is comprised primarily of federal grants receivable, which represent $48.7 million due for Medicaid claims and $344 thousand due for Family Support Payments to States - Assistance Payments (AFDC).

8. **Joint Venture**

Tri-State Lottery Commission

The State of Maine has entered into a lottery compact with the State of Vermont and the State of New Hampshire subject to certain terms and conditions. Tri-State Lottery and Daily Numbers tickets are sold in each of the party states and processed in Vermont.

A proportional share of revenues and expenses is allocated to each state based on the amount of ticket sales in each state. Exceptions are: the facilities management fee which is based on a contracted percentage of operating revenues that varies from state to state; Daily Numbers expenses which are allocated to each state based on Daily Numbers ticket sales; and per diem charges which are allocated based on actual charges generated by each state.

The commission has designated that a minimum of 50% of gross revenues be reserved for prize awards and agent bonuses. A liability is established for prizes payable when the winning ticket number is selected. If no winning ticket is selected the available jackpot is carried over to the following drawing.

The governing body of the Tri-State Lottery Commission is comprised of one member from each of the party states. Commission members are appointed by and serve at the pleasure of their respective states. The commission annually elects a chairman from among its members and exercises control over budgeting and financing policies.

As of and for the year ended June 30, 1992 the following selected financial information was included in the Balance Sheet and Statement of Revenues, Expenses and Changes in Retained Earnings of the Tri-State Lottery Commission:

(Dollars in Thousands)

Total assets	$178,400
Total liabilities	178,400
Retained earnings	-
Total revenues	112,730
Total expenses	71,195
Allocation of funds to member states	41,956

Included in liabilities is approximately $178 million for prizes payable which have been provided for primarily through the purchase of annuity contracts.

Multi-State Lottery Association

In July of 1990 the State of Maine entered into a lottery compact with the Multi-State Lottery Association subject to certain terms and conditions. As of April 18, 1992, the State of Maine withdrew from the aforementioned Lotto*America compact.

When Maine was a member of the association, a proportional share of revenues and expenses was allocated to each state based on the amount of ticket sales made by each state. The exception was the facilities management fee which was based on a contracted percentage of operating revenues which varied from state to state.

The association designated that a minimum of 43% of gross revenues be reserved for prize awards and agent bonuses. A liability was established for prizes payable when the winning ticket number was selected. If no winning ticket was selected the available jackpot was carried over to the following week's drawing. The Maine State Lottery's share of prizes payable should be returned after one year from the withdrawal date or after the termination or final resolution of any pending unresolved liabilities arising from transactions processed during the tenure of the departing lottery.

The governing body of the Multi-State Lottery Association is comprised of one member from each of the party states. Association members are appointed by and serve at the pleasure of their respective party states. The association annually elects a chairman from among its members and exercises control over budgeting and financing policies.

As of and for the year ended June 30, 1992 the following selected financial information was included in the Balance Sheet and Statement of Revenues, Expenses, and Changes in Retained Earnings of the Multi-State Lottery Association:

(Dollars in Thousands)

Total assets	$351,646
Total liabilities	351,369
Fund balance	277
Total operating revenues	2,240
Total operating expenses	2,061
Net decrease in fund balance	179

Included in liabilities is approximately $297 million for prizes payable which have been provided for primarily through the purchase of annuity contracts.

9. **Fixed Assets**

Fixed assets in the General Fixed Assets Account Group, Enterprise, Internal Service, and Trust and Agency Funds consist of the following:

(Dollars in Thousands)

	General Fixed Assets Account Group (Unaudited)	Enterprise Funds	Internal Service Funds	Trust and Agency Funds
Land	$ 33,733	$ 863	$ 243	$ 1,453
Buildings and improvements	212,886	11,739	5,821	1,121
Equipment and fixtures	117,373	32,162	77,341	2,121
	363,992	44,764	83,405	4,695
Less:				
Accumulated depreciation	-	(13,472)	(47,247)	(393)
	$363,992	$31,292	$36,158	$4,302

10. **Pension Systems and Obligations**

Plan Descriptions

A. General

In accordance with state statutes, the Maine State Retirement System Board of Trustees administers three contributory defined benefit pension plans through the Maine State Retirement System, an agent multiple-employer public employee retirement system (PERS). The three plans are the Maine State Retirement System (MSRS), the Judicial Retirement System (JRS), and the Legislative Retirement System (LRS).

In addition to the MSRS, JRS, and LRS the state also has separate pension plans funded by legislative appropriations for certain former employees and beneficiaries of employees of the Judicial and Public Safety Departments. These plans existed prior to the establishment of the MSRS, JRS, and LRS, and do not cover current employees. As of June 30, 1992 there were 42 payees of the Public Safety plan and 43 payees of the Judicial plan. Pension payments during 1992 for these two plans were $675,591 and $1,635,383 respectively.

The MSRS, JRS, and LRS are considered part of the State of Maine's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the Trust and Agency Funds. The purpose of these plans is to provide retirement, death, and disability benefits for substantially all state employees, public school teachers, employees of minor political subdivisions, certain local participating districts and agencies, judges, and members of the state's legislature. Title 5, MRSA, Chapters 423 and 425 authorize the stated benefit provisions.

At June 30, 1992 MSRS, JRS, and LRS membership consisted of:

	MSRS	JRS	LRS	Total
Employers	250	1	1	252
Active members:				
state	15,064	46	123	15,233
teachers	24,840	-	-	24,840
districts	9,126	-	-	9,126
Retirees/beneficiaries	17,247	22	15	17,284
Inactive vested	638	1	-	639

B. Membership and Benefit Provisions

Maine State Retirement System:

Membership in the MSRS is a condition of employment for state employees and public school teachers, and is optional for elected and appointed officials. Eligibility is granted upon hiring. For those employed by political subdivisions, local districts and agencies, membership is contingent upon the system's Board of Trustees' approval of the entity's participation in the plan. If approved, membership is a condition of employment for all employees hired after plan inception and is granted upon hiring. Participation of elected officials of political subdivisions is optional.

Participating employees who retire after 25 years of creditable service or after attainment of age 60 with either 10 years of creditable service or one year of service immediately before retirement, are entitled to an annual retirement benefit, payable monthly for life, that is generally 2% of the member's average final compensation multiplied by the years of membership service and up to 25 years of prior service, reduced for retirement before age 60. For participants entering the plan after December 1, 1984, the eligibility age is increased to age 62 and early retirement benefits are reduced 6% for each year before age 62. Certain law enforcement officers, liquor inspectors and airplane pilots employed before September 1, 1984 are entitled to a benefit of 50% of the member's average final compensation plus 2% for each year of service in excess of 20 years. A member may elect an option for a reduced benefit payable for life with the provision that after the member's death a beneficiary receives benefits for life.

Employees who have retired on or before February 28 of each year and their beneficiaries are entitled to an automatic cost-of-living adjustment (COLA) equal to the annual percentage change in the consumer price index (CPI) to a maximum of 4%. They may also receive an additional amount, contingent on sufficient funding, up to the actual amount of the change in the CPI.

Judicial Retirement System:

Membership in the JRS is a condition of employment for judges and eligibility is granted upon hiring.

Participating employees who retire after 25 years of creditable service or after attainment of either age 60 with 10 years of creditable service or age 70 with one year of service immediately before retirement, are entitled to an annual retirement benefit, payable monthly for life, that is generally the sum of (a) 2% of the member's average final compensation multiplied by the years of membership service and creditable service transferred from MSRS; and (b) 75% of the November 30, 1984 salary for the position held at retirement, pro-rated for service less than 10 years. All are reduced for retirement before age 60. A member may elect an option for a reduced benefit payable for life with the provision that after the member's death a beneficiary receives benefits for life.

Retirees who have retired on or before February 28 of each year and their beneficiaries are entitled to an automatic cost-of-living adjustment (COLA) equal to the annual percentage change in the consumer price index (CPI) to a maximum of 4%. They may also receive an additional amount, contingent on sufficient funding, up to the actual amount of the change in the CPI.

Legislative Retirement System

Membership in the LRS is mandatory for legislators entering on or after December 3, 1986 and is optional for those who were members prior to that date. Eligibility is granted upon election to the legislature.

Participating employees who retire after 25 years of creditable service or after attainment of either age 60 for members in service or age 60 with 10 years of creditable service or five full terms as a legislator for members not in service, are entitled to an annual retirement benefit, payable monthly for life, that is generally 2% of the member's average final compensation multiplied by the years of membership service reduced for retirement before age 60. A member may elect an option for a reduced benefit payable for life with the provision that after the member's death a beneficiary receives benefits for life.

Retirees who have retired on or before February 28 of each year and their beneficiaries are entitled to an automatic cost-of-living adjustment (COLA) equal to the annual percentage change in the consumer price index (CPI) to a maximum of 4%. They may also receive an additional amount, contingent on sufficient funding, up to the actual amount of the change in the CPI.

C. Employee and Employer Obligations to Contribute

MSRS and JRS covered employees are required to contribute to the system at a rate, set by statute, of 6.5% of earnable compensation. For state employees and public school teachers hired on or after July 1, 1992 the contribution rate is 7.5%. LRS covered employees participate with a 4.0% contribution. The state contributes the remaining amounts necessary to fund the systems. For the fiscal year ended June 30, 1992 the percentages were: MSRS, 22.09%; JRS, 34.81%; and LRS, 12.83%. Title 5 MRSA, Chapters 423 and 425 authorize the contribution rates.

D. Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits adjusted for the effects of projected salary increases and step-rate benefits, and estimated to be payable in the future as a result of employee service to date. This measure represents the actuarial present value of credited projected benefits, and is intended to help users assess the funding status of the systems on a going-concern basis; assess progress made in accumulating sufficient assets to pay benefits when due; and make comparisons among other retirement systems. The measures are independent of the actuarial funding methods used to determine contributions to the plans as discussed in section F.

The pension benefit obligations were computed as part of actuarial valuations performed as of June 30, 1992. Significant actuarial assumptions used in the valuation include a rate of return on investments of 8%; projected salary increases of 6% to 10% per year, depending on age; and cost-of-living increases of 4% annually.

At June 30, 1992 the plans' unfunded pension benefit obligations were:

(Dollars in Millions)

	MSRS	JRS	LRS	Total
Pension benefit obligation:				
Retirees, beneficiaries and terminated vested employees	$1,729	$10	$*	$1,739
Current employees				
Accumulated employee contributions	721	2	*	723
Employer-financed vested	596	7	*	603
Employer-financed nonvested	1,152	4	1	1,157
Total pension benefit obligation (Does not include obligations or liabilities for health insurance)	4,198	23	1	4,222
Less:				
Net assets available for benefits at cost (market value - MSRS $1,429, JRS $12, LRS $1)	1,367	12	1	1,380
Unfunded pension benefit obligation	$2,831	$11	$0	$2,842

* less than $1 million

E. Effects of Current Year Changes on Contribution Requirements

The actuarial assumptions were modified for fiscal year 1992 to reflect the use of unused sick leave and vacation pay at retirement and larger than expected salary increases at retirement. The approximate effect of these changes on the contribution amount is $13.7 million or an increase of 1.31% of payroll.

F. Contributions Required and Contributions Made

Funding policies for MSRS, JRS, and LRS provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate to accumulate sufficient assets to pay benefits when due. Significant actuarial assumptions used to compute actuarially determined contribution requirements are the same as those used to compute the pension benefit obligation. Except for ancillary benefits, level percentage of payroll employer contribution rates are determined using the entry age actuarial funding method. This funding method produces an employer contribution rate consisting of (a) the normal cost rate and (b) the unfunded actuarial liability rate. Actuarial valuations prepared as of June 30, 1992 indicate that the unfunded liability liquidation period is 30 years from June 30, 1987 for MSRS, and 25 years from June 30, 1992 for JRS under the level percent of payroll amortization method. The contribution rates for ancillary benefits are determined separately using a term cost method.

Under the provisions of the plans substantially all employees of employers in the MSRS, JRS, and LRS are covered by the plans. Therefore, total payroll (exclusive of participating local districts) approximates covered payroll. Total covered payrolls for the year ended June 30, 1992 aggregated $1.047 million; $3.6 million; and $1.3 million respectively.

Contributions were made by employers and employees in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 1991. However, legislation was passed authorizing the deappropriation and deallocation of $82.8 million: $59.7 million was withheld from the State required contribution for teachers; $18.9 million was returned to the General Fund by MSRS that had been paid for State employees; and $3.6 million was not paid due to a benefits reduction and an increase in the interest rate assumption from 8% to 8.13% and 8.87%. MSRS returned $452 thousand to the Highway Fund. These reductions plus the balance of the unfunded liability in the retirement system at July 1, 1993 will be amortized over a 27 year period. An additional $1 million was deappropriated from the Judicial Retirement System.

Effective November 20, 1991 an amendment to Article IX of the Constitution was passed at referendum which states; "Funds appropriated by the Legislature for the Maine State Retirement System are assets of the system and may not be diverted or deappropriated by any subsequent action.

At June 30, 1992, $3 million was transferred from the fund balance for Retiree Health Insurance (BC/BS) to the Retirement Allowance Account. An additional $1 million shall be transferred by July 1, 1993. State contributions to MSRS will be reduced by $4 million in fiscal year 1993.

Employee furloughs resulting in lower state and member contributions but not lower future benefits as well as future liabilities created by various retirement incentive programs being offered by various employers have not been reflected in the most recent actuarial evaluation of MSRS's financial condition as of June 30, 1992. The MSRS's actuary continues to be concerned about the future financial condition of the system.

Employer contributions, as percentages of active member payrolls during fiscal year 1992:

	MSRS	JRS	LRS
Normal cost	6.37%	19.61%	10.03%
Unfunded actuarial reserve	14.05	12.87	0.00
Ancillary benefits	1.67	2.33	2.80
Total cost	22.09%	34.81%	12.83%

G. Historical Trend Information

Historical trend information designed to provide information about progress that MSRS, JRS, and LRS made in accumulating sufficient assets to pay benefits when due, is presented in the Required Supplementary Information Section of this report following the notes to the financial statements.

11. **Other Employee Benefits**

A. Postretirement Health Care Benefits

In addition to providing pension benefits, the State of Maine provides certain health care benefits for most retired state employees and 25% of the cost for certain retired teachers. Coverage for non-Medicare eligible retirees includes basic hospitalization, supplemental major medical, care of mental health conditions, alcoholism, substance abuse, and prescription drug costs. Retirees eligible for Medicare are covered under Companion Plan I, the insurance policy designed to supplement Medicare. The benefits to non-Medicare eligible retirees are provided through insurance companies. Expenditures for postretirement health care benefits are recognized as premiums are paid, using funds generated from current contributions. For the fiscal year ended June 30, 1992 there were 9,225 retired state employees and 8,022 retired teachers. During the 1992 fiscal year health care expenditures for retirees were approximately $10.9 million.

Effective July 5, 1991 for state employees first employed before July 1, 1991 the Maine State Retirement System shall pay 100% of the retirees' share of health insurance premiums. For state employees first employed after July 1, 1991 the Maine State Retirement System shall pay a pro rata portion of the retirees' share of health insurance premiums, ranging from 0% for employees with less than 5 years participation to 100% for employees with 10 or more years of service.

B. Postretirement Life Insurance Benefits

In addition to providing pension and health care benefits, the State of Maine provides certain life insurance benefits for retired employees who, as active employees, participated in the group life insurance program. For employees who participated for 10 continuous years prior to retirement payments of claims are made by the Maine State Retirement System using funds generated from premiums paid by employees while in active status and by the state after retirement. The State of Maine recognizes the cost of providing these benefits as claims are paid to beneficiaries. Costs also include an administrative fee to the retirement system and a retention fee to a life insurance company. Retired employees' life insurance claims totaled approximately $1.9 million for the fiscal year ended June 30, 1992.

C. Deferred Compensation

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code §457. The plan is available to all state employees, and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are solely the property and rights of the state, subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of general creditors of the state in an amount equal to the fair market value of the deferred account for each participant. In the past, the plan assets have been used only to pay benefits. The state believes that it is unlikely that it will use the assets to satisfy the claims of general creditors.

12. **Construction and Other Significant Commitments**

The state is responsible for funding a portion of local governments' school construction and renovation costs. As of June 30, 1992 these commitments, payable over 5 or 20 years, totaled approximately $583.4 million.

At June 30, 1992 the Department of Transportation had contractual commitments for construction of various highway projects. The Department of Environmental Protection also had contractual commitments for various waste treatment and disposal projects at June 30, 1992. The amount of these commitments could not be determined. Funding for these future expenditures is expected to be provided from federal funds, state funds, and bond proceeds.

13. **Lease Commitments**

The state has one to twenty year commitments for various operating leases of office space, land, vehicles, computers and office equipment. The state expects that these leases will be renewed or replaced by similar ones. In general, the leases contain nonassignable and escalation clauses as well as predetermined rent increases. Commitments for noncancelable operating leases are:

(Dollars in Thousands)

Year Ending June 30	Minimum Operating Lease Payments
1993	$11,969
1994	10,564
1995	9,412
1996	8,253
1997	6,023
Thereafter	10,374
Total	$56,595

Rental expense for the year ended June 30, 1992 was approximately $8.1 million.

Capital leases are for acquisition of office space, office furniture, and computers. Future minimum capital lease payments are:

(Dollars in Thousands)

Year Ending June 30	Minimum Capital Lease Payments
1993	$2,671
1994	2,191
1995	2,016
1996	1,960
1997	1,916
Thereafter	21,452
Total minimum lease payments	32,206
Less interest	(13,900)
Present value of minimum lease payment	$18,306

Assets acquired through these capital lease agreements are recorded as fixed assets at the lower of the present value of the minimum lease payments or the fair market value at the time of acquisition. The value of assets acquired through capital lease agreements is $21.4 million.

14. Certificates of Participation

The State of Maine entered into several lease purchase agreements between 1988 and 1992 with principal totaling $47.6 million for the construction of buildings and the rental and purchase of equipment. These lease purchase agreements were financed or refinanced by a trustee from the sale of certificates of participation. The certificates of participation bear interest rates varying from 3.0% to 7.1% and mature through September 1, 2000. The certificates of participation do not constitute a debt or liability within the meaning of any constitutional or statutory limitation, or a contractual obligation in excess of the amounts appropriated therefor, and the state has no continuing legal or moral obligation to appropriate money for basic lease payments or other obligations under a lease agreement. Each lessee's obligation to make its basic lease payments and any other obligations of the lessee under its lease agreement are subject to and dependent upon appropriations being made by the legislature of the State of Maine. Title to all assets vests with the state either at the time of construction, purchase or, for equipment previously purchased with other lease purchase agreements, at the time of execution and delivery of the lease. The trust agreements are secured by those assets acquired or constructed using the proceeds of the certificates of participation.

A portion of one certificate of participation issue was used to refinance existing internal service fund capital leases ($2.8 million) and notes payable ($.7 million).

The future minimum payments on certificates of participation as of June 30, 1992 are:

(Dollars in Thousands)

Year Ending June 30	Minimum Payments
1993	$11,643
1994	8,581
1995	5,997
1996	2,591
1997	2,273
Thereafter	6,887
Total minimum payments	37,972
Less interest	(5,359)
Present value of minimum payments	$32,613

The total value of assets purchased or constructed with certificates of participation is $39.8 million. Also, at June 30, 1992 a total of $7.3 million in unspent funds remained with the trustee.

15. **Bonds and Notes Payable**

General obligation bonds are backed by the full faith and credit of the state and must be repaid in annual installments beginning not more than one year after issuance. Various authorizing laws restrict the use of debt. Changes in general obligation bonds outstanding for the year ended June 30, 1992 are:

(Dollars in Thousands)

Bond Type (Rate range)	Outstanding July 1	Additions	Reductions	Outstanding June 30
General Purpose (3.25% to 10.25%)	$277,710	$63,415	$35,235	$305,890
Highways and Bridges (1.75% to 10.5%)	102,870	18,000	10,475	110,395
College, University, and Veterans Home Facilities (0.1% to 10.5%)	14,840		1,445	13,395
BANs Payable (5.4% to 6.3%)	95,989		95,989	
Total	$491,409	$81,415	$143,144	$429,680

The requirements to amortize all bonds and notes outstanding as of June 30, 1992 are:

(Dollars in Thousands)

Fiscal Year	Principal	Interest
1993	$ 47,555	$27,175
1994	62,205	23,685
1995	54,310	19,579
1996	54,585	15,828
1997	48,045	12,480
Thereafter	162,980	38,078
Totals	$429,680	$136,825

At June 30, 1992 the state had approximately $82.7 million of authorized debt not issued.

16. **Self-Insurance**

A. Risk Management

The State of Maine is self-insured for vehicle liability, tort claim liability, civil rights liability, professional liability, and foster parent and respite care liability with a maximum coverage of $300 thousand per occurrence. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlements in its internal service fund, the Risk Management Fund. Through the Risk Management Fund the state also purchases commercial insurance for all other risks of loss including property insurance and food stamp coverage which have deductibles of $1million and $500 thousand, respectively. Fund reserves are primarily from contributions from other funds and are planned to match expenses for insurance premiums , self-insurance claims, and operating expenses. That reserve was $7.6 million at June 30, 1992 and is reported as a designation of the Risk Management Fund fund balance. Estimated claims liabilities of $1.1 million have been accrued in the internal service fund for claims incurred and reported. The state has not estimated the incurred but not reported claim liability at June 30, 1992.

The state risk pool holds $1.1 million for the Maine Low-Level Radioactive Waste Authority in anticipation of insuring a radioactive waste site. Although the money is in risk pool funds, no risk has been transferred to the state.

B. Other Insurances

The state is also self-insured for unemployment compensation and workers' compensation. As a direct reimbursement employer for all unemployment compensation the state recognizes all costs for unemployment compensation as claims are paid. These costs totaled $1.8 million for the fiscal year ended June 30, 1992. For losses incurred for workers' compensation settlements a claim liability of $95.1 million has been recorded. Also, in the opinion of the Attorney General, the pending workers' compensation claims involve the possibility of significant liability to the state. The state has not estimated the pending claim liability of the incurred but not reported claim liability at June 30, 1992.

17. Interfund Assets and Liabilities

Interfund assets and liabilities for each individual fund at June 30, 1992 are:

(Dollars in Thousands)

Fund Types/Fund	Interfund Assets: Due From	Interfund Assets: Advances To	Interfund Liabilities: Due To	Interfund Liabilities: Advances Payable
General Fund	$ 6,404	$ 2,846	$13,195	$
Special Revenue Fund				
Highway	118	13,182	2,053	
Federal Expenditures	5,231		43	200
Other Special Revenue	1,069		9,447	400
Total Special Revenue Fund	6,418	13,182	11,543	600
Enterprise Funds				
State Forest Nursery Fund			17	75
Alcoholic Beverages	959			2,000
Prison Industries	54			
State Lottery Fund	744		2,056	
Total Enterprise Funds	1,757		2,073	2,075
Internal Service Funds				
Highway Garage	1,123		5	13,182
Postal, Printing & Supply	1,442		26	111
Risk Management	2,728		3	
Bureau of Data Processing	4,448		14	
Other Internal Service Funds	2,476		16	60
Total Internal Service Funds	12,217		64	13,353
Trust and Agency Funds				
Employment Security	104			
Maine State Retirement			25	
Total Trust and Agency Funds	104		25	
Total All Funds	$26,900	$16,028	$26,900	$16,028

No material eliminations of interfund receivables and payables are included in the financial statements.

18. Segment Information for Enterprise Funds

The state maintains the following enterprise funds which are classified for segment reporting.

Bureau of Alcoholic Beverages

The sale of alcoholic beverages is controlled through state operated stores or licensed agents. Net income is transferred to the General Fund.

Maine State Lottery

The Lottery operates the daily number games and participates in the Tri-State Lottery which began operations during the fiscal year ended June 30, 1986. The Lottery has been a member of the Multi-State Lottery Association since July 1, 1990. As of April, 1992, the State of Maine withdrew from the aforementioned association. Net income is transferred to the General Fund.

Department of Transportation Services

This department operates the Augusta airport, the marine ports and the ferry services.

Other Enterprise Funds

Other enterprise funds include the following:

Prison Industries
Community Industrial Building Fund
Potato Marketing Improvement Fund
Seed Potato Board
State Osteopathic Loan Fund
State Forest Nursery Fund

Financial segment information as of and for the year ended June 30, 1992 for the state's enterprise funds is:

(Dollars in Thousands)

	Bureau of Alcoholic Beverages	Maine State Lottery	Department of Transportation Services	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	$88,392	$113,912	$1,479	$ 2,219	$206,002
Depreciation expense	86	11	910	71	1,078
Operating income (loss)	35,124	34,399	(2,285)	(571)	66,667
Operating transfers in (out)	(35,137)	(34,690)	-	(198)	(70,025)
Tax revenues	10,880	-	-	-	10,880
Net income (loss)	(12)	17	(1,014)	(651)	(1,660)
Capital contributions	-	-	(4,602)	(14)	(4,616)
Acquisition of property, plant and equipment (net)	186	89	(156)	(49)	70
Net working capital	2,190	329	486	3,465	6,470
Total assets	9,428	5,198	30,148	10,850	55,624
Total equity	524	604	30,087	7,424	38,639

19 .Commitments and Contingencies

Federal Grants

The state participates in a number of federally assisted grant programs. Substantially all grants are subject to either the federal Single Audit Act or to financial and compliance audits by the grantor agencies or their designees. The fiscal year 1992 Single Audit of the State of Maine resulted in questioned costs of $6.9 million. Disallowances and sanctions as a result of this audit may become liabilities of the state. The amount of expenditures which may be disallowed, if any, by the grantor agencies cannot be determined at this time.

Deferred Payments

Chapter 121, Public Law 1991 deappropriated 1991 fiscal year funds and deferred General Fund payments until after July 1, 1991. Chapter 591, Public Law 1991 stipulated that these funds would be paid during the 1993 fiscal year for the following:

	(Dollars in Millions)
° Maine Maritime Academy	$ 0.6
° Maine Technical College System	2.0
° University of Maine System	11.6
Total Deferred	$14.2

Title 20A, MRSA § 15005 states that payments for General Purpose Aid for Local Schools must be paid each month no later than the last day of the month and any balance must be paid within seven days after the end of the fiscal year. At June 30, 1992, the amount due to local schools was $39.6 million.

No provision to pay any of the deferred amounts has been made in the accompanying financial statements.

Finance Authority of Maine

The state is authorized to guarantee certain obligations of the Finance Authority of Maine (FAME) not to exceed, in the aggregate at any one time outstanding, the principal amount of $95.5 million, for the following purposes: $87.5 million for insurance of mortgage loans for industrial manufacturing, fishing, and agricultural and recreational enterprises; $4 million for student loan guarantees; and $4 million for veterans small business loan insurance. At June 30, 1992 amounts committed pursuant to these authorizations were approximately $50.4 million. In addition, the state has a $75 million reserve fund restoration commitment with FAME. As of June 30, 1992, FAME had committed to $25.6 million in securities backed by this commitment. The state has not been required to restore the reserve fund.

Maine School Building Authority

The state is authorized to guarantee certain obligations of the Maine School Building Authority (MSBA) not to exceed, in the aggregate at any one time outstanding, the principal amount of $4.8 million. As of June 30, 1992 the total principal amount of outstanding MSBA bonds was $600 thousand.

Maine State Housing Authority

The state has a reserve fund restoration commitment with the Maine State Housing Authority (MSHA) based on total debt outstanding. As of June 30, 1992, the total principal amount of outstanding MSHA bonds was $973.6 million. The state has not been required to restore the reserve fund.

Maine Municipal Bond Bank

The state has a reserve fund restoration commitment with the Maine Municipal Bond Bank (MMBB) based on total debt outstanding. As of June 30, 1992 the total principal amount of outstanding MMBB bonds was $787 million. The state has not been required to restore the reserve fund.

AMHI Consent Decree

As a result of the settlement of a class action suit brought against the Augusta Mental Health Institute (AMHI), the state is responsible for compliance with the Consent Decree signed in August 1990. Compliance with the decree could cost $50-75 million over a number of years.

Litigation

The State of Maine is presently involved in litigation involving certain taxes assessed by the state. It is not possible for the Attorney General's office to determine the final outcome of the pending cases. Potential losses, should all of the cases have unfavorable outcomes, are approximately $5.1 million.

In addition, the state is party to other claims and litigation that occur in the normal course of governmental operations, some involving substantial amounts. Attorneys for the state have advised that adverse court decisions are not probable.

Other Obligations

The state is authorized under Article 9, §14c of the Maine Constitution to guarantee obligations for $1 million in mortgage loans to members of the two tribes on the several indian reservations. As of June 30, 1992 there were no bonds issued pursuant to these articles.

20. **Fund Equity Restatement**

Fund Equity at June 30, 1991 has been restated as:

(Dollars in Thousands)

	General	Enterprise	Internal Service	Nonexpend-able Trust	Pension Trust
Fund Balance / Retained Earnings at June 30, 1991 as previously reported	$(69,582)	$(2,204)	$18,157	$13,057	$1,903,101
Prior period adjustments	(37,709)	5,120	859	(449)	27,887
Fund Balance / Retained Earnings as restated July 1	$(107,291)	$2,916	$19,016	$12,608	$1,930,988

Prior Period Adjustments

A. General Fund: Fund balance was overstated by $37.7 million due to inappropriate timing of tax revenue recognition. This amount has been reclassified as deferred revenue whereas during the prior year audit the Independent Auditor's Report contained a qualification for an inadequate allowance account for uncollectible taxes receivable.

B. Enterprise Funds: Retained earnings in the Department of Transportation enterprise funds were understated by $4.9 million due to overstated depreciation expense on donated fixed assets. Retained earnings in the Prison Industries Fund was understated by $180 thousand due to earned sales revenue which was erroneously recorded as deferred revenue.

C. Internal Service Funds: Retained earnings in the internal service funds were understated by $859 thousand due to overstated estimated workers' compensation liabilities.

D. Nonexpendable Trust Fund: Lands Reserved Trust Fund fund balance was overstated by $449 thousand due to an overstatement of income from investments.

E. Pension Trust Fund: Pension Trust Fund fund balance was understated by $27.7 million due to understated pension contributions receivable. This understated amount had no effect on the fund balance at June 30, 1992 due to the related effect on revenue. Fund balance was also understated by $119 thousand due to an overstated estimated workers' compensation liability.

21. Subsequent Events

New Bond Issues and Authorizations

On September 1, 1992 the State of Maine issued $105.2 million in general obligation bonds which carry interest rates of 4.10% to 8.00% and mature from September 1, 1994 through September 1, 2002. The bonds were issued to finance the acquisition, construction and improvement of certain public properties and to assist certain nonprofit organizations.

On May 1, 1993 the State of Maine issued $57.38 million in general obligation bonds which carry interest rates of 3.60% to 7.35% and mature from November 1, 1994 through November 1, 2003. The bonds were issued (a) in the aggregate principal amount of $44.23 million to finance the acquisition, construction and improvement of certain public properties, and (b) in the aggregate principal amount of $13.15 million to pay at maturity the principal amount of certain general obligation bonds previously issued.

On November 3, 1992 voters authorized additional bond issues of $22 million.

General Obligation Bond Rating

On August 24, 1993 Moody's Investors Service lowered its rating of the state's general obligation bonds from "Aa1" to "Aa".

Tax Anticipation Notes

On July 1, 1992 the State of Maine issued $170 million in general obligation tax anticipation notes (TANS) at 3.75% to improve the state's cash flow position. The TANS matured on June 30, 1993.

On July 26, 1993 the Treasurer of State was authorized to issue $170 million in tax anticipation notes to mature on June 30, 1994. TAN proceeds are to be used to finance cash flow requirements. No TANS have been issued under this authorization as of August 23, 1993.

Certificates of Participation

Pursuant to the master Lease-Purchase Agreement between the State of Maine and Fleet Bank of Maine, certificates of participation (COPS) totaling $1.8 million were issued January 1, 1993 to finance the acquisition of motor vehicles and telecommunications equipment. The state is required to make lease payments consisting of basic rent that is equal to the principal and interest on certificates, and additional rent that covers certain costs of ownership and operation of the leased property. The state's obligation to make lease payments and other obligations under the lease are dependent upon legislative appropriations. In the event of termination, all rights, titles and interest in the leased property shall be conveyed to the lessor. The 1993A certificates carry interest rates of 2.75% to 4.30% and mature between September 1, 1993 and September 1, 1996.

Fiscal Year 1994 and 1995 Budget Balancing Measures

Legislation effective June 30, 1993 revised General Fund appropriations for fiscal years 1994 and 1995. Measures taken to reduce General Fund appropriations included the following:

	(Dollars in Millions) 1993 - 94	1994 - 95
° Maine Residents Property Tax Program - Reduced property tax and rent relief by lowering eligibility ceilings and raising participation percentage thresholds	$ 18.14	$ 21.09
° General Purpose Aid for Local Schools - Reduced state subsidy to local schools	115.00	125.16
° Maine State Retirement System - Increased participant contribution rates to 7.65%; for participants with less than ten years of service, established a normal retirement age of sixty-two with a 6% annual reduction for early retirement for participants with less than ten years of service; modified cost of living adjustment provisions; modified the long-term return on investment assumption to 8.2%; and aggregated and placed unfunded liabilities on a new thirty-five year amortization schedule	95.10	100.90
° State departments and agencies - Delayed final June pay dates to July	9.30	.38
° Maine State Retirement System - Delayed June 1994 teachers' retirement payment to July	10.30	(10.36)
° General Purpose Aid for Local Schools - General Fund deappropriations offset by allocation of $16 million received from Maine Turnpike Authority for purchase of a portion of Interstate 95 from the Department of Transportation	15.00	1.00

Participating Local District (PLD) Consolidated Retirement Plan

Effective July 1, 1993 the Maine State Retirement System (MSRS) will institute the PLD Consolidated Retirement Plan. This plan consists of two regular plans and four special plans that will replace 250 separate plans which MSRS currently administers. All PLDs must elect a regular plan and if applicable, a special plan from those available.

Deappropriation of Funds - Fiscal Year 1993

Legislation effective July 1991 deappropriated money from the General and Highway Funds to the Maine State Retirement System for fiscal year 1993 totaling $25.5 million and $1.7 million respectively. These deappropriations resulted from the reduction of projected benefit needs and reforms in the retirement system including increasing the interest rate assumption to 8.87% for fiscal year 1993.

Debt Restructuring

On April 1, 1993 the State of Maine received an accelerated debt payment of $8.652 million from the University of Maine System. The state in turn assumed responsibility for and released the university from its obligation to repay outstanding general obligation bonds of $9.467 million. The state used the prepayment to meet other short-term General Fund obligations.

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PERS Historical Trend Information

STATE OF MAINE
DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
AUGUSTA, MAINE 04333

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

RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Supplementary Schedule of Public Employee Retirement System Historical Trend Information

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

The accompanying Schedule of Public Employee Retirement System (PERS) Historical Trend Information is not a required part of the basic financial statements of the State of Maine but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

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State of Maine
Schedule of PERS Historical Trend Information
June 30, 1992

Available three and ten year historical trend supplementary information required by Governmental Accounting and Financial Reporting Standards is:

Dollars in Millions

	Net Assets Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit as a Percentage of Annual Covered Payroll	Employer Contributions as a Percentage of Annual Covered Payroll
Maine State Retirement System							
1992	$1,367	$4,198	32.6%	$2,831	$1,047	270.4%	22.09%
1991	1,256	3,648	34.4	2,392	986	242.6	19.80
1990	1,135	3,328	34.1	2,193	924	237.3	19.66
1989	952	3,041	31.3	2,089	830	251.7	19.68
1988	799	2,777	28.8	1,978	758	260.9	19.47
Judicial Retirement System							
1992	$ 12	$ 23	52.1%	$ 11	$ 4	275.0%	34.81%
1991	11	21	52.4	10	4	250.0	35.09
1990	9	19	47.4	10	4	250.0	38.18
1989	7	18	38.9	11	4	275.0	41.81
Legislative Retirement System							
1992	$ 1	$ 1	100.0%	$ 0	$ 1	0%	12.83%
1991	1	1	100.0	0	1	0	12.66
1990	1	1	100.0	0	1	0	13.59
1989	1	1	100.0	0	1	0	12.28

Analysis of the dollar amount of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of the MSRS, JRS and LRS funding status on a going-concern basis. Analysis of this percentage over time indicates whether a system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the PERS. Trends in the unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of MSRS, JRS and LRS progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the PERS.

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Schedule of Federal Financial Assistance

STATE OF MAINE
DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
AUGUSTA, MAINE 04333

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

RODNEY L. SCRIBNER, CPA
STATE AUDITOR

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

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

We have audited the component unit financial statements of the State of Maine, for the year ended June 30, 1992, and have issued our report thereon dated July 16, 1993. These component unit financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 2C, the accompanying schedule is prepared primarily on the cash basis of accounting. Consequently, certain expenditures are recognized when paid rather than when the obligation is incurred.

Our audit was conducted for the purpose of forming an opinion on the component unit financial statements of the State of Maine, taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the component unit financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly presented 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

July 16, 1993

STATE OF MAINE
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
For the Year Ended June 30, 1992

Schedule B

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1992
		Major Federal Programs	
Department of Defense and Veterans Services			
Federal Emergency Management Agency	83.516	Disaster Assistance	$ 6,642,905
Department of Economic and Community Development			
U.S. Department of Housing and Urban Development	14.228	Community Development Block Grant	10,649,590
Department of Education			
U.S. Department of Agriculture	10.555	National School Lunch Program	13,784,361
U.S. Department of Education	84.010	Chapter I - Grants to LEAs	26,494,257
	84.027	Special Education - State Grants	10,357,485
	84.048	Vocational Education - Basic Grants to States	4,381,045
			55,017,148
Department of Human Services			
U.S. Department of Agriculture	10.551	Food Stamps (Note 3B)	103,365,435
	10.557	Special Supplemental Food Program - Women, Infants, Children	11,571,129
	10.558	Child and Adult Care Food Program	7,875,406
	10.561	State Administrative Matching Grants for Food Stamp Program	4,942,184
U.S. Department of Education	84.126	Rehabilitation Services - Basic Support	10,113,335
U.S. Department of Health and Human Services	93.020	Family Support Payments to States - Assistance Payments	74,081,285
	93.023	Child Support Enforcement	8,074,950
	93.658	Foster Care - Title IV-E	7,890,585
	93.667	Social Services Block Grant	12,739,994
	93.778	Medical Assistance Program	460,068,858
	93.802	Social Security - Disability Insurance	4,295,785
	93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	4,574,752
			709,593,698
Department of Labor			
U.S. Department of Labor	17.207	Employment Service	4,236,840
	17.225	Unemployment Insurance (Note 3F)	89,515,388
	17.250	Job Training Partnership Act	8,777,635
			102,529,863
Department of Transportation			
U.S. Department of Transportation	20.205	Highway Planning and Construction	71,902,712
Total Major Federal Programs			$ 956,335,916

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1992
		Nonmajor Federal Programs	
Department of Administrative and Financial Services			
General Services Administration	39.003	Donation of Federal Surplus Property (Note 3E)	$ 3,264,497
Department of Agriculture			
U.S. Department of Agriculture	10.025	Plant and Animal Disease, Pest Control and Animal Care	551,034
	10.156	Federal - State Marketing Improvement Program	54,000
	10.162	Inspection Grading and Standardization	403,634
	10.568	Temp. Emergency Food Assistance - Administrative Costs	94,524
	10.569	Temp. Emergency Food Assistance - Food Comm. (Note 3D)	445,856
	10.571	Food Commodities for Soup Kitchens (Note 3D)	213,642
U.S. Environmental Protection Agency	66.700	Pesticides Enforcement Program	264,619
			2,027,309
Department of the Attorney General			
U.S. Department of Health and Human Services	93.775	State Medicaid Fraud Control Units	224,698
Department of Conservation			
U.S. Department of Agriculture	10.063	Agricultural Conservation Program	682
	10.652	Forestry Research	72,811
	10.664	Cooperative Forestry Assistance	463,635
U.S. Department of the Interior	15.808	Geological Survey-Research and Data Acquisition	35,822
National Science Foundation	47.076	Education and Human Resources	82,795
U.S. Department of Energy	81.065	Nuclear Waste Disposal Siting	6,893
			662,638
Department of Corrections			
U.S. Department of Justice	16.540	Juvenile Justice & Delinquency Prevention - Alloc to States	197,453
	16.603	Corrections - Technical Assistance/Clearinghouse	56,259
			253,712
Department of Defense and Veterans Services			
Federal Emergency Management Agency	83.503	Civil Defense - Emergency Management Assistance	586,831
	83.505	State Disaster Preparedness Grants	27,646
	83.509	Facility Survey, Engineering and Development	43,985
	83.514	Population Protection Planning	103,162
	83.522	Radiological Defense	89,070
	83.528	Emergency Management - Field Training Program	101,981
			952,675

STATE OF MAINE
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
For the Year Ended June 30, 1992

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1992
		Nonmajor Federal Programs	
Department of Economic and Community Development			
U.S. Department of Housing and Urban Development	14.235	Supportive Housing Demonstration Program	$ 529,156
U.S. Department of the Interior	15.916	Outdoor Recreation-Acquisition, Development and Planning	494,692
U.S. Environmental Protection Agency	66.456	National Estuary Program	31,894
U.S. Department of Energy	81.041	State Energy Conservation	86,492
	81.050	Energy Extension Service	41,108
	81.052	Energy Conservation for Institutional Buildings	41,056
	81.502	Miscellaneous Federal Assistance Action	17,902
	83.100	National Flood Insurance Program	100,179
			1,342,479
Department of Education			
U.S. Department of Agriculture	10.550	Food Distribution Program (Note 3A)	3,591,214
	10.553	School Breakfast Program	1,911,206
	10.556	Special Milk Program for Children	145,821
	10.559	Summer Food Service Program for Children	446,091
	10.560	State Admin. Expenses for Child Nutrition	221,121
	10.564	Nutrition Education and Training Program	59,785
U.S. Department of Education	84.002	Adult Education-State-Administered Basic Grant Program	1,107,246
	84.003	Bilingual Education	71,601
	84.004	Civil Rights Technical Assistance and Training	221,297
	84.009	Education of Handicapped Children	593,501
	84.011	Migrant Education - Basic State Formula Grant Program	3,236,876
	84.012	Educationally Deprived Children-State Admin.	368,498
	84.013	Neglected and Delinquent Children	269,481
	84.029	Special Ed. Personnel Development and Parent Training	62,899
	84.049	Consumer & Homemaking	226,713
	84.151	Fed., State and Local Partnerships for Educ. Improvement	2,148,410
	84.158	Sec. Educ. and Transitional Svcs. for Youth with Disabilities	89,045
	84.162	Emergency Immigration Education Program	10,947
	84.164	Eisenhower Nat'l Prog. for Math and Science Education	907,711
	84.173	Special Education - Preschool Grants	2,688,831
	84.174	Vocational Education-Community Based Organizations	69,228
	84.185	Robert C. Byrd Honors Scholarships	50,000
	84.186	Drug-Free Schools and Communities - State Grants	2,542,696
	84.192	Adult Education for the Homeless	193,390
	84.196	Education of Homeless Children and Youth	69,636
	84.207	Drug-Free Schools and Comm - School Personnel Training	135,656
	84.215	The Secretary's Fund for Innovation in Education	137,813
	84.216	Capital Expenses	24,232
	84.218	State Program Improvement Grants	55,673
	84.223	English Literacy Program	3,804
	84.224	State Grants for Technology/Assist.- Disabled	480,499
	84.243	Tech-Prep Education	167,387
U.S. Department of Health and Human Services	93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	325,557
	—	Center for Education Statistics	11,924
	—	Veterans Education	154,869
			22,800,658

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1992
		Nonmajor Federal Programs	
Department of Environmental Protection			
U.S. Environmental Protection Agency	66.001	Air Pollution Control Program Support	$ 1,475,051
	66.419	Water Pollution Control-State and Interstate Program Support	771,939
	66.420	Small Community Outreach & Education Program	33,250
	66.433	State Underground Water Source Protection	44,503
	66.435	Water Pollution Control-Lake Restoration Cooperative	131,020
	66.438	205G-Construction Management Assistance	381,329
	66.454	Water Quality Management Planning	166,550
	66.456	National Estuary Program	64,040
	66.459	Nonpoint Source Reservation	286,834
	66.460	319H-Nonpoint Implementation	234,070
	66.463	104(b)(3) CSO/Stormwater	6,246
	66.504	Solid Waste Disposal Research	49,087
	66.505	Water Pollution Control - R & D and Demonstration	15,840
	66.701	Toxic Substances Compliance Monitoring	70,685
	66.705	Toxic Release Inventory	26,471
	66.706	Asbestos Enhancements	85,634
	66.801	Hazardous Waste Management Program	461,480
	66.802	Hazardous Substance Response Trust Fund (Superfund)	654,207
	66.804	State Underground Storage Program	205,451
	66.805	Underground Storage Tank Trust Fund Program	475,457
	66.900	Pollution Prevention Incentives - States	29,812
	66.925	State Data Management	6,048
	—	Dept. of Defense-State Memorandum of Agreement	173,491
	—	Data Management Project	49,195
			5,897,690
Executive Department - Division of Community Services			
U.S. Department of Agriculture	10.568	Temp. Emergency Food Assistance Prog. - Admin. (Note 3G)	83,205
U.S. Department of Energy	81.042	Weatherization Assistance for Low-Income Persons	(95,149)
U.S. Department of Health and Human Services	93.028	Low Income Home Energy Assistance	3,319,890
	93.032	Community Services Block Grants - Discretionary Awards	2,283,181
	93.600	Admin for Children, Youth & Families - Head Start	95,689
	93.614	Child Development Associate Scholarships	3,575
			5,690,391
Executive Department - State Planning Office			
U.S. Department of Commerce	11.301	Economic Development - Business Development Assistance	90,191
National Oceanic and Atmospheric Administration	11.419	Coastal Zone Management - Administration	1,800,994
	11.420	Coastal Zone Management - Estuarine Research Reserves	27,030
U.S. Department of the Interior	15.612	Endangered Species Conservation	17,788
U.S. Environmental Protection Agency	66.006	Air Pollution Control - Technical Training	20,175
	66.464	Near Coastal Waters	3,963
U.S. Department of Energy	81.090	State Energy Conservation	5,663
	—	Petroleum Violation Escrow Funds	2,878,763
			4,844,567
Executive Department - Science & Technology			
National Aeronautic and Space Administration	43.002	Technology Utilization	62,758
National Science Foundation	47.076	Education and Human Resources	292,870
U.S. Environmental Protection Agency	66.500	Environmental Protection - Consolidated Research	20,919
U.S. Department of Energy	81.049	Basic Energy Sciences - University and Science Education	41,839
			418,386
Executive Department - Substance Abuse			
U.S. Department of Health and Human Services	93.170	Community Youth Activity Demonstration Grants	348,253
	93.171	Community Youth Activity Program Block Grants	106,682
			454,935

Recipient/Grantor Agency	Federal Catalog Number	Program Title		Expenditures 1992
		Nonmajor Federal Programs		
Department of Human Services				
U.S. Department of Agriculture	10.570	Nutrition Program for the Elderly (Commodities) (Note 3C)	$	557,056
U.S. Department of Justice	16.575	Crime Victim Assistance		404,631
U.S. Department of Labor	17.235	Senior Community Service Employment Program		442,619
U.S. Environmental Protection Agency	66.032	State Indoor Radon Grants (SIRG)		120,970
	66.419	Water Pollution Control - State/Interstate Program Support		64,647
	66.432	State Public Water System Supervision		389,407
ACTION	72.001	Foster Grandparents Program		182,358
Nuclear Regulatory Commission	77.001	Radiation Control - Training Assistance & Advisory Counseling		4,798
U.S. Department of Education	84.128	Rehabilitation Services - Service Projects		13,573
	84.129	Rehabilitation Training		26,887
	84.132	Centers for Independent Living (VII-B)		40,765
	84.161	Rehabilitation Services - Client Assistance Program		60,572
	84.169	Comprehensive Living Svcs. for Independent Living (VII-A)		206,076
	84.177	Rehabilitation Services - Indep. Living for Older Blind Ind.		131,001
	84.181	Infants and Toddlers With Disabilities		372,784
	84.187	Supported Employ. Svcs. for Individuals w/Severe Handicaps		325,989
U.S. Department of Health and Human Services	93.021	Job Opportunities and Basic Skills Training		3,321,037
	93.026	Refugee Assistance - Voluntary Agency Programs		649,963
	93.037	Payments to States for Child Care Assistance		881,502
	93.116	Grants & Agreements for Tuberculosis Control Programs		128,466
	93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity		774,020
	93.130	Primary Care Services		136,308
	93.146	AIDS Drug Reimbursement Program		5,740
	93.161	Health Program for Toxic Substances and Disease Registry		34,977
	93.165	State Loan Repayment Project		10,025
	93.170	Community Youth Activity Demonstration Grants		293,640
	93.179	State Data Collection - Uniform Alcohol and Drug Abuse Data		31,658
	93.268	Childhood Immunization Grants		255,604
	93.283	Centers for Disease Control-Investigations and Tech. Assist.		349,260
	93.393	Cancer Cause and Prevention Research		192,222
	93.399	Cancer Control		(4,291)
	93.552	Special Programs for the Aging - Title III, Part G		17,567
	93.553	Special Programs for the Aging - Title III, Part A		16,078
	93.633	Special Programs for the Aging - Title III, Part B		1,968,003
	93.635	Special Programs for the Aging - Title III, Part C		2,370,667
	93.641	Special Programs for the Aging - Title III, Part D		36,515
	93.643	Children's Justice Grants to States		49,690
	93.645	Child Welfare Services - State Grants		1,571,194
	93.652	Adoption Opportunities		4,943
	93.659	Adoption Assistance		1,774,709
	93.668	Special Programs for the Aging-Title IV		227,440
	93.669	Child Abuse and Neglect State Grants		89,183
	93.671	Family Violence Prevention and Services		9,663
	93.672	Child Abuse Challenge Grants		2,525
	93.673	Dependent Care Planning & Development Grant		48,145
	93.674	Independent Living		434,393
	93.777	State Survey & Certification of Health Care Providers		1,506,782
	93.902	Model Comp. Drug Abuse Treatment Prog. for Critical Pop.		419,822
	93.913	Grants to States for Operation of Offices of Rural Health		16,075
	93.917	HIV Care Formula Grants		118,925
	93.977	Preventive Health Services - Sexually Transmitted Diseases		150,396
	93.987	Health Programs for Refugees		8,004
	93.988	Coop. Agreements for State Based Diabetes Control Programs		175,937
	93.991	Preventive Health and Health Services Block Grant		534,606
	93.994	Maternal & Child Health Services Block Grant		3,371,800
Unknown	—	Vital Statistics Cooperative Program		211,275
				25,538,601

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1992
		Nonmajor Federal Programs	
Department of Inland Fisheries and Wildlife			
U.S. Department of the Interior	15.600	Anadromous Fish Conservation Act	$ 62,415
	15.605	Sport Fish Restoration (Dingell-Johnson)	1,564,030
	15.611	Wildlife Restoration (Pittman-Robertson)	1,198,169
	15.612	Endangered Species Conservation	81,456
U.S. Department of Transporation	20.005	Boating Safety Financial Assistance	688,713
U.S. Department of Commerce	—	Cooperative Agreement-National Marine Fisheries	220,194
			3,814,977
Department of Labor			
U.S. Department of Labor	17.002	Labor Force Statistics	704,781
	17.202	Certification of Foreign Workers for Temp. Employment	633,464
	17.245	Trade Adjustment Assistance	1,693,695
	17.246	Employment & Training Assistance - Dislocated Workers	2,613,252
	17.500	Occupational Safety and Health	84,568
	17.506	7C1 Agreement	187,949
	17.600	Mine Health and Safety Grants	60,736
	17.801	Disabled Veterans Outreach Program	486,697
	17.802	Veterans Employment Program (IVC)	55,000
	17.804	Local Veterans Employment Representative Program	501,170
	—	Me. Occupational Information Coordination Committee	190,861
			7,212,173
Maine Arts Commission			
National Foundation on the Arts and the Humanities	45.003	Promotion of the Arts - Arts in Education	123,514
	45.007	Promotion of the Arts - States Program	460,919
	45.015	Promotion of the Arts - Folk Arts	10,258
			594,691
Maine Historic Preservation Commission			
U.S. Department of the Interior	15.904	Historic Preservation Fund Grants In Aid	426,822
Maine Historical Records Advisory Council			
National Historical Publications Records Commission	89.003	National Historical Publications and Records Grants	2,205
Maine Human Rights Commission			
U.S. Department of Housing and Urban Development	14.401	Fair Housing Assistance Program-State and Local	14,200
	14.856	Lower Income Housing Assistance Program - Moderate Rehab	4,800
Equal Employment Opportunity Commission	30.002	State & Local Anti-Discrimination Agency Contracts	135,968
			154,968
Department of Marine Resources			
U.S. Department of Commerce	11.405	Anadromous and Great Lakes Fisheries Conservation	31,266
	11.407	Interjurisdictional Fisheries Act of 1986	179,035
	11.427	Fisheries R/D and Cooperative Agreements	36,570
U.S. Department of the Interior	15.600	Anadromous Fish Conservation	29,854
U.S. Department of Health and Human Services	93.103	Food and Drug Administration - Research	21,403
	—	Bio Sample - Gulf of Maine	19,624
			317,752
Maine State Archives			
National Foundation on the Arts and the Humanities	45.149	Promotion of the Humanities - Div of Preservation and Access	34,939

STATE OF MAINE
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE
For the Year Ended June 30, 1992

Schedule B (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1992
		Nonmajor Federal Programs	
Maine State Library			
U.S. Department of Education	84.034	Public Library Services	$ 448,355
	84.035	Interlibrary Cooperation and Resource Sharing	93,528
	84.154	Public Library Construction & Technology Enhancement	210,835
			752,718
Department of Mental Health and Mental Retardation			
U.S. Department of Housing and Urban Development	14.179	Nehemiah Housing Opportunity Grant Program	225,748
U.S. Department of Education	84.024	Handicapped Early Childhood Education	151,796
U.S. Department of Health and Human Services	93.125	Mental Health Planning and Demonstration Projects	433,565
	93.150	Mental Health Services for the Homeless Block Grant	289,263
	93.159	State Comprehensive MH Service Planning Development Grants	11,289
	93.242	Mental Health Research Grants	110,049
	93.244	Mental Health Clinic or Service Related Training Grants	104,971
	93.630	Admin on Develop Disabilities - Basic Supp & Advocacy Grants	153,619
	93.631	Admin on Develop Disabilities - Projects of Nat'l Significance	149,048
			1,629,348
Department of Public Safety			
U.S. Department of Justice	16.005	Public Education on Drug Abuse	137,575
	16.550	Criminal Justice Statistics Development	44,092
	16.579	Drug Control and System Improvement - Formula Grant	1,969,093
	16.580	Drug Control and System Improvement - Discretionary Grant	48,562
U.S. Department of Transportation	20.218	Motor Carrier Safety Assistance Program	375,390
	20.600	State and Community Highway Safety	478,495
Federal Emergency Management Agency	83.008	Community Based Anti-Arson Program	2,294
	—	Presidential Detail	151,617
			3,207,118
Public Utilities Commission			
U.S. Department of Transportation	20.700	Pipeline Safety	10,402
Department of State			
U.S. Department of Transportation	20.218	Motor Carrier Safety Assistance Program	530,310
Department of Transportation			
Bureau of Indian Affairs	15.145	Technical Assistance - Economic Development Program	40,199
U.S. Department of Transportation	20.106	Airport Improvement Program	1,834,639
	20.308	Local Rail Service Assistance	169,063
	20.500	Urban Mass Transportation Capital Improvement Grants	663,170
	20.505	Urban Mass Transportation Technical Studies Grants	74,467
	20.507	UMTA Capital and Operating Assistance Formula Grants	989,163
	20.509	Public Transportation for Nonurbanized Areas	781,799
			4,552,500
Total Federal Financial Assistance - Nonmajor Programs			97,614,159
Total Federal Financial Assistance - Major Programs			956,335,916
Total Federal Financial Assistance			$ 1,053,950,075

See accompanying notes to the Schedule of Federal Financial Assistance

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STATE OF MAINE

NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

June 30, 1992

1. **Purpose of the Schedule**

   Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," requires a Schedule of Federal Financial Assistance showing total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA). Significant federal financial assistance programs which have not been assigned a CFDA number have been identified.

2. **Significant Accounting Policies**

   A. Reporting Entity - The accompanying schedule includes all federal financial assistance programs of the State of Maine for the fiscal year ended June 30, 1992. The reporting entity is defined in Note 1A of the component unit financial statements of the State of Maine.

   B. Basis of Presentation - The information in the accompanying Schedule of Federal Financial Assistance is presented in accordance with OMB Circular A-128.

      1. Federal Financial Assistance - Pursuant to the Single Audit Act of 1984 (Public Law 98-502) and OMB Circular A-128, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, nonmonetary federal assistance, including food stamps, and food commodities, is included in federal financial assistance and, therefore, is reported on the Schedule of Federal Financial Assistance. Federal financial assistance does not include direct federal cash assistance to individuals.

      2. Major and Nonmajor Programs - The Single Audit Act of 1984 and OMB Circular A-128 establish the levels of expenditures or expenses to be used in defining major and nonmajor federal financial assistance programs. Major programs for the State of Maine were those which exceeded $4 million in expenditures, distributions, or issuances for the fiscal year ended June 30, 1992.

   C. Basis of Accounting - The information presented in the Schedule of Federal Financial Assistance is presented primarily on the cash basis of accounting, which is consistent with the other federal grant reports. Maine's component unit financial statements are reported on the modified accrual basis of accounting and, therefore, the schedule's data may not be directly traceable to the component unit financial statements.

3. **Program Notes**

A. Department of Education - Food Distribution Program (CFDA #10.550): The reported total of federal financial assistance represents the value of food commodities distributed to various schools, institutions, and other qualifying entities. The value of inventory at June 30, 1992 was $433,548.

B. Department of Human Services - Food Stamps (CFDA #10.551): The reported total of federal financial assistance represents the value of food coupons issued. The value of inventory at June 30, 1992 was $21,309,877.

C. Department of Human Services - Nutrition Program for the Elderly (CFDA #10.570): The amount reported represents cash in lieu of commodities expended in the Elderly Feeding Program.

D. Department of Agriculture - Temporary Emergency Food Assistance - Food Commodities (CFDA #10.569): The reported total of federal financial assistance consists of the value of food commodities distributed under the Temporary Food Assistance Program (TEFAP). The value of inventory at June 30, 1992 was $518,931.

Food Commodities for Soup Kitchens (CFDA #10.571): The reported total of federal financial assistance consists of the value of food commodities distributed under Food Commodities for Soup Kitchens. The value of inventory at June 30, 1992 was $75,625.

E. Department of Administration - Bureau of Purchases - Federal Surplus Property (CFDA #39.003): Distributions are reported at the federally assigned value. The value of inventory at June 30, 1992 was $160,506.

F. Department of Labor - Unemployment Insurance (CFDA #17.225): Reported expenditures are comprised of the following:

U.I. Administrative Grant	$16,476,355
Trade Readjustment Act (FUBA)	1,098,160
Unemployment Compensation for Federal Employees	2,299,066
Unemployment Compensation for Ex-service Personnel	3,942,612
Unemployment Compensation for Ex-postal Workers	270,481
Emergency Unemployment Compensation	63,165,895
Disaster Unemployment Assistance	135,488
Extended Benefits	2,127,330
Total	$89,515,387

G. Executive Department - Division of Community Services - The following federal programs were transferred to the following agencies during the 1992 fiscal year:

Temporary Emergency Food Assistance - Administrative Costs (CFDA #10.568); Temporary Emergency Food Assistance - Food Commodities (CFDA #10.569); and Food Commodities for Soup Kitchens (CFDA #10.571) were transferred to the Department of Agriculture effective July 1, 1991.

Low-Income Home Energy Assistance Program (CFDA #93.028) was transferred to the Maine State Housing Authority (MSHA) on January 1, 1992. Whereas, MSHA is not included in the scope of our audit, total federal financial assistance reported is as of December 31, 1991.

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Reports on Internal Control

STATE OF MAINE
DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
AUGUSTA, MAINE 04333

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Tel. 287-2201
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Internal Control Structure Related Matters Noted in a Component Unit Financial Statement Audit Conducted in Accordance with *Government Auditing Standards*

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

We have audited the component unit financial statements of the State of Maine, for the year ended June 30, 1992, and have issued our report thereon dated July 16, 1993.

We have conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

In planning and performing our audit of the component unit financial statements of the State of Maine for the year ended June 30, 1992, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control structure.

The management of the State of Maine is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure 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 internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

Accounting Controls

- Cash
- Investments
- Revenue, receivables, and receipts
- Expenditures/expenses for goods and services and accounts payable
- Payroll and related liabilities
- Inventories
- Property, equipment, and capital expenditures
- Debt and debt service expenditures/expenses

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the component unit financial statements.

Reportable conditions other than material weaknesses that we found and the state agencies to which they relate are identified in the accompanying Schedule of Reportable Conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

Finding: Accounting System Does Not Comply With GASB Principles

Governmental Accounting Standards Board (GASB) Statement of Principle, Accounting and Reporting Capabilities, states,

> A governmental accounting system **must** make it possible both: (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles (GAAP), and (b) to determine and demonstrate compliance with finance related legal and contractual provisions.

The State of Maine accounting system does not meet the GAAP requirements of this principle .

We have identified certain problem areas due to not meeting GAAP requirements:

1. The Department of Administrative and Financial Services does not have adequate controls to ensure that agencies recognize revenue in the proper period. For example: the Bureau of Taxation did not provide accurate information regarding the availability of sales, corporate and withholding taxes receivable. We have proposed an audit adjustment to increase the deferred revenue account which would decrease General Fund Revenue/Fund Balance by $39.8 million.

2. Certain trust and agency funds are not recorded on official state accounting records. These include the Representative Payee accounts administered by the departments of Mental Health and Mental Retardation, Human Services and Corrections and the Employee Deferred Compensation Plan. At June 30, 1992 Deferred Compensation Plan assets and liabilities were $65.9 million; Representative Payee aggregate account balances were approximately $4.2 million. In addition, the Percival P. Baxter Trust Fund of $21.6 million, held by Boston Safe Deposit and Trust Company, is not recorded in official state accounting records.

3. In fiscal year 1991, the Department of Administration coordinated the issuing of $16.0 million in certificates of participation but did not reflect the proceeds and associated debt in official state accounting records. As of June 30, 1992 debt totaling $15.7 million and proceeds totaling $7.2 million are still not reflected on the state's accounting records and financial statements.

4. The Bureau of Accounts and Control does not have a year-end closing package to ensure correct recording of accounting transactions. For example, at year-end bureau personnel recorded $12.5 million in the prepaid expense account to balance interfund receivables and payables. Also, it incorrectly debited $22.4 million in assistance payments to prepaid expenses rather than to expenditures. Before audit adjustment, assets (prepaid expense) and expenditures were overstated by $34.4 million.

5. Centralized information is not sufficient to prepare all necessary financial adjustments and required note disclosures. For instance, adjustments and note information for capitalized leases and lease commitments cannot be obtained from management.

6. The General Fixed Assets Account Group (GFAAG) cannot be audited due to an absence of supporting documents. Because records are not adequate we cannot express an audit opinion on the GFAAG.

7. There is no procedure in place and the accounting system cannot identify certain entries that comply with legal budget requirements but also require adjustments to properly present financial information on a basis consistent with generally accepted accounting principles (GAAP). General Fund fund balance was reduced by $146.7 million to reflect the cumulative effect of these GAAP adjustments in the audited financial statements.

8. The accounting knowledge of state agency personnel varies significantly. Although many are generally knowledgeable about accounting on the budgetary basis, there is limited understanding of generally accepted accounting principles and the associated reporting requirements. Nonroutine accounting entries are frequently incorrect.

Recommendation:

We recommend that the Commissioner of Administrative and Financial Services provide accounting guidance, establish procedures and commit sufficient resources so that the financial position and results of financial operations of the funds and account groups of the State of Maine may be presented fairly and with full disclosure in conformity with generally accepted accounting principles.

To ensure that only qualified candidates are placed on employment registers, we recommend that the Bureau of Human Resources carefully review all accounting experience claimed by candidates for all accounting positions. We further recommend that the Bureau of Human Resources limit promotional opportunities on registers for senior level accountant and financial management positions to those individuals who thoroughly understand GASB requirements, governmental generally accepted accounting principles and fund accounting for large governments.

Auditee Response:

The MFASIS system has greatly enhanced our ability to come into compliance with GAAP; however, additional systems (i.e. Fixed Asset Accounting) and additional trained accountants are required to fully implement. The State of Maine, Department of Administrative and Financial Services, would like to comply with GASB and present financial statements on a GAAP basis. However, at this time, resources are not available to implement this fully. We will do as much as possible with currently available resources.

In reference to the concern about the accounting knowledge of state agency personnel as expressed in item 8, we want to report that a committee has reviewed qualifications for all financial positions in state government and given its recommedations to the Bureau of Human Resources.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the State of Maine in a separate letter dated July 16, 1993.

This report is intended for the information of management, the legislature, and the Office of Audit Services - U.S. Department of Health and Human Services. However, this report is a matter of public record and its distribution is not limited.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 16, 1993

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Single Audit Report on the Internal Control Structure Used in Administering Federal Financial Assistance Programs

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

We have audited the component unit financial statements of the State of Maine, for the year ended June 30, 1992, and have issued our report thereon dated July 16, 1993. We have also audited the State of Maine's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated July 16, 1993.

We conducted our audits in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement and whether the State of Maine complied with laws and regulations, noncompliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended June 30, 1992, we considered the State of Maine's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the State of Maine's component unit financial statements and on its compliance with requirements applicable to major programs and not to provide assurance on the internal control structure. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed policies and procedures relevant to our audit of the component unit financial statements in a separate report dated July 16, 1993.

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

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

Administrative Controls

General Requirements

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-free Workplace Act
- Administrative requirements

Specific Requirements

- Types of services allowed or not allowed
- Eligibility
- Matching, level of effort, or earmarking
- Reporting
- Cost allocation
- Special requirements, if any
- Monitoring subrecipient
- Claims for advances and reimbursements

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

Because of the large number of nonmajor programs and the decentralized administration of these programs, we performed procedures to obtain an understanding of the internal control structure policies and procedures relevant to nonmajor programs on a cyclical basis. Our procedures during the current year covered 45 percent of the nonmajor programs administered by the State of Maine as a whole. The nonmajor programs not covered during the current year have been or are expected to be subject to such procedures at least once during the three year cycle.

During the year ended June 30, 1992, the State of Maine expended 91 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the State of Maine's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the State of Maine's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

Reportable conditions other than material weaknesses that we found and the state agencies to which they relate are identified in the accompanying Schedule of Reportable Conditions.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matter involving the internal control structure and its operation that we consider to be a material weakness as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the State of Maine's component unit financial statements, and of its compliance with requirements applicable to its major federal financial assistance programs for the year ended June 30, 1992, and this report does not affect our reports thereon dated July 16, 1993.

Finding: Subrecipient Audits

The Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," requires the State of Maine to determine a) whether subrecipients of federal funds have met audit requirements; and b) whether the subrecipient spent federal funds provided in accordance with applicable laws and regulations.

Federal agencies hold the recipient, not the subrecipient, responsible for compliance at the subrecipient level. This includes repaying any federal financial assistance because the subrecipient failed to comply with federal laws and regulations. The state is not in compliance with the subrecipient monitoring requirements of OMB Circular A-128.

The programs affected are:

The Maine Department of Labor which administers the Job Training Partnership Act (CFDA #17.250) does not have adequate controls to ensure that subrecipient audits are performed and programs are properly monitored in accordance with federal regulations.

The Maine Department of Human Services has not performed subrecipient audits for the following federal programs within the two year requirement of OMB Circular A-133.

Special Supplemental Food Program for Women, Infants, and Children
CFDA #10.557

Child and Adult Care Food Program
CFDA #10.558

Crime Victim Assistance
CFDA #16.575

Senior Community Service Employ. Program
CFDA #17.235

Rehabilitation Services - Basic Support
CFDA #84.126

Family Support Payments to States - Assistance Payments
CFDA #93.020

Work Incentive Program / WIN Demonstration Program
CFDA #93.029

Acquired Immunodeficiency Syndrome (AIDS) Activity
CFDA #93.118

Emergency Medical Services for Children
CFDA #93.127

Childhood Immunization Grants
CFDA #93.268

Centers for Disease Control - Investigation and Technical Assistance
CFDA #93.283

Children's Justice Grants to States
CFDA #93.643

Foster Care - Title IV-E
CFDA #93.658

Social Services Block Grant
CFDA #93.667

Special Programs for the Aging - Training, Research and Discretionary Projects and Programs
CFDA #93.668

Grants to States for Planning and Development of Dependent Care Programs
CFDA #93.673

Independent Living
CFDA #93.674

Medical Assistance Program
CFDA #93.778

Health Program for Refugees
CFDA #93.987

Preventive Health and Health Services
Block Grant
CFDA #93.991

Alcohol and Drug Abuse and Mental Health
Services Block Grant
CFDA # 93.992

Maternal and Child Health Services Block Grant
CFDA #93.994

In addition, we found $422,715 in unaudited federal funds for programs not listed in the Catalog of Federal Domestic Assistance.

The Maine Department of Defense and Veterans Services does not have adequate controls to ensure that subrecipient audits are performed in accordance with federal regulations for the Emergency Management Assistance Program (CFDA #83.503), States and Local Emergency Operating Center (CFDA #83.512) and Disaster Assistance Program (CFDA #83.516).

The Maine Department of Corrections does not have adequate controls to ensure that subrecipient audits are performed in accordance with federal regulations for the Juvenile Justice and Delinquency Prevention Program (CFDA #16.540).

The state is subject to federal sanctions for noncompliance as outlined in §17 of OMB Circular A-128 which states, "In cases of continued inability or unwillingness to have a proper audit, federal agencies must consider other appropriate sanctions including:

- withholding a percentage of assistance payments until the audit is completed satisfactorily,
- withholding or disallowing overhead costs, and
- suspending the Federal assistance agreement until the audit is made."

We directed audit findings to the various departments listed above. In addition, Title 5, MRSA, §1654 requires the Commissioner of Finance to issue guidelines for performance and standard audit practices to be used by the state agency responsible for directing and completing audits of each community agency.

Recommendation:

We recommend that the Commissioner of Finance ensure that audits of community agencies and other subrecipients are performed according to federal regulations and applicable auditing standards.

Auditee Response:

. . . a new position . . . for this function . . . was filled. Steps are now being taken to revise the Maine Uniform Accounting and Auditing Practices Act to make it more compatible with OMB Circular A-133 and at the same time establish accountability with efficiency for state funds. A grants register . . . (and) a tracking system will be established to provide information on audit completion, findings, corrective action plans, and audit resolution . . . .

The Office of the Commissioner would like to note:

1. *(There are audits of some agencies) by CPA firms. Corrective action is taken (when needed).*

2. *All departmental audit staff meet requirements set forth by the Bureau of Human Resources for the position of auditor . . . .*

3. *(Due to a) lack of a grants register . . . each department strives to ensure the integrity of its own funds.*

The three programs cited for the Maine Department of Defense and Veterans Services are not subject to OMB Circular A-133 for which the Commissioner of the Department of Administrative and Financial Services has oversight responsibilities. The Commissioner of the Department of Administrative and Financial Services does have authority over other state departments to ensure their compliance with OMB Circular A-128.

The Department of Corrections, through their Juvenile Justice Advisory Group, has been monitoring subrecipients of the Juvenile Justice and Delinquency Prevention Program (CFDA #16.540). Plans are in progress to do this more effectively.

The Department of Labor has been developing procedures to ensure proper monitoring of subrecipients subject to the Job Training Partnership Act. Some of the procedures will be online for FY 1993, and fully established by FY 1994.

The Department of Human Services has been making progress on their backlog of subrecipient audits. Guidelines and criteria for standard audit practices are being redefined which will make it possible for the state departments that now have audit departments, to monitor more timely federal funds they pass through to subrecipients.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the State of Maine in a separate letter dated July 16, 1993.

This report is intended for the information of management, the legislature, and the Office of Audit Services - U.S. Department of Health and Human Services. However, this report is a matter of public record and its distribution is not limited.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 16, 1993

State of Maine
Schedule of Reportable Conditions
For the Year Ended June 30, 1992

Department of Administrative and Financial Services

(1) CFDA #: Various Federal Programs **Questioned Costs:** $5.8 million

Finding: Overpayment of retirement contributions for all federal programs

Chapter 591, Public Laws of 1991 deappropriated $82,346,516 from the General Fund and $452,100 from the Highway Fund intended for employer contributions to the Maine State Retirement System (MSRS) for employees whose salaries are appropriated from those funds. The MSRS recognized receipt of these contributions and then returned the contributions to the respective funds by journal entries. There was no corresponding reimbursement of contributions to federally funded programs. Therefore, federally funded programs paid an employer contribution rate that was higher than the effective rate for the General and Highway Funds. The increase in the pension system's unfunded liability will result in higher future contribution rates. The resulting overpayment for federally funded employer contributions is approximately $5.8 million.

The Office of Management and Budget (OMB) Cost Principles for State and Local Governments, (Circular A-87), Section B Allowable Costs, paragraph 14b allows employee benefits in the form of employer contributions or expenses for pension plans provided such expenses are distributed equitably to grant programs and to other activities. According to Attachment A, Part B, Paragraph 1g the total cost should be net of credits.

Recommendation:

We recommend that the expenses incurred for employer contributions to pension plans be distributed equitably and according to OMB Circular A-87.

Auditee Response:

Our calculations show the overpayment for federally funded employer contributions to be less than the calculations of the Department of Audit. The Department of Administrative and Financial Services is working with the federal Division of Cost Allocation on the resolution of this issue.

(2) Bureau of Accounts and Control
Bureau of the Budget

Finding: Debt payment procedures do not comply with state law

Funds drawn from state treasury without legislative appropriation

In fiscal year 1992 the State of Maine issued General Obligation Tax Anticipation Notes (TANs) of $150 million. TAN proceeds were deposited into the state's General Fund to meet current expenses. In June 1992 the state Treasurer paid the TAN interest and principal due that amounted to $156,759,375.

The state budget did not include an appropriation for the amount of interest due. According to officials of the Office of Treasurer of State and Bureau of the Budget, payment of the interest due was to be provided by investing the TAN proceeds. For this reason the Maine legislature did not appropriate funds for the interest payment as required by the Maine Constitution Article 5, Part 3 §5. It states, "The Legislature . . . shall provide by appropriation for the payment of interest upon and installments of principal of all bonded debt created on behalf of the State as the same shall become due and payable." In addition, since funds were not appropriated payment of the interest did not comply with the Maine Constitution Article 5, Part 3 §4 or with 5 MRSA §1543. These require that money shall not be drawn from the treasury except in accordance with authorized appropriations.

Report to the Joint Standing Committee on Appropriations and Financial Affairs not made

Chapter 589 PL of 1991 established the Tax Anticipation Note Debt Service Account. It further authorized the Treasurer to set aside sufficient General Fund revenue to meet principal, interest, and related payments in case the debt service account had insufficient resources.

Chapter 589 required the state Treasurer to report to the Joint Standing Committee on Appropriations and Financial Affairs the amount, if any, of General Fund revenue that was set aside. Treasury officials said there had been no report because they thought the TAN earnings sufficient so that no General Fund revenues was needed and consequently no report required. If the TAN proceeds had been invested intact, earnings would have been sufficient to pay interest expenses. In our opinion, investment earnings on the TAN were properly segregated to the extent that TAN proceeds were invested prior to disbursement. Because the TAN proceeds were disbursed in the month of receipt, we consider the entire $6.7 million interest payment to have been set aside from other General Fund revenue and therefore a report was required.

The Treasurer segregated the $150 million TAN proceeds as a dedicated account within the General Fund for distributing the Treasurer's Cash Pool (TCP) investment earnings. The Treasurer applied the TCP earnings rate to the TAN principal and credited the resulting figure to a liability account. In this way investment earnings of over $6.7 million were recorded as earned on the TAN proceeds and used by the Treasurer to pay the June 1992 TAN interest amount due which was $6,759,375.

Regardless of how the investment earnings were distributed the result would have been the same. Because the General Fund was in a negative cash position, it incurred interest expenses either by borrowing money from other funds or by issuing TANs. The actual net TAN and General Fund investment earnings of $1.8 million were $5 million less than needed to pay the TAN interest due. Currently, these accounting and budgeting practices remain in effect.

State financial records misstated

With the knowledge of the Bureau of the Budget and the Bureau of Accounts and Control, the June TAN payment of $156,759,375 was charged to a liability account. This act caused General Fund interest expenditures to be understated by $6,759,375. Because of the investment earnings allocation method described previously, recorded General Fund investment earnings revenue of negative $4,986,551 were understated by $6,827,375. Since revenue was less than expenditures the General Fund balance was appropriately reduced by $4,986,551.

Budget document incomplete

Title 5 MRSA, § 1663, Scope of Budget, requires that the state budget ". . . shall present a complete financial plan . . . set forth . . . all interest and debt redemption charges . . . anticipated revenues . . . and any other additional means of financing expenditures proposed . . . ."

Although the budget was prepared according to the appropriations and allocations authorized by current budget law, the budget did not present a complete financial plan because it did not include principal, interest and debt redemption charges associated with the TANs. These General Fund charges were principal repayments of $150 million and interest expenditures of $6,759,375.

Recommendation:

We recommend the following:

1. The budget process not include netting interest expenses and investment earnings;

2. Responsible officials recognize and adhere to the constitutional requirement of legislative appropriation for all known expenses associated with short term borrowing; and

3. Revenue and expenditures should be coded as such on the state accounting records and should not be coded directly to balance sheet accounts.

Auditee Responses:

1. State financial records misstated The Bureau of the Budget is responsible for the development and implementation of the state budget in accordance with the budget bills *enacted by the legislature and signed into l aw by the Governor. The Bureau of the Budget consequently does not involve itself directly in matters that are clearly within the purview of the Department of the Treasury and the Bureau of Accounts and Control. Thus, the claim that the bureau of the Budget agreed to record the FY 92 June TAN payment of $156,759,375 as a liability is not accurate.*

2. *Budget document incomplete The budget document is prepared in accordance with current budget law, thus the 94-95 document reflected the legislative treatment of the FY 92 TAN as authorized in PL 1991, c. 589. Furthermore, the FY 92 actual year does not represent data prepared by the Bureau of the Budget but presents actual accounting data from the Bureau of Accounts and Control.*

3. *Final comment The First Regular Session of the 116th Legislature acted properly on the audit findings through the enactment of PL 1993, c. 382 which appropriated the estimated debt service requirements for the FY 94 TAN with investment income from the TAN included as General Fund Undedicated Revenue.*

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(3) Bureau of Accounts and Control

Finding: Incorrect use of prepaid expense (Prior Year Finding)

The Bureau of Accounts and Control incorrectly used the prepaid expense account to a) offset interfund payables and receivables; b) generate postdated AFDC checks; c) generate Medicaid checks with wrong scheduled pay dates, i.e., old year instead of new year; and d) alleviate deficit account balances. At June 30, 1992 the following amounts were incorrectly included in prepaid expense:

	Millions
Interfund payables/receivables	$12.5
AFDC	9.5
Medicaid	12.9
Total	$34.9

The correct use of prepaid expense is to account for current outlays to benefit a future period. Interfund payables and receivables should have been offset to expenditures or revenues respectively. Expenditures should have been recognized in the period in which they were incurred.

Recommendation:

We recommend that the Bureau of Accounts and Control use prepaid expense only for those current outlays that benefit a future period.

Auditee Response:

Not possible in budgetary accounting. Will try to make necessary adjustment to GAAP statements.

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(4) Bureau of Accounts and Control

Finding: Deferred Compensation Plan assets and liabilities of $65.9 million not recorded on Controller's records (Prior Year Finding)

The State of Maine is accountable for participant contributions to the Deferred Compensation Plan. The practice of the Bureau of Accounts and Control has been to record the cash value of the plan assets and liabilities in the State of Maine Annual Financial Report but not in its accounting records. Consequently, as of June 30, 1992 the bureau had not recorded assets and liabilities of $65.9 million on the state accounting records. According to Government Accounting and Financial Reporting Standards (GASB) Statement 2 Section 9, " . . . deferred compensation plan balances should be displayed in an agency fund of the government employer who had legal access to the resources. . . ."

Recommendation:

We recommend that the Bureau of Accounts and Control record the assets and liabilities of the Deferred Compensation Plan in an agency fund.

Auditee Response:

This finding has been implemented during fiscal year 1993.

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(5) Bureau of Accounts and Control

Finding: Incorrect posting of interfund payables

At the end of each fiscal year, the Bureau of Accounts and Control reviews interfund payables and receivables to determine if assets and liabilities are equal. Certain internal service funds accrue revenue based on an estimate of June sales. In offsetting the receivables related to estimated sales, the bureau incorrectly posted the payables to the same fund as the receivables because actual sales data was not available. During fiscal year 1992 the bureau posted $2.4 million of interfund payables to the incorrect fund because of the method it used to offset estimated sales.

Recommendation:

We recommend that the bureau obtain historical sales data from the appropriate agencies in order to correctly record the liability.

Auditee Response:

Researching.

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(6) Bureau of the Budget

Finding: Highway Fund investment earnings credited to the General Fund

Chapter 622, Part K-1, Public Laws of 1991 amended 5 MRSA, § 135. Effective November 1, 1991 interest earned on investments of the Highway Fund must be credited to the General Fund. From November 1991 through June 1992 these interest earnings amounted to $398,806.

The Maine Constitution, Article 9 § 19 restricts use of Motor Vehicle and Motor Vehicle Fuel (Highway Fund) revenues. All revenues derived from these fees and taxes shall be expended solely for the following purposes and not diverted for any other purpose.

. . . cost of administration, statutory refunds and adjustments, payment of debts and liabilities incurred in construction and reconstruction of highways, the cost of construction, reconstruction, maintenance and repair of public highways and bridges under the direction and supervision of a state department having jurisdiction over such highways and bridges and expense for state enforcement of traffic laws . . ..

In our opinion, interest earned on investments of the Highway Fund is derived from Motor Vehicle and Motor Vehicle Fuel revenues and as such may not be diverted to the General Fund.

Recommendation:

We recommend that 5 MRSA, § 135 be revised so that it will be consistent with the Maine Constitution. We also recommend that interest earned on Highway Fund investments be returned to that fund.

Auditee Response:

The finding has correctly described the statutory amendment contained in PL 1991, c. 622, Section K-1 that authorized the crediting of Highway Fund Investment earnings as undedicated revenue to the General Fund. It is our assumption that the language would not have been submitted to the Legislature nor passed into law without a thorough discussion of the constitutionality of the proposed language. Unfortunately, source documentation is not available to substantiate that a determination was made that the proposed language was not in violation of Article 9, Section 19 of the Maine Constitution.

Article 9 refers to "...all revenues derived from fees, excise and license taxes relating to registration, operation and use of vehicles on public highways, and to fuels used for propulsion of such vehicles", which appears to refer to direct sources of revenue. Highway Fund investment earnings represent indirect sources of revenue from the investment of the direct sources referred to in the constitution. Consequently, the audit recommendation cannot be satisfied until the legal status of the statutory amendment is resolved, and the executive and legislative branches of government have an opportunity to discuss this issue.

(7) Bureau of General Services

Finding: Incomplete General Fixed Assets Account Group records (Prior Year Finding)

Accurate General Fixed Assets Account Group records are necessary for financial reporting and reducing the risk of misappropriated state property. The Bureau of General Services (BGS) is responsible for maintaining the detail records of all the land, buildings and equipment owned by the state. Currently the BGS does not have adequate records of the state's general fixed assets.

The BGS uses a control ledger to record plant and equipment reports received from state agencies for fiscal year 1992. As of July 1993 only 10 of 152 reports were recorded as received. The account clerk position that has been responsible for maintaining the plant and equipment records has been vacant for several months. Incomplete general fixed assets records are not auditable. Therefore we were not able to determine which, if any, of the agency reports had been recorded on the state's official plant and equipment records.

Recommendation:

As in the past, we recommend that BPI implement a comprehensive fixed asset system that will document, account for, and properly report fixed assets in accordance with generally accepted accounting principles.

Auditee Response:

A position within the Bureau of General Services was filled July 19, 1993. The responsibilities of this employee will be to complete and keep current the detail records of the general fixed assets of state government.

(8) Bureau of Taxation

Finding: Inadequate tax reconciliations and revenue recognition procedures overstate General Fund fund balance by $50.5 million (Prior Year Finding)

The Bureau of Taxation had inadequate procedures to reconcile revenue and taxes receivable at June 30, 1992. The bureau's procedures did not allow for complete reconciliation and thus would not detect all recording errors or deter misuse of funds. Tax revenue and receipts represented 87 percent of General Fund revenue.

Since June 30, 1992 the Bureau of Taxation has implemented reconciliation procedures for sales, withholding, individual income, corporate income, cigarette, estate, and insurance taxes. However, it does not regularly reconcile tobacco products, fuel, illegal drugs and commercial forestry excise taxes.

Taxation records all sales, withholding and corporate income tax receivables as revenue at the time of assessment. This method is unsatisfactory since it results in a significant mismatching of revenues and expenditures. The Governmental Accounting and Financial Reporting Standards 1600.106 states that revenues should be recognized when they become both measurable and available to finance expenditures of the current fiscal period.

The Bureau of Taxation has not analyzed patterns of payment in order to determine and report as revenue those assessments that will be collected in time to finance current expenditures. Prior to adjustment the General Fund balance was overstated by $50.5 million at June 30, 1992 because the division recognized as revenue certain assessments that did not meet the availability criterion.

Recommendation:

We recommend that the Bureau of Taxation continue to develop reconciliation procedures for taxes receivable and revenue. In addition, we recommend that taxation personnel accumulate complete and accurate data for reporting the history of collections to the Bureau of Accounts and Control so that tax assessments may be recognized as revenue when the availability criterion is met.

Auditee Response:

For the fiscal year beginning July 1, 1993 all taxation accounts are being reconciled on a monthly basis.

As our various taxes are being converted to Maine Automated Tax System (MATS), we will be in a much better position to analyze collection history data to provide Accounts and Control with the requisite information for recognizing revenue.

(9) Bureau of Taxation

Finding: Hospital assessment tax revenues and receivables unreconciled and overstated by $265.6 million

Title 36 MRSA, § 2801-A requires that each month hospitals pay a pro rata share of their estimated annual hospital assessment tax. Payments are due on or before the fifth day of each month. The Bureau of Taxation recorded the estimated annual hospital tax assessment as revenue at the time of assessment.

The Governmental Accounting and Financial Reporting Standards 1600.106 states that revenue should be recognized when it becomes both measurable and available. Since portions of the hospital assessment tax were not due until after fiscal year-end, the taxes did not meet the recognition criteria in fiscal year 1992. Revenues and receivables in the Special Revenue Fund were overstated by $25.5 million at fiscal year end.

In addition, the Bureau of Taxation has inadequate reconciliation procedures for hospital assessment tax revenue. Erroneous entries caused Special Revenue Fund revenue and taxes receivable to be overstated by $240.1 million at fiscal year-end. The Bureau of Taxation made a journal entry in September 1992 to correct the identified errors. Due to a mathematical error, Taxation made the journal for $238.8 million, resulting in a $1.3 million discrepancy that was not detected before our audit.

We noted that during our audit, the bureau could reconcile hospital assessment tax revenues and receivables, and has changed procedures that should alleviate this type of error in the future. The bureau of Taxation has allocated time and personnel to develop different reconciliation procedures. In addition, the bureau has processed entries to correct the hospital assessment tax discrepancies noted above.

Recommendation:

We recommend that the Bureau of Taxation continue its efforts to record hospital assessment tax revenue in the accounting period when due.

Auditee Response:

The bureau has implemented and will continue the reconciliation of the monthly revenue and account receivable balance, along with recording revenue in the appropriate accounting period.

(10) Bureau of Taxation

Finding: Income tax refunds not accrued

The Bureau of Taxation did not record a liability for income tax refunds payable at year-end. General Fund liabilities were understated and revenues overstated by $3.8 million at June 30, 1992.

The Governmental Accounting and Financial Reporting Standards 1600.110 states that known refunds of taxpayer-assessed revenues should be recorded as a liability and a reduction of revenue as of the time the refund claims are filed with the taxing authority.

Recommendation:

We recommend that the Bureau of Taxation provide the Controller's office with the amount of known refund claims filed before but not paid until after year-end.

Auditee Response:

The bureau will inform the Controller's office of the amount of individual income tax refunds ready to be processed for payment but not paid until after year-end.

(11) Division of Financial and Personnel Services

Finding: Maine Uniform Accounting and Auditing Practices Act (MAAP) not effectively administered (Prior Year Finding)

Title 5 MRSA, Chapter 148-B established MAAP which sets forth standard accounting practices and uniform criteria for audits of all funds that the state and federal governments awarded to community agencies. Title 5 MRSA, § 1654(A) defines the responsibilities of the commissioner of Administrative and Financial Services. His responsibilities include: providing guidelines and criteria for standard audit practices; maintaining registers of all qualified community agencies and all grants or contracts to community agencies; and ensuring that annual training is available. The commissioner is ultimately responsible for the interim and final administration of MAAP.

Department of Administrative and Financial Services (cont.)

In fiscal year 1992 the Department of Administrative and Financial Services had no mechanism for monitoring state agencies' MAAP responsibilities: it had not committed adequate resources to effectively administer MAAP; it had not assigned full time personnel to carry out the act; it had not developed procedures to ensure that audits of community agencies meet MAAP requirements; and it had not maintained a usable grants register. Examples of inconsistent or nonexistent MAAP applications are:

1. The department designates various state agencies as lead agencies which are responsible for ensuring the MAAP audit requirements are met; however, lead agency staffing, expertise and commitment to MAAP vary;

2. Lead agencies have no authority to require other state agencies to participate in subrecipient audits; they do not accept responsibility for assuring that expenditures of funds from other agencies comply with state and federal requirements;

3. Without a usable grants register, lead agencies consider only their own contract amounts when determining the need to audit even though federal and state audit thresholds are based on aggregate funding; this could exclude a community agency from an audit and therefore not comply with federal or state audit requirements; and

4. Contracts from certain state agencies are categorically excluded from audit coverage because state departments, particularly those without audit staff, frequently elect not to participate in an audit.

During fiscal year 1993 the department created a new position which will incorporate the responsibility for statewide coordination of MAAP requirements.

Recommendation:

In order to comply with all MAAP requirements we recommend that the commissioner continue to commit the resources necessary to provide oversight of the agencies responsible for coordinating and conducting audits of community agencies.

Auditee Response:

. . . a new position . . . for this function . . . was filled. Steps are now being taken to revise the Maine Uniform Accounting and Auditing Practices Act to make it more compatible with OMB Circular A-133 and at the same time establish accountability with efficiency for state funds. A grants register . . . (and) a tracking system will be established to provide information on audit completion, findings, corrective action plans, and audit resolution. . . .

The Office of the Commissioner would like to note:

1. (There are audits of some agencies) by CPA firms. Corrective action is taken (when *needed).*

2. *All departmental audit staff meet requirements set forth by the Bureau of Human Resources for the position of auditor . . . .*

3. *(Due to a) lack of a grants register . . . each department strives to ensure the integrity of its own funds.*

Department of Mental Health and Mental Retardation

(12) Division of Reimbursement

Finding: Inadequate system for billing patient care and treatment

During the course of a year the Division of Reimbursement processes $25-30 million in patient care and treatment billings for six state institutions. The receivables are maintained on a bookkeeping machine which is obsolete, difficult to repair or to replace parts.

The division also has a modem link to Pineland Center which has an automated microcomputer-based reporting and billing system. Billings should be possible since this system has an accounts receivable billing package. The package is not adequate, however, since it takes approximately one and one-half hours to generate one retroactive bill.

The division has another system for the Augusta Mental Health Institute (AMHI). It is also inadequate.

These systems are only three to five years old yet no complete system exists for accounts receivable for any facility. Consequently, the division runs parallel systems: the bookkeeping machine and the automated systems. This is not efficient or cost effective.

Modifications should be made to the billing system program to comply with federal and state reimbursement revisions. These modifications are included in an amendment to a contract with the vendor who installed the system. The modifications to the (AMHI) system will need a computer programmer.

Recommendation:

We recommend that the department review the computer systems for AMHI and Pineland in order to make them functional; and automate the accounts receivable functions for the other institutions.

Auditee Response:

As the finding indicates, we are continuing our efforts to modify the Pineland and case management billing programs to make them fully operational. We also agree that the AMHI and BMHI billing program needs significant revisions which can only be accomplished by a competent programmer. If our vacant position is not eliminated through the budget process, we will have someone on board by July, 1993.

Maine State Retirement System

(13) Finding: Inaccurate and incomplete information provided to actuary

Maine State Retirement System (MSRS) maintains a data system of current and previous participants. Actuaries use this information to determine future retirement obligations and the contribution rates necessary to maintain sufficient assets to pay benefits. We tested data on one hundred participants that had been provided to the actuaries. Test results were:

1. Contribution dates for eight members differed between the MSRS and the actuary;

2. The actuary had no records for four MSRS participants; and

3. Salary information for school district employees differed between MSRS and the actuary because MSRS provided the actuary with preliminary data obtained from the Department of Education rather than the final amounts reported by the individual school districts.

The projected effect from all errors is to understate by $3.1 million the member contribution information sent to the actuary. The effect on the unfunded liability is unknown.

Recommendation:

We recommend that the MSRS review and update its participant files; that it compile correct information to use for benefit determination; and that it give accurate information to actuaries.

Auditee Response:

The Retirement System cannot comment on findings 1 and 2 until it has had an opportunity to thoroughly examine the data set used by audit in preparing the finding.

The differences between final retirement salary information and the data used by the actuary in test 3 are minimal when considering the total salaries paid in a year. We judge the effect to be not material.

Department of Transportation

(14) Bureau of Transportation Services

Finding: Asset improvements not recorded

Fixed asset records of the Augusta State Airport Fund showed the following:

1. Project payments totaling $1.046 million for capital improvements were incorrectly expensed;

2. Improvements made to the runway and parking lot in the early 1980's totaling $4.8 million have not been depreciated in accordance with generally accepted accounting principles; and

3. Depreciation expense was understated by $54 thousand.

Recommendation:

We recommend that the department record the value of airport improvements as additions to the fund's fixed assets. We further recommend that it compute and record the depreciation expense consistently for all depreciable assets.

Auditee Response:

We concur with the intent of the audit finding and will initiate proper adjusting entries as follows:

1. *This project is currently incomplete; as such, we will record $1,045,817 as work-in-progress until project completion, then establish total cost as a fixed asset;*

2. *We are currently in the process of determining depreciation expense for runway and parking lot improvements, and will make appropriate entries prior to June 30, 1993; and*

3. *Depreciation expense entries will be up-to-date as of June 30, 1993.*

Office of Treasurer of State

(15) Finding: Cash variance between the Controller and Treasurer not reconciled at June 30, 1992

During fiscal year 1992, the Office of the Treasurer of State did not reconcile its cash balance to the official state accounting records maintained by the State Controller. Our reconciliation at June 30, 1992 identified an initial variance of $7.8 million. Treasury personnel have since identified the cause of this variance: part was due to the Maine Department of Labor benefit and clearing accounts that had not been reconciled to the Treasurer's records. The remaining variance was due to incorrect reporting of deleted and made over checks.

The Treasurer's and Controller's office personnel have instituted monthly reconciliation procedures which include using standardized forms for interagency communication and adjusting records to correct identified errors.

Recommendation:

We recommend the following:

1. The Treasurer continue to reconcile the labor benefit and clearing account cash balances with the Maine Department of Labor;

2. The Treasurer continue to reconcile cash in total and in sufficient detail so that it may be reconciled with state accounting records; and

3. The Controller and Treasurer continue to reconcile their cash balances each month.

Auditee Response:

1. The Labor account is reconciled on a current basis.

2. The Treasurer and Controller reconcile cash currently and the Treasurer reconciles cash in sufficient detail.

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(16) Finding: Debt payment procedures do not comply with state law

Funds drawn from state treasury without legislative appropriation

In fiscal year 1992 the State of Maine issued General Obligation Tax Anticipation Notes (TANs) of $150 million. TAN proceeds were deposited into the state's General Fund to meet current expenses. In June 1992 the state Treasurer paid the TAN interest and principal due that amounted to $156,759,375.

The state budget did not include an appropriation for the amount of interest due. According to officials of the Office of Treasurer of State and Bureau of the Budget, payment of the interest due was to be provided by investing the TAN proceeds. For this reason the Maine legislature did not appropriate funds for the interest payment as required by the Maine Constitution Article 5, Part 3 §5. It states, "The Legislature . . . shall provide by appropriation for the payment of interest upon and installments of principal of all bonded debt created on behalf of the State as the same shall become due and payable." In addition, since funds were not appropriated payment of the interest did not comply with the Maine Constitution Article 5, Part 3 §4 or with 5 MRSA §1543. These require that money shall not be drawn from the treasury except in accordance with authorized appropriations.

Report to the Joint Standing Committee on Appropriations and Financial Affairs not made

Chapter 589 PL of 1991 established the Tax Anticipation Note Debt Service Account. It further authorized the Treasurer to set aside sufficient General Fund revenue to meet principal, interest, and related payments in case the debt service account had insufficient resources.

Chapter 589 required the state Treasurer to report to the Joint Standing Committee on Appropriations and Financial Affairs the amount, if any, of General Fund revenue that was set aside. Treasury officials said there had been no report because they thought the TAN earnings sufficient so that no General Fund revenues was needed and consequently no report required. If the TAN proceeds had been invested intact, earnings would have been sufficient to pay interest expenses. In our opinion, investment earnings on the TAN were properly segregated to the extent that TAN proceeds were invested prior to disbursement. Because the TAN proceeds were disbursed in the month of receipt, we consider the entire $6.7 million interest payment to have been set aside from other General Fund revenue and therefore a report was required.

The Treasurer segregated the $150 million TAN proceeds as a dedicated account within the General Fund for distributing the Treasurer's Cash Pool (TCP) investment earnings. The Treasurer applied the TCP earnings rate to the TAN principal and credited the resulting figure to a liability account. In this way investment earnings of over $6.7 million were recorded as earned on the TAN proceeds and used by the Treasurer to pay the June 1992 TAN interest amount due which was $6,759,375.

Regardless of how the investment earnings were distributed the result would have been the same. Because the General Fund was in a negative cash position, it incurred interest expenses either by borrowing money from other funds or by issuing TANs. The actual net TAN and General Fund investment earnings of $1.8 million were $5 million less than needed to pay the TAN interest due. Currently, these accounting and budgeting practices remain in effect.

State financial records misstated

With the knowledge of the Bureau of the Budget and the Bureau of Accounts and Control, the June TAN payment of $156,759,375 was charged to a liability account. This act caused General Fund interest expenditures to be understated by $6,759,375. Because of the investment earnings allocation method described previously, recorded General Fund investment earnings revenue of negative $4,986,551 were understated by $6,827,375. Since revenue was less than expenditures the General Fund balance was appropriately reduced by $4,986,551.

Office of Treasurer of State (cont.)

Budget document incomplete

Title 5 MRSA, § 1663, Scope of Budget, requires that the state budget ". . . shall present a complete financial plan . . . set forth . . . all interest and debt redemption charges . . . anticipated revenues . . . and any other additional means of financing expenditures proposed . . . ."

Although the budget was prepared according to the appropriations and allocations authorized by current budget law, the budget did not present a complete financial plan because it did not include principal, interest and debt redemption charges associated with the TANs. These General Fund charges were principal repayments of $150 million and interest expenditures of $6,759,375.

Recommendation:

We recommend the following:

1. The budget process not include netting interest expenses and investment earnings;

2. Responsible officials recognize and adhere to the constitutional requirement of legislative appropriation for all known expenses associated with short term borrowing; and

3. Revenue and expenditures should be coded as such on the state accounting records and should not be coded directly to balance sheet accounts.

Auditee Responses:

The procedures for T.A.N. repayments as to interest cost incurred and interest earning on principal will be conformed as per the audit recommendation for fiscal year 1994.

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Reports on Compliance

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Compliance with Laws and Regulations Based on an Audit of Component Unit Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited the component unit financial statements of the State of Maine, as of and for the year ended June 30, 1992, and have issued our report thereon dated July 16, 1993.

We conducted our audit in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the State of Maine is the responsibility of the State of Maine's management. As part of obtaining reasonable assurance about whether the component unit financial statements are free of material misstatement, we performed tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants, that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the component unit financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in the 1992 component unit financial statements of the State of Maine.

Finding: Debt payment procedures do not comply with state law

Funds drawn from state treasury without legislative appropriation

In fiscal year 1992 the State of Maine issued General Obligation Tax Anticipation Notes (TANs) of \$150 million. TAN proceeds were deposited into the state's General Fund to meet current expenses. In June 1992 the state Treasurer paid the TAN interest and principal due that amounted to \$156,759,375.

The state budget did not include an appropriation for the amount of interest due. According to officials of the Office of Treasurer of State and Bureau of the Budget, payment of the interest due was to be provided by investing the TAN proceeds. For this reason the Maine legislature did not appropriate funds for the interest payment as required by the Maine Constitution Article 5, Part 3 §5. It states, "The Legislature . . . shall provide by appropriation for the payment of interest upon and installments of principal of all bonded debt created on behalf of the State as the same shall become due and payable." In addition, since funds were not appropriated payment of the interest did not comply with the Maine Constitution Article 5, Part 3 §4 or with 5 MRSA §1543. These require that money shall not be drawn from the treasury except in accordance with authorized appropriations.

Report to the Joint Standing Committee on Appropriations and Financial Affairs not made

Chapter 589 PL of 1991 established the Tax Anticipation Note Debt Service Account. It further authorized the Treasurer to set aside sufficient General Fund revenue to meet principal, interest, and related payments in case the debt service account had insufficient resources.

Chapter 589 required the state Treasurer to report to the Joint Standing Committee on Appropriations and Financial Affairs the amount, if any, of General Fund revenue that was set aside. Treasury officials said there had been no report because they thought the TAN earnings sufficient so that no General Fund revenues was needed and consequently no report required. If the TAN proceeds had been invested intact, earnings would have been sufficient to pay interest expenses. In our opinion, investment earnings on the TAN were properly segregated to the extent that TAN proceeds were invested prior to disbursement. Because the TAN proceeds were disbursed in the month of receipt, we consider the entire \$6.7 million interest payment to have been set aside from other General Fund revenue and therefore a report was required.

The Treasurer segregated the \$150 million TAN proceeds as a dedicated account within the General Fund for distributing the Treasurer's Cash Pool (TCP) investment earnings. The Treasurer applied the TCP earnings rate to the TAN principal and credited the resulting figure to a liability account. In this way investment earnings of over \$6.7 million were recorded as earned on the TAN proceeds and used by the Treasurer to pay the June 1992 TAN interest amount due which was \$6,759,375.

Regardless of how the investment earnings were distributed the result would have been the same. Because the General Fund was in a negative cash position, it incurred interest expenses either by borrowing money from other funds or by issuing TANs. The actual net TAN and General Fund investment earnings of \$1.8 million were \$5 million less than needed to pay the TAN interest due. Currently, these accounting and budgeting practices remain in effect.

State financial records misstated

With the knowledge of the Bureau of the Budget and the Bureau of Accounts and Control, the June TAN payment of $156,759,375 was charged to a liability account. This act caused General Fund interest expenditures to be understated by $6,759,375. Because of the investment earnings allocation method described previously, recorded General Fund investment earnings revenue of negative $4,986,551 were understated by $6,827,375. Since revenue was less than expenditures the General Fund balance was appropriately reduced by $4,986,551.

Budget document incomplete

Title 5 MRSA, § 1663, Scope of Budget, requires that the state budget "... shall present a complete financial plan ... set forth ... all interest and debt redemption charges ... anticipated revenues ... and any other additional means of financing expenditures proposed ...."

Although the budget was prepared according to the appropriations and allocations authorized by current budget law, the budget did not present a complete financial plan because it did not include principal, interest and debt redemption charges associated with the TANs. These General Fund charges were principal repayments of $150 million and interest expenditures of $6,759,375.

Recommendation:

We recommend the following:

1. The budget process not include netting interest expenses and investment earnings;

2. Responsible officials recognize and adhere to the constitutional requirement of legislative appropriation for all known expenses associated with short term borrowing; and

3. Revenue and expenditures should be coded as such on the state accounting records and should not be coded directly to balance sheet accounts.

Auditee Responses:

Office of Treasurer of State

The procedures for T.A.N. repayments as to interest cost incurred and interest earning on principal will be conformed as per the audit recommendation for fiscal year 1994.

Bureau of the Budget

1. *State financial records misstated The Bureau of the Budget is responsible for the development and implementation of the state budget in accordance with the budget bills enacted by the legislature and signed into law by the Governor. The Bureau of the Budget consequently does not involve itself directly in matters that are clearly within the purview of the Department of the Treasury and the Bureau of Accounts and Control. Thus, the claim that the bureau of the Budget agreed to record the FY 92 June TAN payment of $156,759,375 as a liability is not accurate.*

2. <u>Budget document incomplete</u> *The budget document is prepared in accordance with current budget law, thus the 94-95 document reflected the legislative treatment of the FY 92 TAN as authorized in PL 1991, c. 589. Furthermore, the FY 92 actual year does not represent data prepared by the Bureau of the Budget but presents actual accounting data from the Bureau of Accounts and Control.*

3. <u>Final comment</u> *The First Regular Session of the 116th Legislature acted properly on the audit findings through the enactment of PL 1993, c. 382 which appropriated the estimated debt service requirements for the FY 94 TAN with investment income from the TAN included as General Fund Undedicated Revenue.*

We considered these material instances of noncompliance in forming our opinion on whether the 1992 component unit financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated July 16, 1993 on those component unit financial statements.

Except as described above, the results of our tests of complaince indicate that, with respect to the items tested, the State of Maine complied, in all material respects, with the provisions referred to in the third paragraph of this report,and with respect to items not tested, nothing came to our attention that caused us to believe that the State of Maine had not complied, in all material respects, with those provisions.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Maine in a separate letter dated July 16, 1993.

This report is intended for the information of management, the legislature, and the Office of Audit Services - U.S. Department of Health & Human Services. However, this report is a matter of public record and its distribution is not limited.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 16, 1993

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RODNEY L. SCRIBNER, CPA
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Independent Auditor's Report on Compliance With the General Requirements Applicable to Federal Financial Assistance Programs

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

We have audited the component unit financial statements of the State of Maine, as of and for the year ended June 30, 1992, and have issued our report thereon dated July 16, 1993.

We have applied procedures to test the State of Maine's compliance with the following requirements applicable to its federal financial assistance programs, which are identified in the Schedule of Federal Financial Assistance, for the year ended June 30, 1992.

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-free Workplace Act
- Administrative requirements

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's "Compliance Supplement for Single Audits of State and Local Governments." Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Maine's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Maine had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of management, the legislature, and the Office of Audit Services - U.S. Department of Health & Human Services. However, this report is a matter of public record and its distribution is not limited.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 16, 1993

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

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

We have audited the component unit financial statements of the State of Maine, as of and for the year ended June 30, 1992, and have issued our report thereon dated July 16, 1993.

We have also audited the State of Maine's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance, for the year ended June 30, 1992. The management of the State of Maine is responsible for the State of Maine's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit of compliance with those requirements in accordance with generally accepted auditing standards; *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments." Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures for the major federal financial assistance programs noted below disclosed that the State of Maine did not have adequate systems in place to ensure that subrecipients are audited or monitored in compliance with federal regulations. These conditions are more fully described in the accompanying Schedule of Findings and Questioned Costs. In our opinion, the State of Maine must establish such systems to comply with the requirements of those major federal financial assistance programs.

Finding: Subrecipient Audits

The Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," requires the State of Maine to determine a) whether subrecipients of federal funds have met audit requirements; and b) whether the subrecipient spent federal funds provided in accordance with applicable laws and regulations.

Federal agencies hold the recipient, not the subrecipient, responsible for compliance at the subrecipient level. This includes repaying any federal financial assistance because the subrecipient failed to comply with federal laws and regulations. The state is not in compliance with the subrecipient monitoring requirements of OMB Circular A-128.

The programs affected are:

The Maine Department of Labor which administers the Job Training Partnership Act (CFDA #17.250) does not have adequate controls to ensure that subrecipient audits are performed and programs are properly monitored in accordance with federal regulations.

The Maine Department of Human Services has not performed subrecipient audits for the following federal programs within the two year requirement of OMB Circular A-133.

Special Supplemental Program for Women, Infants, and Children
CFDA #10.557

Child and Adult Care Food Program
CFDA #10.558

Rehabilitation Services - Basic Support
CFDA #84.126

Family Support Payments to States - Assistance Payments
CFDA #93.020

Foster Care - Title IV-E
CFDA #93.658

Social Services Block Grant
CFDA #93.667

Medical Assistance Program
CFDA #93.778

Alcohol and Drug Abuse and Mental Health Services Block Grant
CFDA #93.992

The Maine Department of Defense and Veterans Services does not have adequate controls to ensure that subrecipient audits are performed in accordance with federal regulations for the Disaster Assistance Program (CFDA #83.516).

The state is subject to federal sanctions for noncompliance as outlined in §17 of OMB Circular A-128 which states, "In cases of continued inability or unwillingness to have a proper audit, federal agencies must consider other appropriate sanctions including:

- withholding a percentage of assistance payments until the audit is completed satisfactorily
- withholding or disallowing overhead costs, and
- suspending the Federal assistance agreement until the audit is made."

We directed audit findings to the various departments listed above. In addition, Title 5, MRSA, §1654 requires the Commissioner of Finance to issue guidelines for performance and standard audit practices to be used by the state agency responsible for directing and completing audits of each community agency.

Recommendation:

We recommend that the Commissioner of Finance ensure that audits of community agencies and other subrecipients are performed according to federal regulations and applicable auditing standards.

Auditee Response:

. . . a new position . . . for this function . . . was filled. Steps are now being taken to revise the Maine Uniform Accounting and Auditing Practices Act to make it more compatible with OMB Circular A-133 and at the same time establish accountability with efficiency for state funds. A grants register . . . (and) a tracking system will be established to provide information on audit completion, findings, corrective action plans, and audit resolution . . . .

The Office of the Commissioner would like to note:

1. *(There are audits of some agencies) by CPA firms. Corrective action is taken (when needed).*

2. *All department audit staff meet requirements set forth by the Bureau of Human Resources for the position of auditor . . . .*

3. *(Due to a) lack of a grants register . . . each department strives to ensure the integrity of its own funds.*

The program cited for the Maine Department of Defense and Veterans Services is not subject to OMB Circular A-133 for which the Commissioner of the Department Administrative Financial Services has oversight responsibilities. The Commissioner of the Department of Administrative and Financial Services does not have authority over other state departments to ensure their compliance with OMB Circular A-128.

The Department of Labor has been developing procedures to ensure proper monitoring of subrecipients subject to the Job Training Partnership Act. Some of the procedures will be online for FY 1993, and fully established by FY 1994.

The Department of Human Services has been making progress on their backlog of subrecipient audits. Guidelines and criteria for standard audit practices are being redefined which will make it possible for the state departments that now have audit departments, to monitor more timely federal funds they pass through to subrecipients.

The results of our audit procedures also disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying Schedule of Findings and Questioned Costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for the effects, if any, of such noncompliance with the requirements for subrecipient audits and subrecipient monitoring referred to in the fourth paragraph of this report and identified in the accompanying Schedule of Findings and Questioned Costs, the State of Maine complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1992.

This report is intended for the information of management, the legislature, and the Office of Audit Services - U.S. Department of Health and Human Services. However, this report is a matter of public record and its distribution is not limited.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 16, 1993

STATE OF MAINE
DEPARTMENT OF AUDIT
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Compliance With Specific Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions

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

We have audited the component unit financial statements of the State of Maine, as of and for the year ended June 30, 1992, and have issued our report thereon dated July 16, 1993.

In connection with our audit of the component unit financial statements of the State of Maine, and with our consideration of the State of Maine's internal control structure used to administer federal financial assistance programs, as required by Office of Management and Budget (OMB) Circular A-128, "Audits of State and Local Governments," we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1992.

As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed; eligibility; and subrecipient monitoring that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Maine's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Maine had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying Schedule of Findings and Questioned Costs.

This report is intended for the information of management, the legislature, and the Office of Audit Services - U.S. Department of Health & Human Services. However, this report is a matter of public record and its distribution is not limited.

Rodney L. Scribner CPA

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State Auditor

July 16, 1993

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Schedule of Findings and Questioned Costs

State of Maine
Schedule of Compliance Findings and Questioned Costs
For the Year Ended June 30, 1992

Department of Administrative and Financial Services

(17) Bureau of Human Resources

Employee Health Insurance Program
CFDA #: Various Federal Programs **Questioned Costs:** $360,172

Finding: Health insurance refunds owed to the federal government (Prior Year Finding)

The State of Maine received refunds of $1,250,000 in June 1991 and $2,472,316 in July 1992 from Blue Cross and Blue Shield for excess premiums paid. As required by Chapters 9 and 671 Public Laws of 1991, amounts refunded were deposited as undedicated revenue to the General Fund. Based on its proportional share of employer paid premiums, the Federal Expenditure Fund should have received $360,172, or 14.8 percent of the premiums refunded. The Office of Management and Budget (OMB) Cost Principles for State and Local Governments (Circular A-87), Attachment A, Paragraph C states that allowable costs for federal programs should be net of credits such as refunds of excess premiums.

We note that the state has claim to other excess premiums not refunded. In the 1991 fiscal year audit we questioned costs of $615,437, the federal share of total excess premiums (both those refunded and those still held by the insurer). For fiscal year 1992 we question only $360,172, the federal share of refunds actually received for the 1991 and 1992 fiscal years.

Recommendation:

We recommend that federal programs be credited with their share of any refunds.

Auditee Response:

We disagree with 14.8 percent . . . and believe it should be closer to 10.9 percent. The department is currently working with the Division of Cost allocation to resolve the issue. . . .

(18) Bureau of General Services - Division of Purchases

Donation of Federal Surplus Personal Property
CFDA #: 39.003 **Questioned Costs:** None

Finding: Inaccurate federal surplus property records/Noncompliance with federal regulations (Prior Year Finding)

The division did not always comply with the Office of Management and Budget's (OMB) Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule), Subpart c, paragraph b (3). The Common Rule states: "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." We noted the following weaknesses:

1. Out of twenty-five federal surplus property inventory counts, there were two variances between the perpetual inventory records and the counts; and

2. Physical security over inventory was inadequate since inventory could be accessed through unlocked doors.

Recommendation:

We recommend that the Division of Purchases strengthen physical security over inventory items.

Auditee Response:

1. *The State Audit Department has indicated there were two variances between inventory records and "counts" at Federal Surplus Property. Upon reviewing the workpapers, we noted that there were no dollar amounts recorded to determine materiality levels. The director of the division has estimated that the approximate value of the two variances would be $40. Thus, the benefit of the control would be less than the cost to provide it.*

2. *Since this audit was completed, physical security over assets had been improved. Locks and/or alarms have been put on doors, and a "significant value" cage has been added. This allows the division to concentrate scarce resources on the items of highest value. There are also plans to computerize the inventory system, thus allowing the division to have more control over inventory.*

Department of Corrections

(19) **CFDA #:** Various Federal Programs **Questioned Costs:** None

Finding: No system to monitor subrecipients' use of funds (Prior Year Finding)

The Office of Management and Budget (OMB) Audits of State and Local Governments, (Circular A-128), and Audits of Institutions of Higher Education and Other Non-Profit Organizations (Circular A-133) requires state governments that provide $25,000 or more of federal financial assistance to a subrecipient in a fiscal year to:

1. Determine whether subrecipients have met the audit requirements of Circular A-128 or A-133, as applicable;

2. Determine whether the subrecipients spent federal assistance funds according to applicable laws and regulations; and

3. Ensure that federal noncompliance issues receive corrective action within six months.

In addition, the Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP), Title 5 MRSA, Chapter 148-B requires a financial and compliance audit conducted in accordance with generally accepted auditing standards and government auditing standards for all funds contracted between the state and a community agency.

The department has no audit staff to participate in coordinated audits. Funds that are passed through the department are generally excluded from audit coverage when audits are performed by other state departments. The department has no procedures to ensure that audits are conducted or, if conducted, the required standards have been followed. The Department of Corrections has limited assurance that funds have been expended according to regulations.

Recommendation:

We recommend that the department adequately monitor subrecipients' use of funds.

Auditee Response:

Community agencies that sign written agreements with the department must comply with the reporting requirements of submitting quarterly financial and progress reports to the Department of Corrections. The Department of Corrections monitors subrecipients to determine that financial assistance is expended in accordance with laws and regulations and that subrecipients have met the requirements of OMB Circular A-128 or OMB Circular A-110, whichever is applicable.

The Department of Corrections does not have an audit staff to conduct or participate in on-site financial reviews for all contracted funds. The department will continue to review independent audit *reports which are submitted and take corrective action if a subrecipient's auditor's report identifies noncompliance with federal laws and regulations.*

Due to the financial constraints placed upon the budgets of state department and agencies and the commitment of available resources to higher priority needs, it is unlikely that the department will be authorized new resources for audit purposes. In light of this, the department has communicated to the MAAP Chairperson that it is interested in discussing any audit coordination options which may be available without incurring additional costs to the Department of Corrections.

Department of Defense and Veterans' Services

(20) Central Administration
Maine Emergency Management Agency

Disaster Assistance
CFDA #: 83.516 **Questioned Costs:** None

Finding: Quarterly Federal Cash Transactions Reports not submitted on time.

According to instructions on the Quarterly Federal Cash Transactions Reports, the U.S. Department of Health and Human Services (HHS) requires that the reports be received within forty-five days after the end of each quarter.

The following reports were not submitted on time:

Report Period	Date Due	Submission Date	No. of Days Late
7/1/91 - 9/30/91	11/14/91	12/12/91	28
4/1/92 - 6/30/92	8/14/92	8/19/92	5

Recommendation:

We recommend that the Department of Defense and Veterans' Services - Central Administration submit the Federal Cash Transactions Reports within the time that HHS requires.

Auditee Response:

(We agree) with the finding. As processing has already been streamlined, our efforts will certainly continue focusing on full compliance with the recommendation.

Department of Defense and Veterans' Services (cont.)

(21) Maine Emergency Management Agency

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: No review guide for subrecipient audit reports (Prior Year Finding)

The Maine Department of Defense and Veterans Services (DVS) does not have a system to ensure that subrecipient audits are performed according to federal regulations for the following programs:

CFDA#	Program
83.503	Emergency Management Assistance
83.512	States & Local Emergency Operating Center
83.516	Disaster Assistance

The Office of Management and Budget (OMB) Audits of State and Local Governments (Circular A-128), requires that state governments that provide $25,000 or more of federal financial assistance in a fiscal year to a subrecipient shall: a) determine whether state or local subrecipients have met the audit requirements of the Circular; b) determine whether the subrecipient spent federal assistance funds according to applicable laws and regulations; c) ensure that it takes corrective action within six months after receiving the audit report; and d) consider whether subrecipient audits require adjustments of the recipient's own records.

Recommendation:

We recommend that DVS develop a desk review guide to ensure that the audit reports of subrecipients meet generally accepted auditing standards, the Government Auditing Standards issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128.

Auditee Response:

The Maine Emergency Management Agency program personnel provided the following comment:

> *We concur with your recommendation; however, we do not feel that we are qualified to prepare/use such a guide. We respectfully request that the State Department of Audit be assigned the task of reviewing those reports for this agency.*

This comment reflects the very similar response by our finance office regarding the prior year's finding, which focused on the reduction of redundancy, misunderstandings, and greater coordination, especially in light of this agency's interpretation of 30A MRSA § 5823 and § 5825. As such, our position on the matter remains the same.

Department of Economic and Community Development

(22) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs**: None

Finding: Inadequate procedures for preparing and submitting Federal Cash Transactions Reports

The Office of Community Development (OCD) prepared and submitted the required quarterly Federal Cash Transactions Reports but did not do the following:

1. Include the cash balance of the Development Fund (DF) in the report's cash balance as required by Instruction No. 11 (a) which states that the balance is to include all federal funds on deposit, imprest funds, and U. S. Treasury checks not deposited;

2. Reconcile the amounts on the reports to the state's MFASIS system before submitting them to the Department of Housing and Urban Development (HUD); and

3. Submit reports for the quarters ending September 30, 1991 and June 30, 1992 within the fifteen working day limit as required by the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule), Circular A-102, Attachment H, Section 3-b.

Recommendation:

We recommend that the Office of Community Development prepare, reconcile and submit reports as required.

Auditee Response:

Per discussions with HUD and State Department of Audit, the DF program income has been included starting with the March 31, 1993 report. We will reconcile the reports with MFASIS and submit to HUD within the required fifteen days.

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(23) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** $14,500

Finding: Federal funds incorrectly used for technical assistance grants

Department of Economic and Community Development (cont.)

We reviewed the use of Community Development Block Grant (CDBG) federal funds for administrative expenditures. We found that Office of Community Development (OCD) inappropriately used these funds for technical assistance grants to regional planning commissions and councils of governments.

Councils of government (COGs) or regional planning commissions (RPCs) are not eligible grantees under Section 106 (D) (2) (A) (i) of Title I of the Housing and Community Development Act of 1974. The Act requires that funds be distributed to units of general local government located in nonentitlement areas of the state to carry out activities. Section 102 (a) (1) of the Act defines a unit of general local government as any "... city, county, town, township, parish, village, or other general purpose political subdivision of a State. . . ." This definition does not include public agencies such as RPCs or COGs.

Recommendation:

We recommend that OCD use its federal administrative funds for grants to units of general local governments.

Auditee Response:

The Final Statement for each funding year contain a definition of units of local government in Maine that are eligible to receive CDBG assistance. In the particular category of CDBG Technical Assistance, we will have to resolve the questioned cost and the eligibility of regional planning commissions and councils of government with HUD.

---

(24) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** None

Finding: Discrepancies and inconsistencies in Performance Evaluation Report

Section 104 (d) of Title I of the Housing and Community Development Act of 1974 requires the state to submit a Performance and Evaluation Report (PER) to the Secretary of Housing and Urban Development (HUD). The report pertains to the use of funds and the grantee's assessment of use to the objectives stated in the Final Statement. The Office of Community Development (OCD) did not consistently report program income in the 1992 Performance Evaluation Report.

Recommendation:

We recommend that OCD consistently report program income awarded to a community.

Auditee Response:

We have taken steps to insure that program income awarded to communities is reported in the PER. In addition, we have reviewed draft HUD instructions for the 1993 PER. The review has clarified several issues, including those about reporting returned grant funds. We have developed a timeline with internal deadlines allowing us to expend more time verifying all figures before the PER is sent to HUD.

---

(25) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** $18,867

Finding: Costs not distributed based on benefit to grant program (Prior Year Finding)

The Department of Economic and Community Development (DECD) charges certain positions directly to the Community Development Block Grant (CDBG) account and the CDBG state matching account. Individuals in these positions also work on non CDBG activities. The Office of Management and Budget (OMB) Cost Principles for State and Local Governments, Circular A-87, Attachment A, E, 2(a) requires that the department assess costs to grants ". . . for the time and efforts devoted specifically to the execution of grant programs."

The Office of Community Development (OCD) and DECD administrative staff currently maintain time distribution records of daily activities for related and unrelated CDBG activities. OCD summarized the records for fiscal year 1991 and forwarded the summarization to the Department of Housing and Urban Development (HUD) for eligibility determination. HUD issued its determination during fiscal year 1992 and the auditor used it to develop the questioned cost.

Recommendation:

We recommend that DECD complete its cost allocation plan by forwarding to HUD the summary of the 1992 fiscal year time distribution records for eligibility determination. We also recommend that it continue to document the relationship of charges to the CDBG program to ensure that it charges costs based on the benefits to that program.

Auditee Response:

Due to a similar finding in prior years, the staff continues to complete time distribution records in order to document the time spent on all projects. We are continuing to resolve this questioned cost with HUD. Our most recent response to HUD on the prior findings included information to assist in this process.

---

(26) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** $67,624

Finding: Disbursement of funds not timed correctly

One community spent local funds and submitted an outlay report to the Office of Community Development (OCD) for reimbursement to the Development Fund (DF) of the Community Development Block Grant. The report was dated July 19, 1991 and the grant began August 1, 1991.

Title 24 CFR, Subpart C, Section 570.200 (h) states that prior to the effective date of the grant agreement a recipient may obligate and spend local funds provided such locally funded activities were undertaken according to the requirements of 570.200 (h). The city's activity did not meet the requirements.

Recommendation:

We recommend that OCD not reimburse communities for outlays before the effective date of the grant agreement unless the activity complies with the stated requirements.

Auditee Response:

We will review our systems to insure funds are not released prior to effective dates. The particular case cited involved the DF program, and we have taken steps to establish the date of the letter of conditions as the effective date for all grantees.

---

(27) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** $242,500

Finding: Communities inappropriately expended Title I funds

Two communities spent a total of $242,500 Title I funds on nonexempt activities before the Office of Community Development (OCD) approved the Request for Release of Funds (RROF) and the related Environmental Review Requirements (ERR) certification.

Title 24 CFR, Part 58 Subpart D, Section 58.22 states that a grant recipient may not spend any Title I funds on any activity or project until the state has approved the recipient's RROF and ERR certification.

Recommendation:

We recommend that OCD:

1. Notify communities not to spend funds on nonexempt activities before OCD approves the RROF and ERR certification;

2. Develop a system to monitor the certification process; and

3. Not release funds to any community until the RROF and ERR certification has been approved.

Auditee Response:

We will continue to stress Environmental Review Requirements when training grantees, and will review our internal systems and adjust as necessary to prevent future release of funds prior to environmental clearance.

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(28) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** None

Finding: Subrecipient audit review requirements not met

The Office of Management and Budget (OMB) Audits of State and Local Governments (Circular A-128), Paragraph 9, subparagraph (a) requires that state and local governments that receive federal financial assistance and provide $25,000 or more in a fiscal year to a subrecipient shall determine whether the subrecipient met the A-128 audit requirements. Thus the Office of Community Development (OCD) is responsible for ensuring that subrecipient audits comply with OMB Circular A-128.

We observed the following on the twenty-five subrecipient audits that we reviewed:

1. Nineteen, or 76 percent, were not sent to OCD within thirty days after completion of the audit;

2. Four, or 16 percent, were not received within one year after the end of the audit period; and

3. Four subrecipient audit reports were received and accepted by OCD after desk reviews although the reports did not meet A-128 requirements.

Recommendation:

We recommend that OCD strengthen its subrecipient audit report monitoring and review procedures so that reports will be received within thirty days after completion of the audit and within one year after the end of the audit period. We further recommend that OCD not accept reports that do not meet A-128 requirements.

Auditee Response:

Because the submission of audits is a local responsibility, it is difficult for OCD to control. We will work with this by strengthening our training of grantees on audit submission requirements. State Audit has assisted us with resolving the last issue by working with our staff person assigned to review audits in order to improve training on audit review. We will continue to provide all necessary training and support in order to conduct proper desk reviews.

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(29) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs**: None

Finding: Subrecipient monitoring requirements not met

The Department of Economic and Community Development (DECD), through the Office of Community Development (OCD), is responsible for ensuring that subrecipient activities are carried out according to 24 CFR, Part 570.

We note the following on the twenty-five subrecipient monitoring reviews that we examined:

1. Eighty-eight percent of the sample tested had general, financial, or housing rehabilitation review questionnaires that were either incomplete or completed incorrectly;

2. Fifty-two percent had results of the reviews that were not communicated promptly;

3. Twelve percent had findings or observations that had not been resolved; and

4. Eight percent had findings or observations that were not resolved within thirty days of the date of the monitoring letter.

Recommendation:

We recommend that OCD review questionnaires before releasing the results; communicate the results of all subrecipient monitoring reviews on time; and track and resolve noted problems as soon as possible.

Auditee Response:

. . . The CDBG Program Manager will strengthen supervisory reviews of the monitoring system by developing written standard operating procedures and requiring questionnaires with the draft monitoring letters . . . . The tracking of monitoring letters and findings will be handled through a database maintained by support staff. The manager and support staff person will meet once a month to review the database and track monitoring issues.

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(30) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** None

Finding: Tracking system for monitoring subrecipients is incomplete and lacks controls

The Office of Community Development (OCD) developed a tracking system for monitoring subrecipients. The current activity summary showed the following:

1. OCD's policy is to do a financial monitoring when expenditures total at least 50 percent of the awarded amount; one community that received a 1990 grant and spent 62.5 percent by June 30, 1992 had not had a financial monitoring of the grant;

2. Six communities that received 1991 grants and spent 50 percent or more by June 30, 1992 had not had financial monitoring of their grants; and

3. The monitoring summary does not include the Developing Fund and Emerging Opportunity Fund.

Recommendation:

We recommend that OCD bring its monitoring up to date, include the Development Fund and Emerging Opportunity Fund monitoring on its summary, and maintain a current summary. We also recommend that the program manager regularly review the summary.

Auditee Response:

OCD will bring its monitoring database up to date, and the CDBG Program Manager will follow up on the specific 1990 and 1991 cases cited. The database will be modified to include the Development Fund, Emerging Opportunity Fund/Regional Assistance Fund, Urgent Need Program and other new programs as necessary. As noted in the discussion of the previous finding, the database will be reviewed on a monthly basis.

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(31) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** $44

Finding: Employee received salary adjustment overpayment

An employee at the Office of Community Development paid from the Community Development Block Grant federal account was overpaid for a retroactive merit increase. This occurred because DECD based the calculation on a 40-hour work week without considering the effect of furlough and shutdown days.

Recommendation:

We recommend that DECD calculate retroactive payments based on the actual hours worked, not the standard work week.

Auditee Response:

DECD is reviewing its personnel and payroll systems to insure retroactive payments are calculated on actual hours worked.

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(32) Office of Community Development

Supportive Housing Demonstration Program
CFDA #: 14.235 **Questioned Costs:** None

Finding: Inadequate audit of non-profit agency

The Office of Community Development (OCD) received an inadequate audit report on a non-profit subrecipient from an independent public accounting firm. In fiscal year 1991 the subrecipient received funds exceeding $100,000 from OCD's Supportive Housing Demonstration Program. Consequently, there should have been an audit according to the Office of Management and Budget (OMB) Audits of Institutions of Higher Education and Other Non-Profit Organizations, Circular A-133, and the Maine Uniform Accounting and Auditing Practice (MAAP) requirements.

Recommendation:

We recommend that OCD notify the accounting firm of the deficiencies in the report and request that the audit meet MAAP and OMB Circular A-133 requirements.

Auditee Response:

We are seeking all available information and training in A-133 audit requirements. In the particular case cited our staff has contacted the accounting firm to request additional information, and is working to insure the audit meets MAAP and A-133 requirements.

Department of Education

(33) Bureau of Adult and Secondary Vocational Education

Vocational Education - Basic Grants to States
CFDA #: 84.048 **Questioned Costs:** $49,176

Finding: Unobligated grant funds not returned to the state (Prior Year Finding)

Title IIC, § 234, of the Carl D. Perkins Vocational and Applied Technology Education Act, as amended, states:

> In any academic year that a local educational agency (LEA) does not expend all of the amounts it is allocated for the year, such LEA shall return any unexpended amounts to the state to be reallocated.

Prior to June 1992, the Bureau of Adult and Secondary Vocational Education (BASVE) authorized all LEAs to retain their year-end unobligated funds, provided they submitted budget adjustment forms justifying how they would spend the funds.

Eight LEAs retained a total of $49,176 in fiscal year 1992 unobligated funds. These funds were not returned to the state to be reallocated. Therefore, we have questioned the costs relating to the total of unreturned funds.

Recommendation:

We recommend the following:

1. In the future BASVE require each LEA to return to the state all unobligated funds on hand at the end of the academic year; and

2. BASVE reallocate these funds in accordance with the Carl Perkins Act.

Auditee Response:

We concur fully with the recommendation, as well as with the overall finding. The recommendation has already been implemented with respect to the 1992-1993 program year. In addition, based on advice from the U.S. Department of Education, Division of Vocational-Technical Education, we are in the process of implementation with respect to the 1991-1992 program year itself. . . . (additional remarks on file at Audit Department)

Department of Education (cont.)

(34) Division of Compensatory Education

Educationally Deprived Children
CFDA #: 84.010 **Questioned Costs:** None

Finding: Financial reports not timely (Prior Year Finding)

A test of 100 financial reports for 25 Local Educational Agencies (LEA) revealed that 35 of the program reports were submitted late:

Report Name	No.	No. of Late Reports	Due Date
Annual Financial Report	EF-U-420	12	15 days after project completed
Carry-over Funds Request	EF-U-423	5	August 31
Annual Project Contract	EF-U-422A	8	July 15
Annual Statistical Report	EF-U-424	10	July 15
		35	

Title 34 CFR, § 80.20 Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (EDGAR) says that a state must expend and account for federal grant funds according to the state's laws and procedures relating to expending and accounting for its own funds. Section 18 of the state's Chapter I manual requires that LEAs submit financial reports in accordance with the above stipulations.

Recommendation:

We recommend that the division strengthen procedures to ensure that subgrantees submit required financial reports on time.

Auditee Response:

The Division of Compensatory Education will ensure LEAs submit required program reports on time by implementing the following procedures:

1. *Advise LEAs they will not receive new grant authorizations until their Annual Financial Report has been received;*

2. *Contact LEAs by phone and follow up later with a letter advising them that they are late in submitting their Carryover Funds Request Report; and*

3. *Advise LEAs by phone that they will receive no further funds until the Annual Project Contract and Annual Statistical Report are filed.*

(35) Division of Compensatory Education

Migrant Education
CFDA #: 84.011 **Questioned Costs**: None

Finding: Noncompliance with eligibility procedures (Prior Year Finding)

According to 34 CFR, § 201.30:
The State Educational Agency (SEA) and its operating agencies are responsible for implementing procedures that ensure correct information on which they and the Migrant Student Record Transfer System (MSRB) or other systems rely. In doing so, the SEA shall . . . ensure that the information is recorded on any certificate of eligibility . . . that contains the minimum information needed to determine eligibility. . . .

According to the SEA Recruiter's Guide:
Acceptable documentation of a Certificate of Eligibility (COE) will always contain the specific activity performed within a broader range of activities. It will also designate that the activity is either seasonal or temporary, and if temporary, will give an explanation of why.

According to the SEA's quality control procedures in its project application, a recruiter/eligibility specialist should review and tentatively approve all COE forms. In addition, the coordinator of the Migrant Education Program should review, approve and initial all COE forms.

A review of ten COEs revealed:

1. One did not designate whether employment was seasonal or temporary;

2. Two indicated the work was temporary but there were no explanations; and

3. One was not approved by a recruiter/eligibility specialist nor by a program coordinator.

Although COE forms did not adequately document eligibility, the department provided information which showed that qualifying activities were according to program regulations.

Recommendation:

We recommend that the SEA properly document eligibility of program applicants on the COE form.

Auditee Response:

The Division of Compensatory Education will document eligibility of program applicants on the COE form.

(36) Division of Special Education and Division of Compensatory Education

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Grant payment without proper approval

The Division of Special Education paid $69,503 to the University of Maine as final payment for a 1991 fiscal year grant. The payment to the University of Maine-Research Institute was for the "Study of At-Risk Students." However, there is no documentation showing approval to the University for this portion of the grant. The Division of Compensatory Education transferred $40,000 to the Division of Special Education to cover the costs of this final payment. The transfer consisted of $20,000 from Chapter I - Migrant funds and $20,000 from Chapter I - Program Improvement funds. The Division of Special Education, Handicapped - State Grants discretionary funds paid the balance of $29,503.

An amended grant award dated May 5, 1993 approved the payment after the fact. The Department of Education intended the $69,503 to be included as part of the original total grant award. Therefore we do not question this amount.

Recommendation:

We recommend that all grant awards be approved before disbursing grant funds.

Auditee Response:

The Division of Special Education will comply with 34 CFR, Section 80.30 (c)(i) before disbursing grant payments to subrecipients by ensuring subrecipients obtain prior approval from the division whenever there is a need for additional funding.

(37) Division of Finance

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Data on the Federal Cash Transactions Report (PMS-272) not accurate

Office of Management and Budget (OMB) Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (Common Rule) requires each grantee to submit a Federal Cash Transactions Report (PMS-272) to the federal government.

A review of the June 1992 PMS-272 report revealed a discrepancy of $2 million between the beginning cash balance reported by the U.S. Department of Education and the cash balance according to the Division of Finance accounting records. Division personnel could not provide a reconciliation of the difference.

Recommendation:

We recommend that personnel from the Division of Finance determine the reason for the discrepancy in cash balances and state the correct balance on the PMS-272 report.

Auditee Response:

According to federal officials, reconciliation packages were sent to this department on either July 16 or 19, 1993. As soon as we receive this information, the division will work to reconcile the discrepancy.

(38) Division of Finance

CFDA #: Various Federal Programs

Questioned Costs: None

Finding: Financial Status Report submitted late (Prior Year Finding)

The U.S. Department of Agriculture requires the submission of the Financial Status Report (SF-269) for various federal food and nutrition service programs within 30 days of the end of the quarter.

The department submitted the SF-269 report for the quarter ending September 1991 six days after the required due date.

Recommendation:

We recommend that the Department of Education prepare and submit the quarterly SF-269 reports within the required time frame.

Auditee Response:

The division will work to ensure the Financial Status Report (SF-269) is submitted by the required due date.

Department of Education (cont.)

(39) Division of Finance

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Capital equipment records not current

Office of Management and Budget (OMB) Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (Common Rule) Subpart C, Section 32(b) states, "A physical inventory of property must be taken and the results reconciled with the property records at least once every two years." Also, the State of Maine Manual of Financial Procedures, Section 66.2 requires timely processing of equipment reports.

Equipment records were not adequately maintained. We note the following:

1. The department had not taken a physical inventory of equipment since 1985;

2. The quarterly equipment reports had not been completed for the 1991 and 1992 fiscal years; and

3. The annual capital equipment reconciliation report had not been prepared for the 1990, 1991, and 1992 fiscal years.

Recommendation:

We recommend that the Department of Education conduct a complete physical inventory of all capital equipment and reconcile the physical counts to the equipment records. We also recommend timely preparation and maintenance of quarterly equipment reports and the annual capital equipment reconciliation report.

Auditee Response:

The division is currently . . . completing overdue reports. As soon as the June 30, 1993 report is completed and the computerized inventory updated, a physical inventory will be done.

(40) Division of Finance

CFDA #: Various Federal Programs **Questioned Costs:** $56,823

Finding: Employee compensation costs allocated incorrectly (Prior Year Finding)

Under the provisions of the Office of Management and Budget (OMB) Cost Principles for State and Local Governments (Circular A-87), Attachment B, Paragraph 10 (b), "Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records." It further states that methods of distributing time should be equitable.

The major purpose of the Division of Finance is to support the goals and objectives of the various programs of the department while applying sound fiscal management principles. The compensation costs for four of the department's personnel were charged entirely to certain federal programs. These individuals, however, did not spend their entire time on activities directly benefiting those programs. This resulted in questioned costs to federal programs of $56,823.

	Amount
Educationally Deprived Children State Administration CFDA #: 84.012	$29,484
Vocational Education Basic Grants to States CFDA #: 84.048	9,807
National School Lunch Program (School Lunch Program) CFDA #: 10.555	17,532
Total	$56,823

Recommendation:

We recommend that compensation costs for the department's personnel be allocated according to actual time worked.

Auditee Response:

The department recognizes that the four employees referenced in the finding spent less than 100 percent of their time on activities directly benefiting the programs. It is noted, however, that *uncharged indirect costs in fiscal year 1992 resulted in $30,460 of equitable offsets against the Questioned Cost for CFDA #84.012 of $29,484; offsets of $41,133 against the Questioned Cost for CFDA #84.048 of $9,807; and offsets of $12,067 against the Questioned Cost for CFDA #10.555 of $17,532. State budgetary changes must be approved by the legislature in order to allocate costs according to actual time worked. The Department intends to seek legislative approval of these budgetary changes during the 116th Second Regular Session so that the condition may be corrected by July 1, 1994.*

Auditor's Concluding Remarks:

We acknowledge that the department has an indirect cost allocation plan, which has been approved by the U.S. Department of Education. We did not test the plan because the department did not use it to allocate costs. Therefore, we are unable to support the equitable offsets claimed in the department's latest response to this finding.

(41) Division of Finance

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Expenditures charged to incorrect grant or grant year

Title 34 CFR, 80.23 states that a grantee may charge to an award only those costs resulting from the obligations of the funding period.

We reviewed twenty-five vouchers and found that two totaling $721 were incorrectly coded: one voucher was charged to the wrong federal grant and the other one was not charged to the correct federal grant year.

The Department of Education's Division of Finance staff have subsequently journaled the above amounts to either the correct federal grant or the correct federal grant year.

Auditee Response:

Corrective action has been taken. Copies of the two corrected vouchers have been provided to the auditors.

Department of Education (cont.)

(42) Division of Finance

__CFDA #__: Various Federal Programs   __Questioned Costs:__ None

__Finding:__ Subrecipient monitoring not according to federal regulations

The Office of Management and Budget (OMB) Audits of State and Local Governments (Circular A-128) says, "State or local governments that receive between $25,000 and $100,000 a year shall have an audit made in accordance with this circular, or in accordance with federal laws and regulations governing the programs they participate in." Circular A-128 also requires each state to determine whether local subrecipients have met the audit requirements of this circular.

We reviewed twelve audit reports that independent public accountants (IPAs) had performed of subrecipients receiving between $25,000 and $100,000 in federal financial assistance. Six of the reports did not indicate whether the auditor had performed either a single audit in accordance with Circular A-128 or a program compliance audit of each federal program.

The Division of Finance does have procedures to review all subrecipients' audit reports. We noted, however, for those subrecipients receiving between $25,000 and $100,000 and that do not have a single audit performed, the Division of Finance does not ensure that the IPA's audit reports properly stipulate the scope of the federal compliance work that was performed.

__Recommendation:__

We recommend, for those subrecipients that receive between $25,000 and $100,000 and do not have a single audit performed, the Division of Finance ensure that the IPA's audit reports specify the scope of the federal compliance work performed.

__Auditee Response:__

Based on the auditor's recommendation, the Division of Finance will notify IPAs that an audit exception has been taken to the way in which their reports fail to describe whether the audit was conducted in accordance with laws and regulations governing the programs in which subrecipients participate.

Executive

(43) Office of Substance Abuse

CFDA #: 93.992 **Questioned Costs:** None

Finding: Insufficient internal control over revenue

The Office of Substance Abuse (OSA) charges administrative fees for some of the services it provides. Fees are assessed to cover costs for administering the Driver Education Evaluation Programs, licensing service providers at the community level, and training on substance abuse issues. OSA collects these fees and then transfers them to the Department of Human Services (DHS) for processing and recording in the General Fund.

The period of time elapsing between collecting these fees and recording them in the state's accounting records ranged from two to six weeks. OSA does not verify that fees transferred to DHS for recording are coded to the correct account in the correct amounts. OSA does not receive copies of the state's official accounting records which would allow it to verify the process.

Recommendation:

We recommend that OSA verify that fees which it receives and then transfers to DHS are promptly and accurately recorded in the correct accounts. We further recommend that OSA obtain whatever financial records or reports that are necessary to verify these transactions.

Auditee Response:

The Office of Substance Abuse now has adequate internal controls to ensure that revenue is recorded in the correct account, in the correct amount, and in a timely manner. Checks are no longer forwarded to the Department of Human Services to be recorded as revenue in the state financial records. . . .(Detailed response on file at Audit Department)

Department of Human Services

(44) Office of Management and Budget - Division of Financial Services

CFDA #: Various Federal Programs **Questioned Costs**: None

Finding: Poor internal control over capital equipment

According to the Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (Common Rule), subpart c § __.32(b) "A State will use, manage, and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures." Title 5 MRSA, § 1742 gives the Department of Administrative and Financial Services - Bureau of General Services authority to make or require an inventory of all removable equipment belonging to the state government and to keep it current. The Division of Financial Services is responsible for maintaining all Department of Human Services (DHS) property records. According to DHS records the total valuation of equipment was $4.9 million as of June 30, 1990.

The Department of Human Services performed the last complete inventory in 1990; did not complete capital equipment reconciliation forms or the quarterly equipment reports for the 1991 and 1992 fiscal years; and could not provide detail equipment records for the 1991 and 1992 fiscal years.

Recommendation:

We recommend that the DHS record all capital equipment transactions for the 1992 fiscal year; perform a complete inventory; reconcile the physical inventory to the detail property records; and maintain all equipment records on a current basis.

Auditee Response:

We agree with this finding. During fiscal year 1993 the task of updating the physical inventory was begun. This project will be ongoing until the inventory is complete. Currently a 27 hour per week position is dedicated to the project. Estimated time to completion is not currently quantifiable.

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(45) CFDA #: Various Federal Programs **Questioned Costs**: $83,387

Finding: Noncompliance with subrecipient audit resolution requirements (Prior Year Finding)

Paragraph 9 of the Office of Management and Budget (OMB) Circular A-128 states,
. . . state or local governments that receive federal financial assistance and provide $25,000 or more

of it in a fiscal year to a subrecipient shall . . . ensure that appropriate corrective action is taken within six months after the receipt of the audit report in instances of noncompliance with Federal laws and regulations . . . .

On December 13, 1990 the Department of Human Services signed a memorandum of understanding thereby agreeing to follow the procedures described. According to part III, subparagraph D of this memorandum:
. . . resolution actions are considered completed when the State's position(s) on the audit findings and the community agency's response are communicated to the grantee; in the case of an appeal, resolution of the appeal closes the audit report. For the purpose of completing departmental resolution actions on audit reports, findings involving questioned costs are resolved when financial settlement actions are completed, and findings involving no questioned costs are resolved when the community agency notifies the state in writing that it will or has taken the actions requested by the State.

We reviewed twenty-three subrecipients audit reports which were issued by the department's Division of Audit during the 1992 state fiscal year. These reports identified a total of $173,874 in grant overpayments and/or questioned costs. Of this amount $83,387 related to grant overpayments and/ or questioned costs in federal funds for which the recipient had not taken any corrective action. Since all of the reports were issued at least six months prior to our review date, we question the following amounts:

Special Supplemental Food Program for Women, Infants, and Children CFDA # 10.557	$ 5,381
Crime Victim Assistance CFDA # 16.575	815
Rehabilitation Services - Basis Support CFDA #84.126	36,160
Supported Employment Services for Individuals with Severe Handicaps CFDA # 84.187	2,197
Acquired Immunodeficiency Syndrome (AIDS) Activity CFDA # 93.118	703
Grants to States for Planning and Development of Dependent Care Programs CFDA # 93.673	317
Family Violence Prevention and Services CFDA # 93.671	349

Prevention Health and Health Services Block Grant CFDA # 93.991	4,532
Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA # 93.992	32,460
Various federal programs	473
Total Questioned Costs	$83,387

In addition, in the prior audit period we examined some of the same audit reports reviewed in the current period. Any questioned costs disclosed in the prior year audit report were not included in the $83,387 questioned in this finding.

Recommendation:

We recommend that the Department of Human Services take corrective action within six months after receiving/issuing subrecipient audit reports that cite instances of noncompliance with federal laws and regulations.

Auditee Response:

As part of our audit resolution project, compliance issues will be taken into account. We will endeavor to resolve findings within six months after receiving audit reports, staff time permitting. The questioned costs listed in this finding will be addressed immediately.

(46) Bureau of Child and Family Services

Child and Adult Care Food Program
CFDA #: 10.558 **Questioned Costs:** None

Finding: Inaccurate reports on the number of meals served

According to 7 CFR, Subgrant H, Paragraph 3015.61, a recipient's financial management system must provide for ". . . complete, accurate, and current disclosure of the financial results for each . . . program." Our review of three U.S. Department of Agriculture Child Care Food Program reports (FNS-44) and supporting records revealed that in one report the bureau overstated the commodity data by 209 meals served. In addition, one of the twelve claims that we tested was incorrectly calculated due to a rounding error.

Each local agency submits meal count data to the state agency which compiles the data for reporting purposes. The Department of Human Services does not verify the math accuracy of the meal counts that it shows on the monthly FNS-44 reports.

Recommendation:

In order to assure that calculations are accurate, the detail records agree with the FNS-44 report, and the data can be verified, we recommend the department review its financial management system for processing meal reimbursements.

Auditee Response:

In respect to the error cited on the commodity data: these figures were done manually and the error was the result of copying the figures from one report to another. The commodity data is now computerized which will eliminate these errors on future reports.

The problems cited concerning the FNS-44 reports have also been corrected under the new system currently being used to generate these reports. Several tests have been made to ensure accuracy in these reports and we will continue to assess the system to avoid any future errors.

(47) Bureau of Child and Family Services

Child and Adult Care Food Program
CFDA #: 10.558 **Questioned Costs:** None

Finding: Follow-up on program review findings not timely

According to the Bureau of Child and Family Services' Child and Adult Care Food Program Policy Manual, Section II Sub-section A, paragraph 13, the state agency's administrative responsibilities include ". . . performing a supervisory program review of each participating adult or child care organization's compliance . . ." with program requirements.

Our examination of twelve of the Department of Human Services' (DHS) program review reports showed that after eight months DHS had not resolved one report which had several findings. In the month following the issuance of the program review report, DHS asked the subrecipient to submit a corrective action plan within thirty days. As of the date of audit, the subrecipient had not submitted the corrective action plan to DHS. After we informed DHS it took corrective action.

Recommendation:

We recommend that DHS develop a written policy to assure that it take appropriate and timely corrective action on program review findings and that it resolve findings promptly.

Auditee Response:

In response to the above finding, one of the contract specialists was on sick leave for approximately six months and the oversight was a result of his absence.

While we find this oversight is a relatively rare occurrence, we are in the process of updating our policy manual and will review and correct our current policy to reflect the auditor's recommendation.

(48) **Bureau of Income Maintenance**

Family Support Payments to States - Assistance Payments
CFDA #: 93.020 **Questioned Costs:** None

Finding: Inadequate cash management procedures

Title 45 CFR, section 74.92 (a) states: "Methods and procedures for making payments to recipients shall minimize the time elapsing between the transfer of funds and the recipient's disbursement."

The Department of Human Services passed through $267,971 of At-Risk Child Care funds to eight community agencies who then reimbursed providers for their child care services. The department advanced funds to the agencies according to a six month projection rather than their immediate needs.

Recommendation:

We recommend the department revise its subgrantee payment procedures so that advances cover only each subgrantee's immediate cash needs.

Auditee Response:

Although the At-Risk staff consists of one worker and the payment system is manual, the department will research ways to reduce the time elapsing between the transfer of funds to the managing agencies and disbursement of funds to the child care providers of eligible clients.

Department of Human Services

(49) Bureau of Income Maintenance

Family Support Payments to States - Assistance Payments
CFDA #: 93.020 **Questioned Costs:** None

Finding: No written agreements or contracts for pass-through funds

The Department of Human Services passed through $267,971 of At-Risk Child Care funds to eight community agencies who then reimbursed providers for child care services. The department did not have written agreements or contracts with the agencies.

According to the Office of Management and Budget (OMB) Single Audits of State and Local Governments (Circular A-128), section (9,b):
State or local governments that receive federal financial assistance and provide $25,000 or more of it in a fiscal year to a subrecipient shall determine whether the subrecipient spent federal assistance funds provided in accordance with applicable laws and regulations.

A written contract or agreement helps to ensure that subrecipients will identify and understand their responsibilities regarding program policies, rules and regulations.

Recommendation:

We recommend that the department enter into a written agreement or contract with subgrantees.

Auditee Response:

The department is considering which of its options to select in order to comply with federal regulations. One option is to add language to existing contracts which would specify the roles and the responsibilities of the department and the nonprofit agency which manages the IV-A At-Risk Child Care funds.

(50) Bureau of Child and Family Services - Division of Purchased and Support Services

Social Services Block Grant
CFDA #: 93.667 **Questioned Costs:** None

Finding: Grant report submitted late (Prior Year Finding)

Title 42 United States Code (USC) § 1397e requires each state to prepare reports on those activities carried out with funds from the Social Services Block Grant (SSBG). The reports shall be prepared each year and cover the most recent completed fiscal year. Title 45 CFR,§ 96.17 requires annual reports to be made public and submitted to the Department of Health and Human Services (HHS) within six months of the end of the period covered by the report.

The federal fiscal year 1992 annual utilization report covering the period October 1, 1991 through September 30, 1992 was submitted twelve days after the required due date. Also, the public notice of available free copies of the report was sent to the newspaper twelve days late.

Recommendation:

We recommend that the Department of Human Services (DHS) submit the annual SSBG utilization reports to the federal grantor agency and notify the public of their availability within six months of the end of the period covered by the report.

Auditee Response:

DHS will continue to attempt to meet the six month deadline for the submission of the SSBG annual report.

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(51) Bureau of Child and Family Services - Division of Purchased and Support Services

Social Services Block Grant
CFDA #: 93.667 **Questioned Costs:** None

Finding: Variances in annual grant utilization reports (Prior Year Finding)

Title 42 United States Code (USC) § 1397e requires annual activity reports which include expenditures and service data for the Social Services Block Grant. We noted several errors or omissions in the federal fiscal years 1991 and 1992 utilization reports.

Department of Human Services (cont.)

Reported amounts did not agree with the Controller's monthly expenditure reports. Total expenditures on the utilization reports were underreported in 1991 by $37,563 and in 1992 by $90,727. Both variances were less than 1 percent. The Controller's records showed expenditures of $44,974 for the Maine Human Development Commission but none were reported in the 1991 report.

On the 1992 report there were variances of $83,504 (5%) in Department of Human Services (DHS) regional administration costs; $21,414 (9%) in Attorney General fees; and $206,562 (16%) in DHS administration costs. Most of the variances were due to reporting on a state rather than federal fiscal year.

Both reports had small expenditure variances in three reporting areas for the Department of Mental Health and Mental Retardation (MHMR) due to reporting block grant allocations rather than actual expenditures as required in 42 USC.

We noted that the 1991 and 1992 reports of service data for DHS's Bureau of Elder and Adult Services did not indicate whether its services were provided by public or private agencies as required by federal statute.

Further, for both the 1991 and 1992 reports, DHS had no data on file to support the total number of clients served in the child care service area which had the most expenditures.

Recommendation:

We recommend that the Department of Human Services coordinate with Mental Health and Mental Retardation and the Department of Attorney General, as necessary, to confirm the expenditure variances and the service data omission. We also recommend that DHS file revised 1991 and 1992 reports, and that it maintain documents to support all data on the reports.

Auditee Response:

DHS will increase its efforts to confirm expenditure amounts and their correlation to the federal fiscal year in the department's preparation of future utilization reports. DHS is in the process of upgrading information systems to more accurately capture service data.

Department of Human Services (cont.)

(52) Bureau of Elder and Adult Services

Social Services Block Grant
CFDA #: 93.667 **Questioned Costs:** None

Finding: Lack of established system to monitor advances to subrecipients

Department of Treasury Circular 1075 § 205.4 (a) states:
. . . cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs and the proportionate share of any allowable indirect costs.

Section 205.4(e) of the circular states:
. . . cash advances made by primary recipient organizations to secondary recipient organizations shall conform substantially to the same standards of timing and amount as apply to cash advances by federal program agencies to primary recipient organizations.

The Social Services Block Grant (SSBG) award letters state:
. . . you agree that when these funds are advanced to secondary recipients, you will be responsible for effectively controlling their use of cash in compliance with Federal requirements.

The Bureau of Elder and Adult Services (BEAS) renders cash advances to subrecipients from the Social Services Block Grant (SSBG) to be used for providing authorized services. Subrecipients submit financial reports to BEAS that include amounts received from each funding source, expenditures by type, and the combined net remaining cash balance. Because subrecipients do not charge expenditures to the specific funding sources, only the total cash balance can be determined.

Recommendation:

We recommend that BEAS develop a system to effectively monitor subrecipient cash balances from the SSBG and to recover excess subrecipient cash which may exceed their immediate cash needs.

Auditee Response:

The Bureau will revise its cash request form to include a section that will allow monitoring of cash balances. The revised form that the Bureau will use will be modeled on federal form number 272.

Bureau of Health - Division of Maternal and Child Health

Special Supplemental Food Program for Women, Infants andChildren (WIC)
CFDA #: 10.557 **Questioned Costs**: None

Finding: Inadequate vendor monitoring system

According to 7 CFR, 246.12 (i,2), "The State agency shall design and implement a system to conduct on-site monitoring visits to at least 10 percent of authorized food vendors per year . . . . " The state agency's record keeping system did not include a cumulative list of vendors monitored. Therefore, the system did not meet the on-site monitoring requirements.

Recommendation:

We recommend that the state agency improve its on-site monitoring by including adequate record keeping.

Auditee Response:

All on-site monitoring information is now entered into the state agency's computer system and can be accessed and retrieved promptly and efficiently.

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(54) Bureau of Income Maintenance

Food Stamps
CFDA #: 10.551 **Questioned Costs:** None

Finding: Case file insufficiently documented (Prior Year Finding)

One of twenty-five case files examined did not document the specific sources used to verify the eligibility and benefit level determinations. The case file deficiency did not result in any questioned costs since subsequent documentation was provided which verified that the beneficiary was eligible.

Title 7 Code of Federal Regulations, (CFR) § 273.2 (F)(6), states:
Case files must be documented to support eligibility, ineligibility, and benefit level determinations. Documentation shall be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the determination.

Recommendation:

We recommend that case workers provide detailed documentation in the case files to support eligibility, ineligibility, and benefit level determinations.

Auditee Response:

As described in the finding, documentation is required in case files to support decisions made by staff. The fact that the audit determined that 96% of the cases reviewed met the documentation standard indicates staff are doing a very good job documenting their actions. However, supervisors will be reminded via memo to provide feedback and, when necessary, training on documentation when monitoring case work.

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(55) Bureau of Income Maintenance

State Administrative Matching Grants for Food Stamp Program
CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Administrative costs not allocated equitably

Under the provisions of the Office of Management and Budget (OMB) Cost Principles for State and Local Governments (Circular A-87), Attachment A, Paragraph (2) ". . . a cost is allocable to a particular cost objective to the extent of benefits received by such objective."

Our review of administrative costs showed that an employee's salary, which was chargeable to more than one grant program, was charged entirely to the State Administrative Matching Grants for Food Stamp Program causing that program to be overcharged by $4,428 and the AFDC Program (CFDA# 93.020) to be undercharged by the same amount.

Recommendation:

We recommend that the department correctly allocate administrative costs according to actual time worked on a program.

Auditee Response:

The Department concurs with the above finding.

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(56) Bureau of Income Maintenance - Division of Budget and Administration - Quality Assurance Unit

Family Support Payments to States - Assistance Payments
CFDA #: 93.020 **Questioned Costs:** None

Finding: Noncompliance with quality assurance transmittal requirements (Prior Year Finding)

Title 45 CFR, 205.40(b)(2)(ii)(c) requires that the state agency shall dispose of and submit 100 percent of its cases within 120 days of the end of the sample month. The Division of Budget and Administration - Quality Assurance Unit exceeded the time requirement in two of the twenty-five cases sampled.

Recommendation:

We recommend that the department take steps to ensure that results are reported as required.

Auditee Response:

The Bureau of Income Maintenance was in the midst of significant personnel changes during the review period. Appropriate personnel have been hired and staff training continues to meet the required timeframes as outlined in 45 CFR 205.40 (b) (2) (ii) (c).

(57) Bureau of Income Maintenance

Child Support Enforcement
CFDA #: 93.023 **Questioned Costs:** None

Finding: Untimely action on child support cases

According to 45 CFR, 303.4(d) and 303.5(a)(1), the agency must file for paternity establishment or issue an order for support within ninety calendar days of locating the alleged father or absent parent.

In two of fifty cases that we reviewed, the department did not take action within ninety days after the location of the alleged father or absent parent.

Recommendation:

We recommend that the Department of Human Services take action within the required time.

Auditee Response:

...We agree, inprinciple, however, the auditor's finding and recommendation are a nonissue because the overall result of the audit, as it pertains to this particular item, places this agency's performance will within the limits of federal audit criteria: that timely performance rate of seventy-five percent (75%) of an audit sample constitutes compliance with federal requirements. We submit that failure to act timely in two cases out of fifty represents a more than adequate performance level.

(58) Bureau of Income Maintenance
Office of Management and Budget - Division of Financial Services

Child Support Enforcement
CFDA #: 93.023 **Questioned Costs:** None

Finding: Noncompliance with state purchasing procedures (Prior Year Finding)

Attachment A, Subparagraph C of the Office of Management and Budget's (OMB) Cost Principles for State and Local Governments (Circular A-87) states that costs must meet the following criteria: ". . . Be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part."

Title 5 MRSA, § 1812 requires that the director of the Bureau of General Services purchase or contract all services, supplies, materials and equipment that departments need.

Of twenty-five vouchers we examined, two were not supported by contracts for special services. During the 1992 fiscal year the Department of Human Services (DHS) paid $196,871 to these vendors.

Recommendation:

We recommend that when purchasing goods and services DHS personnel comply with the state purchasing procedures as required by Circular A-87.

Auditee Response:

We agree with the auditor's recommendation...On September 25, 1992 DHS issued an R.F.P. for Paternity Testing. Selection of the successful bidder was made in December 1992, with a contract effective January, 1993. This agency is in compliance with state and federal purchasing requirements.

Department of Human Services (cont.)

(59) Bureau of Income Maintenance

Child Support Enforcement
CFDA #: 93.023 **Questioned Costs:** $85

Finding: Supporting documents not located

Federal regulations generally require agencies to retain records for three years from the date the grantee submits its final expenditure report. Our review of twenty-five program expenditures showed that supporting documents for four transactions/disbursements could not be located. Therefore, we were unable to determine whether these costs were allowable or specific to the program's cost objective.

Recommendation:

We recommend that the department retain invoices supporting program expenditures until after the audit.

Auditee Response:

We recognize the need to keep adequate suuporting documentation and will ensure that employees understand the importance of records retention.

(60) Bureau of Medical Services

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Noncompliance with refund procedures (Prior Year Finding)

Subparagraph (a)(1) and (2) of Title 42 CFR, § 433.320 states:
. . .the agency must refund the federal share of overpayments that are subject to recovery to the Health Care Finance Administration (HCFA) through a credit on its Quarterly Statement of Expenditures form (HCFA-64). The federal share of overpayments subject to recovery must be credited on the HCFA-64 report submitted for the quarter in which the 60-day period following discovery. . .ends.

Refunds to HCFA must be made whether or not the state Medicaid agency recovered overpayments from providers.

We tested twenty-five overpayments to providers of Medicaid services and observed the following:

1. The department had not recorded eighteen of these on the HCFA-64 report within the proper time period; and

2. The department had not recorded one overpayment on the accounts receivable records. According to department personnel the accounting staff responsible for posting the accounts receivable records do not always receive the final Decision and Order Overpayment notifications.

Recommendation:

We recommend that the department promptly refund the federal share of all provider overpayments to HCFA, and that it adhere to procedures for recording overpayments on the HCFA-64 report. In addition, we recommend that the bureau record all overpayments on the accounts receivable records.

Auditee Response:

The Department recognizes the problem and every effort is being made to correct it.

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(61) Bureau of Medical Services - Division of Medicaid Policy and Programs

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Reports submitted late (Prior Year Finding)

As stated in Part 2, Section 2700.6 of the state Medicaid Manual, the Health Care Financing Administration (HCFA) requires annual reports on home and community based services waivers. For each approved waiver HCFA requires a separate initial report for the reporting period and, if applicable, a separate lag report covering the prior period. The reports are due within 181 days after the anniversary of the effective date of the waiver.

The Division of Medicaid Policy and Programs has three waiver programs which require both initial reports and lag reports for the elderly, for persons with mental retardation, and for the physically disabled. Both reports for the elderly were submitted to HCFA seventy-two days late, and eleven days late for the physically disabled.

Recommendation:

We recommend that the division submit all waiver reports as required by HCFA regulations.

Auditee Response:

This Division attempts to submit the HCFA-372 reports within the time frames specified by HCFA. However, oftentimes the workload and priorities of the Division of Data Processing and this Division are such that it is not always possible.

As the auditor of these waivers knows, from discussing the due dates with Maine's HCFA representative last year, HCFA imposes no penalty for late submission of these reports. HCFA regional staff maintain that as long as the reports are in by the time of renewal of a waiver, it is acceptable to them. Maine has always submitted these reports well in advance of renewal and has never had any correspondence from HCFA in relation to late reporting.

(62) Bureau of Medical Services - Division of Medicaid Policy and Programs

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Errors in Annual Report on Home and Community Based Services Waivers

The Bureau of Medical Services is required to submit Form HCFA-372, Annual Report on Home and Community Based Services Waivers, on each of its three medicaid waiver programs to the federal Health Care Financing Administration (HCFA). An initial report covering the current year and a lag report with updated information for the prior year are required for each program.

We noted several statistical errors on these reports for fiscal year 1992. Some errors affected the formula used to calculate the cost effectiveness of each of the programs. They showed the waiver programs to be less effective than they actually were.

Most of these errors were due to incorrect data on the internal Maine Medicaid Information Systems (MMIS) reports which, in turn, were posted to the HCFA-372 reports. MMIS reported that no more than two medicaid waiver recipients received institutional long-term care in each program. However, MMIS also reported the contradictory information that between 118 and 728 medicaid waiver recipients in institutional long-term care received acute care services. Expenditures accompanying these overages were also overinflated by amounts that could not be determined.

There were also errors that did not affect the waiver cost effectiveness formula. However, they resulted in presenting incorrect statistics in certain categories. One failed to post $12.2 million in a residential training category and posted it instead to an undesignated category. Most category errors were due to transpositions and incorrect postings from the MMIS reports to HCFA-372 reports.

Recommendation:

We recommend that the Bureau of Medical Services coordinate with the DHS Data Processing Division to correct the system errors, and provide corrected reports to HCFA.

Auditee Response:

Corrected reports have been requested from the Division of Data Processing in order to provide HCFA with accurate data for those Medicaid Waiver recipients receiving acute care services who also received institutional long term care services. When this revised report is prepared, the posting errors will be corrected.

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(63) Bureau of Medical Services - Division of Medical Claims Review

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: No system to adjust provider payments for retroactive rate decreases

A provider of services under the Medicaid Waiver Program was overpaid by $11,409 for fiscal year 1992. The Division of Medical Claims Review is in the process of recouping this overpayment.

The overpayment was due to failure of the division to adjust the provider's payments for a rate decrease issued June 3, 1992 but retroactive to July 1, 1991. When rate changes are issued, the division enters them on the computer in order to update future payments. However, there is no system in place to adjust provider payments when there is a retroactive rate decrease. Generally, rates increase and the division expects the providers to request retroactive adjustments.

Recommendation:

We recommend that the division 1) ensure that recovery of overpayments is made by offsets against future payments to the provider if the provider does not directly reimburse the program; and 2) monitor rate change notices and take action to recoup overpayments to providers when there are retroactive rate decreases.

Auditee Response:

The Department systematically recovers overpayments made to providers. Retroactive rate changes and adjustments of prospective payments made this a routine necessity.

Better system controls would greatly assist in this effort and the Department agrees with the recommendations. A planning process has been initiated to upgrade these system controls.

(64) Bureau of Medical Services

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Weak control of third party collections

The Third Party Liability (TPL) unit investigates Medicaid claims to ensure that the Medicaid program is the payer of last resort. It identifies liable third parties in order to obtain reimbursements for eligible Medicaid recipients and the Medicaid Program. The TPL computer system does not include total receivables for third parties, the amount of billings paid or rejected, or if third parties paid promptly. Incomplete current data on TPL billings weakens the ability of the department to promptly collect, deposit, and record collections for third parties.

Recommendation:

We recommend that the TPL unit modify its data base for receivables in order to increase control of third party collections.

Auditee Response:

The Department's computer system can provide the above report, however, no such report currently exists. The Department is in the process of developing an on-line accounts receivable system that will include information making the above report useful.

The following is true as it applies to insurance companies as a whole:

1. *The TPL unit tracks payments and rejections on an individual client basis. It is hoped*

the development of the on-line accounts receivable system will also allow for the tracking of billings paid and rejected by insurance companies in a cost effective manner.

2. *The program does track for timeliness on an individual case basis. We further expect to have the ability to track by insurance company via the on-line accounts receivable system, provided it is a cost effective endeavor.*

(65) Bureau of Medical Services - Division of Medical Claims Review

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Potential recovery of $1.8 million in cost savings

The State of Maine receives rebates from drug manufacturers for Medicaid payments of outpatient prescription drugs. As of August 4, 1993 the drug manufacturers owed the state $1.8 million for charges from January 1, 1991 through June 30, 1992. The balance includes disputed amounts and, according to Department of Human Services (DHS) personnel, possible billing errors. The $1.8 million may be adjusted downward as part of the ongoing resolution process. Timely settlement of disputed or unresolved charges could potentially result in recovering cost savings for the Medicaid program. Federal and state savings would be split based upon the federal medical assistance rate.

Recommendation:

We recommend that DHS promptly resolve outstanding balances in order to realize potential cost savings.

Auditee Response:

To determine the amount recoverable for the period in question, the Department requires cost per item data from HCFA. Initial data, supplied electronically, indicated a $1.8 million dollar rebate owed the state by pharmaceutical companies. Closer scrutiny revealed that in many instances the amount owed, which is a percentage of the amount paid, exceeded the amount paid.

A second data set sent from HCFA reported the amount owed for the first quarter of 1991 exceeded the expenditures for the year.

This is a national problem. We estimate the correct amount owed is 1/18th of the stated amount. We are manually collecting and billing the companies. Recovery will be time consuming and costly.

(66) Bureau of Medical Services

CFDA #: 93.778 Questioned Costs: $129

Finding: Provider overpayments due to inadequate controls

The Department of Mental Health and Mental Retardation - Bureau of Mental Retardation (BMR) sets the rate allowances for provider services to clients under the Medicaid Waiver Program for the Mentally Retarded. However, the Department of Human Services - Bureau of Medical Services (BMS) makes the payments to these providers.

We tested a sample of twenty-five payments to providers in five of the twenty-two service areas. Neither the BMS nor the BMR central office had rate allowances on file for providers in three of the five service areas although the BMR central office did obtain rate allowances from the regional offices. Two of the three service areas processed $12.2 million or 73 percent of all payments for this Medicaid Waiver Program.

Two providers were overpaid by $10 and $19 because paid rates exceeded the allowed rates. Also, a third provider received a $100 payment although the BMR had no rate allowance on file. Incorrect rates could result in significant over or underpayments depending on the number of service units billed and the differences between approved and applied rates.

Recommendation:

We recommend that:

1. BMR coordinate with BMS to recover any overpayments made to these providers;

2. BMS coordinate with BMR to ensure that BMS has up-to-date rate allowances on file for all service areas in the Medicaid Waiver Program for the Mentally Retarded; and

3. BMS develop a system of controls to ensure that all payments made to providers under this program are paid according to approved rates.

Auditee Response:

The Department recognizes that this is a problem and appreciates the efforts made by the auditor to clarify complex inter-departmental rate setting relationships.

1. *We will coordinate with BMR to recover the identified overpayment of $129.00.*

2. *We will coordinate with BMR to obtain an up-to-date rate file.*

3. *We will review and improve when necessary system controls for rate payments.*

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(67) Bureau of Rehabilitation
Office of Management and Budget - Division of Financial Services

Rehabilitation Services - Basic Support
CFDA #: 84.126 **Questioned Costs:** $70

Finding: Payments made to beneficiary after case closed

Our review of twenty-five case files showed that the bureau continued payments to a program beneficiary until April 3, 1992 although it closed the case file on December 9, 1991. Documents sent to and received by the Division of Financial Services instructed the state agency to stop payments. The accounting staff unintentionally overlooked the instructions. However, as of the date of audit the department had made no effort to collect the overpayment.

Recommendation:

We recommend that the Division of Financial Services exercise greater care when processing payments. We further recommend that the department collect any overpayments that exist.

Auditee Response:

We recognize the need to use care in processing payments. Considering the high volume of payments processed overpayments represent a fraction of the total. We will pursue collecting the $70.00.

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(68) Disability Determination Services

Social Security - Disability Insurance
CFDA #: 93.802 **Questioned Costs:** None

Finding: Late submission of required reports

Sections 39506.815 and 39506.827 of the Social Security Administration (SSA) operations manual state that the State Agency Report of Obligations for SSA Disability Programs (SSA-4513) and the Time Report of Personnel Services for Disability Determination Services (SSA-4514) must be sent in time for the SSA central office to receive them no later than the twenty-fifth day after the close of each calendar quarter.

The following SSA-4513 and SSA-4514 reports were not submitted within the required time period.

Report Period	Due Date	Submission Date
10/01/91-12/31/91	01/25/92	02/05/92
04/01/92-06/30/92	07/25/92	08/05/92

Recommendation:

We recommend that Disability Determination Services submit the reports as required.

Auditee Response:

We recognize the importance of submitting timely Federal Reports and will make every effort to assure that due care is exercised in the future. Recent automation of DDS systems should help to eliminate any non-compliance with Federal reporting deadlines.

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(69) Office of Management and Budget - Division of Audit

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Medicaid provider audits/cost settlements are not prompt (Prior Year Finding)

As of June 18, 1993 the status of Medicaid provider audits was:

Department of Human Services (cont.)

Final Audits/Settlements not Completed for Those
Facilities with Operating Periods Ending
During the Following Calendar Years:

Provider Facility Type	1988	1989	1990	1991	(Approximate) Total Number of Provider/ Facility Types
Intermediate Care Facilities (Nursing Homes)		1	4	20	150
Intermediate Care Facilities for the Mentally Retarded			4	20	48
Hospitals			36	41	42
Rural Health Centers					21
Home Health Centers	2	6	21	21	21
Totals	2	7	65	102	282

For 1991 audits not completed we note that providers have twelve months after the date of service to submit claims and then twelve months more to resolve any rejected claims. This process has to occur before any audit may be conducted.

Recommendation:

We recommend that the Department of Human Services promptly complete annual audits of Medicaid providers in order to ensure correct billings, use of program resources, recapturing of funds, and provider performance.

Auditee Response:

We have been working vigorously to complete the Nursing Home Audits and...have completed most of the field work... We have had difficulty in obtaining some information, delaying receipt of cost reports...

We have had to hold up on ICF/MR audits and...completing the Nursing Facility audits prior to the implementation of the case mix program...

The Hospital audits are conducted in accordance with the common audit agreement of the State of Maine has with the Medicare Fiscal Intermediary. It takes the intermediary who is Blue Cross-Blue Shield of Maine about a year, sometimes two on the larger hospitals, after the cost reports are filed *before they finish their audit requirements and forward the results to us...*

(70) Office of Management and Budget - Division of Audit

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Incomplete data used for subrecipient audits/Noncompliance with MAAP Single Audit requirements (Prior Year Finding)

Title 5 MRSA, § 1653(9) requires that all community agencies receiving $25,000 in revenue from state and federal sources, excluding Medicaid, must be audited. The designated lead agency is responsible for coordinating the audit. The Division of Audit of the Department of Human Services (DHS) uses an internal listing of subrecipients for scheduling audits. These reflect only grants that DHS awards. They do not include revenue received from other state departments. One source may not exceed the $25,000 requirement but the aggregate could exceed it. Consequently, the division might not audit all subrecipients receiving $25,000 from all state and federal sources. In addition, the division does not independently verify that all funds have been audited.

Title 5 MRSA, § 1654 paragraph B states that the lead agency is responsible for coordinating and conducting the Single Audit and issuing the Single Audit report. The 1986 Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP) defines a Single Audit as ". . .one financial and compliance audit of all funds contracted for between the state and community agency, excluding Medicaid." The DHS Audit Division conducted audits and issued Single Audit reports that excluded funds that subrecipients received from other state departments which elected not to participate.

Recommendation:

We recommend the following:

1. Prior to scheduling audits the division should obtain complete subrecipient revenue information; if data is not available, the division should document the department's position and forward this to the Department of Administrative and Financial Services which has oversight responsibility; and

2. The division either perform Single Audits as required or aggressively try to involve non-lead agencies; if not successful, the division should notify the commissioner of the Department of Administrative and Financial Services.

Department of Human Services (cont.)

Auditee Response:

We agree with parts of your finding and we disagree with other parts.

We agree "One source (department) may not exceed the $25,000 requirement but the aggregate could. Consequently, the Division (DHS) might not audit all subrecipients receiving $25,000 from all state and federal sources".

We disagree with several parts of this finding because we believe the responsibility belongs to the Department of Administrative and Financial Services. Once again, we are forwarding a copy of your finding along with our reply to their office. We do not believe we can be more aggressive than informing them of your finding. Our department has brought up many issues surrounding this finding at Advisory meetings. The parts to which we disagree are as follows:

1) *To include a finding in the DHS segment of the A-128 which says "Incomplete data used for subrecipient audits/Noncompliance with State mandated Single Audit requirement" and in addition "the division does not use an independent verification that all funds have been audited" is in our opinion a misplaced finding.*

2) *To include a finding which says "Title 5, MRSA 1654 Paragraph B states that the Lead agency is responsible for coordinating and conducting the single audit" is erroneous. Our copy of the statute says "The Lead agency shall (1) direct, coordinate or conduct the single state audit or coordinate the state's interest in the conduct of agency wide audits. Please note the use of the words "or" and not "and". Additionally, please see the example of a single audit report to use whenever a state department chooses not to audit (see MAAP page 103 the suggested explanatory paragraph at the bottom of the page). We believe we are following the procedures outlined in MAAP.*

(71) Office of Management and Budget - Division of Audit

CFDA#: Various Federal Programs **Questioned Costs:** None

Finding: Noncompliance with desk review procedures/Late subrecipient audit reports

According to the Office of Management and Budget (OMB) Audits of Institutions of Higher Education and Other Non-Profit Organizations (Circular A-133) Paragraph 15h, a subrecipient's auditor shall, no later than thirteen months after the end of the recipient's fiscal year-end, submit a copy of the audit report to the recipient that provided federal awards.

On December 31, 1990 the Division of Audit of the Department of Human Services (DHS) and audit divisions of other departments entered into a memorandum of understanding. According to this memorandum, a department will complete a preliminary screening checklist (PSC) within sixty days following receipt of a subrecipient's audit report. Further, within thirty days of completing the PSC, the lead agency will also notify the community agency in writing whether the audit report meets minimum standards of acceptance.

We reviewed ten subrecipients' audit reports which had desk reviews during the audit period. We noted the following deficiencies:

1. DHS received an original subrecipient audit report one month late and there were no receipt dates indicated for two other reports; as a result, we could not determine compliance with the thirteen-month requirement;

2. We could not locate PSCs for nine audit reports;

3. Desk reviews or PSCs for original audit reports were completed five to eleven months late, and there were no dates indicated for reviews of four other audit reports;

4. Two subrecipients were notified of desk reviews or PSC results one to two months late; notification dates were not documented for five other subrecipients; and

5. One subrecipient audit report was initially rejected by the department's Division of Audit, but the state agency could not provide a copy of a revised audit report.

Recommendation:

We recommend that the Division of Audit:

1. Maintain documentation to support compliance with desk review procedures; and

2. Either follow the desk review procedures established in the memorandum of understanding or revise the procedures to meet current needs.

Auditee Response:

We agree desk reviews are sometimes late in completion and that some review dates may not have been posted. As you recommended, we additionally will be working towards either eliminating or amending the preliminary screening checklist.

Department of Human Services (cont.)

(72) Office of Management and Budget - Division of Audit

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Unaudited Federal Funds (Prior Year Finding)

The Office of Management and Budget (OMB) Audits of Institutions of Higher Education and Other Non-Profit Organizations (Circular A-133) Paragraph 7, states, ". . .audits shall usually be performed annually but not less frequently than every two years."

For agency fiscal years which ended prior to June 30, 1991, the Division of Audit had not met the requirement for forty-nine subrecipients. Unaudited federal funds, i.e., budgeted contract amounts, totaled $15,062,406 as of August 1993. The individual programs and amounts of unaudited funds are:

Special Supplemental Program for Women, Infants and Children CFDA # 10.557	$6,218,878
Child and Adult Care Food Program CFDA # 10.558	920,040
Crime Victim Assistance CFDA # 16.575	15,966
Senior Community Service Employment Program CFDA # 17.235	22,591
Rehabilitation Services - Basic Support CFDA # 84.126	150,302
Family Support Payments to States - Assistance Payments CFDA # 93.020	1,781,334
Work Incentive Program / WIN Demonstration Program CFDA # 93.029	276,352
Acquired Immunodeficiency Syndrome (AIDS) Activity CFDA # 93.118	33,770

Department of Human Services (cont.)

Emergency Medical Services for Children CFDA # 93.127	103,350
Childhood Immunization Grants CFDA # 93.268	64,013
Centers for Disease Control - Investigations and Technical Assistance CFDA # 93.283	8,400
Children's Justice Grants to States CFDA # 93.643	44,325
Foster Care - Title IV-E CFDA # 93.658	111,445
Social Services Block Grant CFDA # 93.667	2,050,337
Special Programs for the Aging - Training Research & Discretionary Projects & Programs CFDA # 93.668	30,763
Grants to States for Planning & Development of Dependent Care Programs CFDA # 93.673	2,155
Independent Living CFDA # 93.674	142,938
Medical Assistance Program CFDA # 93.778	880,242
Health Program for Refugees CFDA # 93.987	375
Preventive Health and Health Services Block Grant CFDA # 93.991	177,150
Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA # 93.992	1,276,100

Maternal and Child Services Block Grant
CFDA # 93.994 328,865

In addition, we found $422,715 in unaudited federal funds for programs not listed in the Catalog of Federal Domestic Assistance.

Recommendation:

We recommend that the division complete on time those audits of subrecipients that received federal financial assistance.

Auditee Response:

We agree with the finding and recommendation. It should be noted that the field work has been completed on many of the 49 subrecipients cited and that only the supervisory reviews and report typing remained on these cases. We are addressing the remaining portion of cases and we will give it our top priority.

Additionally, we do believe staffing shortages and furlough days are taking their toll on timelines of audits.

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(73) Office of Management and Budget - Division of Financial Services

State Administrative Matching Grants
for Food Stamp Program
CFDA #: 10.561 **Questioned Costs:** None

Finding: Federal participation rate (FFP) incorrectly applied

We examined supporting documents of the program's federal financial reports for one quarter.The division applied a 50 percent federal participation rate (FFP) to fraud control costs reported on the program's Financial Status Report for the quarter ending June 30, 1992. The result was an understatement of $29,112. According to Section 277.4, subparagraph (b)(1), ". . . a 75 percent Federal reimbursement is payable for Food Stamp Program allowable costs incurred for state fraud investigations. . . ."

The reporting error also resulted in underrecovery. This caused the state to bear a greater burden of program costs than was necessary. The state agency took immediate corrective action and submitted a reimbursement request for the understated amount.

Recommendation:

We recommend that the department exercise care when preparing federal financial reports.

Auditee Response:

The department recognizes the importance of submitting accurate Federal Financial Reports and will make every effort to assure that due care is exercised in the future.

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(74) Office of Management and Budget - Division of Financial Services

State Administrative Matching Grants for Food
Stamp Program
CFDA #: 10.561 **Questioned Costs:** None

Finding: Errors in accumulating and applying indirect cost data

We tested a sample of indirect cost data for one quarter. We reviewed the Department of Human Services' (DHS) computation of the indirect cost base to determine if the correct indirect cost rates were applied to those bases during the audit period. Due to data accumulation errors, the Food Stamp Program was undercharged $4,721 during the quarter ended December 31, 1991.

The state agency immediately sought to recover the $4,721.

Recommendation:

We recommend that DHS exercise more care when compiling cost data for allocation to federal programs.

Auditee Response:

The department concurs with the finding. The agency will exercise due care when compiling cost data for allocation to federal programs.

Department of Human Services (cont.)

Division of Financial Services

Rehabilitation Services - Basic Support
CFDA #: 84.126 **Questioned Costs:** None

Finding: Financial reports submitted late

According to the May 2, 1990 Program Policy Directive 90-10 for the Rehabilitation Services Administration, the Financial Status Report (SF-269) is due ". . . within 30 days of the end of the 1st, 2nd, and 3rd fiscal year quarters." The division submitted the Financial Status Report eleven days late for the quarter that ended December 31, 1991.

Recommendation:

We again recommend that the Department of Human Services submit the federal financial reports on time.

Auditee Response:

Due to analysis sheets coming to the department late, the agency was unable to meet deadlines.

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(76) Office of Management and Budget - Division of Financial Services

Aid to Families with Dependent Children (AFDC)
CFDA #: 93.020 **Questioned Costs:** None

Finding: Federal outlays underreported by $78,605

We examined supporting documents of the program's federal financial reports for one quarter. For the quarter ending September 30, 1991 the Department of Human Services (DHS) agency underreported the net federal share of expenditures by $78,605 which resulted in an underrecovery. This was due to a data accumulation error. As a result, the state bore more program costs than was necessary.

Recommendation:

We recommend that DHS submit a revised financial report to the federal grantor agency that reflects the proper adjustment in order to recover the additional federal financial assistance. We further recommend that the department exercise more care when preparing federal financial reports.

Auditee Response:

The Department of Human Services concurs with the audit finding. The department will be submitting a revised report to recover the additional federal financial assistance.

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(77) Office of Management and Budget - Division of Financial Services

Child Support Enforcement
CFDA #: 93.023 **Questioned Costs:** None

Finding: Federal outlays overreported

We examined supporting documents of the program's federal financial reports for one quarter. The Department of Human Services (DHS) overreported the net federal share of expenditures for the quarter ended June 30, 1992 by $129,160. A data accumulation error caused the reporting error.

Recommendation:

We recommend that DHS submit a revised financial report to the federal grantor agency that reflects the proper adjustment for the amount overreported. We further recommend that the department exercise more care when preparing federal financial reports.

Auditee Response:

The Department of Human Services concurs with the audit finding. The department will be submitting a revised report to correct the overstated amount.

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(78) Office of Management and Budget - Division of Financial Services

Foster Care - Title IV-E
CFDA #: 93.658 **Questioned Costs:** None

Finding: Federal outlays underreported

We examined supporting documents of the program's federal financial reports for one quarter. The state agency underreported the net federal share of expenditures by $5,400 for the quarter ended June 30, 1992. The problem occurred because of a data accumulation error. The state agency took immediate corrective action and adjusted the report for the quarter ended March 31, 1993.

Recommendation:

We recommend that the department exercise care when preparing federal financial reports.

Auditee Response:

The department recognizes the importance of submitting accurate Federal Financial Reports and will make every effort to assure that due care is exercised in the future.

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(79) Office of Management and Budget - Division of Financial Services

Social Services Block Grant
CFDA #: 93.667 **Questioned Costs:** None

Finding: Inappropriate account codings/Drawdowns charged to incorrect letter of credit

The Controller's MFASIS account structure for the Social Services Block Grant (SSBG) included several unaffiliated detail accounts. A Preventive Health Block Grant with a $16,190 balance at the state fiscal year-end 1992 was included in one detail account. Also, a Child Care and Development Block Grant (CCDBG) was included in one detail account for which there was a negative $735,981 balance. This was due to the daily accounts payable listings used for grant drawdowns which do not separate expenditures for each grant. Therefore, the SSBG funds are drawn down to pay expenditures for both grants until receiving the monthly expenditure reports which break down the expenditures by grant. Afterwards the CCDBG is drawn down to repay the SSBG.

In contrast, a small amount of SSBG monies was included in an account used primarily for the CCDBG. Further, several detail account codings with no balances and no relevance to the SSBG appear under SSBG main accounts.

Recommendation:

We recommend that the Department of Human Services (DHS) review the MFASIS account structure used for the SSBG and take the necessary steps, including consultation with the Controller, to reorganize the detail accounts so that main accounts include only those relevant to the SSBG. This would allow for more effective cash management because drawdowns on the separate letters of credit could be matched with program expenditures. We also recommend that DHS personnel research and take steps necessary to clear inactive account balances.

Auditee Response:

DHS agrees with the audit finding and will take action to remove the inappropriate accounts from the SSBG account to clear inactive account balances.

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(80) Office of Management and Budget - Division of Financial Services

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Federal financial reports submitted late

According to program regulations listed below, federal financial reports are generally due thirty days after the close of each quarter.

Of the twenty-eight financial reports tested, fifteen were submitted after the due date. In addition, nine reports for CFDAs # 93.020, 93.021 and 93.023 submitted to the Family Support Administration were not dated. Consequently, we could not determine whether they were submitted on time.

Program Name/CFDA#	CFR Citation	No. of Quarterly Reports Submitted Late	Average No of Days Late
State Administrative Matching Grants for Food Stamp Program CFDA # 10.561	7 CFR § 277.11 (c)(4)	4	21
Child and Adult Care Program CFDA # 10.558	7 CFR § 226.7 (d)	3	51
AFDC CFDA #93.020	45 CFR § 201.5 (a)(1)	1	25
JOBS CFDA #93.021	45 CFR § 201.5 (a)(1)	2	22
Foster Care - Title IV-E CFDA #93.658	45 CFR § 74.73	1	4

Medical Assistance Program CFDA #93.778	42 CFR § 430.30 (c)(1)	4	12

Recommendation:

We again recommend that the department prepare and submit its quarterly federal financial reports in the required time or obtain written extensions from the respective federal grantor agencies.

Auditee Response:

The department recognizes the importance of submission of Federal Financial Reports in the required time frame. The department is making every effort to expedite the completion of all the reports on time and will continue to search for ways to accomplish this. The committee to provide easy access to MFASIS is a step in the right direction in providing the information at an earlier date after completion of the financial period to be reported. Also the Division of Financial Services is in the process of automating its direct and indirect cost allocation plan which will help speed up the process.

Presently the cash reports for the quarters ending September 30, December 31 and March 31 are usually available by mid-month. The cash report for June 10 is usually available by the third week of the month which allows one to two weeks to prepare the reports. Many of these reports are complex and require many hours to complete. Also the department has requested written extensions for some of the reports during the past several years; however, the Federal Grantor Agencies have informed us that there are no provisions to grant extensions in the laws that apply to these programs.

(81) Office of Management and Budget - Division of Financial Services

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Financial data incorrectly reported

The Department of Human Services incorrectly reported the following program outlays on its Schedule of Federal Financial Assistance (SFFA):

Department of Human Services (cont.)

CFDA #	Program Title	Total Expenditures Per Federal Financial Reports	Total Expenditures Per Schedule of Federal Financial Assistance	Variance
10.558	Child and Adult Care Food Program	$ 7,875,406	$18,518,090	$10,642,684
93.020	AFDC	$74,081,275	$73,391,234	$ (690,051)
93.023	Child Support Enforcement	$ 8,074,950	$ 8,043,351	$ (31,399)
84.126	Rehabilitation Services - Basic Support	$10,113,335	$10,595,282	$ 481,947

Differences in reported amounts were due mostly to unintentional accounting errors identified after the SFFA was prepared. In one instance the client did not consider the revised supporting documents. In another, the client may have combined both federal and state outlays into one reported amount.

Recommendation:

We recommend that the department exercise more care when preparing the Schedule of Federal Financial Assistance.

Auditee Response:

The agency will exercise more care when preparing future Schedule of Financial Assistance (SFFA) reports.

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(82) Office of Management and Budget - Division of Financial Services

CFDA #: Various Federal Programs **Questioned Costs:** $14,064

Finding: Incorrect distribution of payroll costs

According to the Office of Management and Budget (OMB) Cost Principles for State and Local Governments (Circular A-87), Attachment A, Paragraph (2)"... a cost is allocable to a particular cost objective to the extent of benefits received by such objective."

Department of Human Services (cont.)

A review of payroll expenditures revealed that one individual's salary, which was chargeable to more than one grant program, was charged in its entirety to the fraud component of the Food Stamp Program. As a result, the following federal programs were either over or undercharged:

CFDA #	Program Title	Over (Under) Charged
10.561	State Administrative Matching Grants for Food Stamp Program	$23,287
93.020	AFDC	$ (8,928)
93.778	Medical Assistance Program	$ (295)
	Total	$14,064

Recommendation:

We recommend that the department allocate payroll costs for program staff according to actual time worked on the program and adjust federal financial reports for the over and undercharges.

Auditee Response:

The department agrees with the finding. A worksheet has been provided to the agency's accountants to correct the above finding on future federal financial reports. The department's Personnel Division has also changed the individual's MFASIS code to the proper account to eliminate the above finding based on a memorandum submitted by the Financial Services Division.

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(83) Office of Management and Budget - Division of Financial Services

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Failure to make indirect cost adjustments (Prior Year Finding)

As of the date of our examination, the Department of Human Services failed to make the necessary adjustments to compensate for the differences between the provisional and final indirect cost rates for state fiscal year 1990. As a result, the indirect costs for the following programs were either over or underassessed.

CFDA #	Program Title	Amount of Over (Under) Recovery
10.557	WIC	$ 734
10.558	Child and Adult Care Food Program	$ 127
93.020	AFDC	$(18,178)
93.023	Child Support Enforcement	$(20,954)
84.126	Rehabilitation Services - Basic Support	$(57,928)

The state agency later made a journal entry to recover the $57,928 underrecovery on behalf of the Rehabilitation Services - Basic Support program (CFDA# 84.126).

Recommendation:

We recommend that the department make the necessary adjustments to compensate for the incorrect amounts. We further recommend that the department make adjustments to compensate for the differences between the final and provisional indirect cost rates within a reasonable time period.

Auditee Response:

The department concurs with the finding. Adjustments are currently being done on the federal financial reports to correct the above finding.

(84) Office of Management and Budget - Division of Financial Services

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Inadequate cash management practices (Prior Year Finding)

Treasury Circular 1075, Section 205.4, Paragraph A, requires that advances to subrecipients ". . . be limited to the minimum amounts needed and shall be timed to be in accord with the actual immediate cash needs of the recipient organization. . . ."

We reviewed three months of federal cash management procedures for five letters of credit covering major federal programs administered by the Department of Human Services (DHS). We found the following:

Federal Grantor Agency	Letter of Credit	Average Number of Days Cash on Hand
HHS	Y180P	2.04
HHS	5753	8.84
HHS	V639	16.13
USDE	8021G	49.75
USDA	12-35-2371	112.25

Recommendation:

We recommend the department reevaluate and revise its cash management procedures so that advances are based on the subrecipients' immediate cash needs.

Auditee Response:

With the implementation on July 1, 1993 of the Federal CMIA laws, cash drawdowns are tightly controlled. The drawdown options applied to the DHS accounts are designed to eliminate excess federal cash on hand. We are following the new procedure and, consequently, cash management procedures are already in place.

(85) Bureau of Health - Division of Maternal and Child Health

Special Supplemental Food Program for Women, Infants and Children (WIC)
CFDA #: 10.557 **Questioned Costs:** None

Finding: Noncompliance with vendor monitoring requirements

Of thirteen vendor monitoring files reviewed, or 20 percent of the population, seven did not reflect results of the on-site visits. According to state agency personnel the past practice has been to document the results of monitoring visits only on an exception basis. Title 7 CFR 246.12 (i), says that a state must " . . . implement a system to conduct on-site monitoring visits . . . . " and document problems detected or compliance with program requirements.

Recommendation:

We recommend that the bureau document the results of vendor monitoring.

Department of Human Services (cont.)

Auditee Response:

All on-site monitoring information is now entered into the state agency's computer system and can be accessed and retrieved promptly and efficiently.

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(86) Various Bureaus

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Inadequate collection procedures (Prior Year Finding)

The Single Audit Act of 1984 requires that an agency receiving and providing $25,000 or more in federal financial assistance to a subrecipient "...shall ensure that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with federal laws and regulations."

As of June 21, 1993 the Department of Human Services - Division of Audit had identified approximately $1.3 million dollars (state and federal funds) due to the state based on audits of community agencies. The department has not implemented procedures for collecting amounts due.

Recommendation:

We recommend that the department bill subrecipients for any amounts due the state, and promptly collect disallowed costs and grant overpayments.

Auditee Response:

The Audit Resolution Committee, comprised of contract representatives from bureaus, plus audit and fiscal representatives, are meeting monthly to finalize audit resolution policies and procedures. By January 1, 1994 the policies and procedures will be in place for the collection, compliance, and appeal process.

There will also be procedures for dealing with receivables of approximately $1.3 million.

Department of Human Services (cont.)

(87) Various Bureaus

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Subrecipient audit resolution not coordinated (Prior Year Finding)

The Single Audit Act of 1984 requires that an agency receiving and providing $25,000 or more in federal financial assistance to a subrecipient "... shall ensure that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with federal laws and regulations."

The department resolves financial findings but where there is noncompliance it does not coordinate audit follow-up, resolution, and monitoring for corrective action. The department has drafted policies and procedures for correcting this deficiency but has not implemented them.

Recommendation:

We again recommend that the department implement a system to resolve subrecipient audit findings within the required six month period.

Auditee Response:

The Audit Resolution Committee, comprised of contract representatives from bureaus, plus audit and fiscal representatives, are meeting monthly to finalize audit resolution policies and procedures. By January 1, 1994 the policies and procedures will be in place for the collection, compliance, and appeal processes.

Maine Department of Labor

(88) Bureau of Employment and Training Programs

Job Training Partnership Act
CFDA #: 17.250 **Questioned Costs:** None

Finding: No equitable basis for distributing indirect costs (Prior Year Finding)

The Office of Management and Budget (OMB) Cost Principles for State and Local Governments, (Circular A-87), Attachment A, F(1) states that a cost is allocable to an objective to the extent of benefits received.

The administrative and accounting staff of the Bureau of Employment and Training Programs (BETP) provide services to various state and federal programs. We could not determine that BETP considered the extent of benefits received when it distributed joint costs incurred by both state and federal programs.

Recommendation:

We again recommend that BETP develop a cost allocation plan that provides for an equitable distribution of indirect costs to federal and state programs based on the benefits received.

Auditee Response:

Consistent with the BETP's position on this issue in earlier correspondence, the bureau agrees with the finding and agrees to develop a cost allocation plan in which costs charged to the federal and state grants are delineated and justified. Previous responses regarding this issue said the plan was to have been developed by December 31, 1992; however, this deadline has not been met due to the administrative burdens imposed by the JTPA and the need to develop the organizational capacity of the bureau in other areas. The plan will be developed by the end of September 1993.

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(89) Bureau of Employment and Training Programs

Job Training Partnership Act
CFDA #: 17.250 **Questioned Costs:** None

Finding: Subrecipients' audit reports not reviewed (Prior Year Finding)

The Office of Management and Budget (OMB) Audits of State and Local Governments (Circular A-128) requires that any state government providing $25,000 or more in federal financial assistance to a subrecipient must determine whether the subrecipient has met the audit requirements of OMB Circular A-128 or OMB Audits of Institutions of Higher Education and Other Non-Profit Organizations (Circular A-133).

During our audit we found that the Bureau of Employment and Training Programs (BETP) did not have a system to assure that subrecipient audits complied with OMB Circulars A-128 or A-133.

Recommendation:

We again recommend that BETP develop a system which assures that audits of the subrecipients meet the requirements of OMB Circulars A-128 or A-133.

Auditee Response:

The system to ensure that subrecipients' audit reports are consistent with OMB Circulars A-128 and A-133 will consist of a desk review checklist which will be completed by the bureau's Accountant III. The checklist is being developed as of this writing and will liberally use the material contained in the draft Program Integrity Technical Assistance Guide (TAG) being developed by Region I. The BETP recognizes that the draft TAG is not official Department of Labor policy, but it has enough information to make a creditable start in resolving this audit finding.

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(90) Bureau of Employment and Training Programs

Job Training Partnership Act
CFDA #: 17.250 **Questioned Costs:** None

Finding: On-site monitoring of Title IIA and Title III activities not performed

The Bureau of Employment and Training Programs (BETP) does not have a system in place to perform on-site monitoring of either the Job Training Partnership Act (JTPA) Title IIA or the Title III grant activities. During the 1992 fiscal year BETP personnel had completed on-site monitoring of the JTPA Title IIB grant activities.

In addition, BETP does not have a system in place to review the supporting documentation that each Service Delivery Area (SDA) uses to verify the eligibility of 10 percent of new enrollees.

Title 20 CFR, Part 629.43(b) states that the governor is responsible for the oversight of all SDAs or grant recipient activities.

Section IV of the 1990 - 1991 Governor's Human Resource Development Coordination Criteria Plan states, "BETP emphasizes a detailed review of SDA planned monitoring activities expressed in their job training plans and completes on-site reviews of SDA monitoring systems."

Recommendation:

We recommend that BETP perform on-site monitoring of each SDA to ensure that JPTA funds are spent according to federal/state laws and regulations.

Auditee Response:

The BETP recognizes and is committed to increasing its monitoring capacity. The bureau is *interviewing for an additional staff person in July 1993 who will work with the bureau directors in developing a comprehensive monitoring tool for Titles II and III. As of this writing, the Director of Programs, is planning a monitoring program that would include the Executive Director and all other directors as well. The bureau's vision of monitoring is a system that provides not only oversight and feedback for the SDAs, but education and enlightenment for the state staff as well. By September, the bureau should have a strong monitoring program in place which will be similar in organization to the Title II-B Summer Youth Employment Training Program (SYETP) effort conducted the last two years.*

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(91) Division of Economic Analysis and Research

Employment Service/Unemployment Insurance
CFDA #: 17.207/17.225 **Questioned Costs:** None

Finding: Federal financial reports not submitted on time

The Employment and Training Administration Handbook No. 401, § II-7 states that the Contribution Operation's Quarterly Report (ETA-581) is due within twenty days of the month following the end of the quarter.

The department did not submit the following ETA-581 reports within the required time frame.

Report Period	Due Date	Submission Date	No. of Days Late
1/1/92-3/30/92	5/20/92	7/6/92	29 Days
4/1/92-6/30/92	8/20/92	9/8/92	11 Days

Recommendation:

We recommend that Maine Department of Labor submit the ETA-581 reports within the correct time frame.

Auditee Response:

The reports referenced above were submitted after the due date because of the differences found in the source documents that required reconciling. We have noted the due dates and have taken action to see that all future reports will be submitted within the correct time frame.

Maine Department of Labor (cont.)

(92) Office of Administrative Services

Employment Service/Unemployment Insurance
CFDA #: 17.207/17.225 **Questioned Costs:** None

Finding: Time distribution reports not retained (Prior Year Finding)

Attachment B of the Office of Management and Budget (OMB) Cost Principles for State and Local Governments (Circular A-87) states:

> Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records.

The Maine Department of Labor (MDOL) personnel did not retain the Time Distribution Reports (form BM-3) for the 1992 fiscal year. This data is entered into the cost allocation system which generates the information used to report expenditures to the federal government.

Recommendation:

We recommend that MDOL retain the Time Distribution Reports in order to support the allocation of salaries and wages charged to various federal programs.

Auditee Response:

The Time Distribution Report is submitted to the Office of Administrative Services by employees after approval by their supervisors and used for data entry into the cost accounting system. The data is available on Time Distribution Report TD-04 and available for audit examination (computer printouts and microfiches). Due to the inordinate amount of paper, the input document is not retained. We do not plan any change to this policy until future automation plans are implemented.

Office of Administrative Services

Employment Service/Unemployment Insurance
CFDA #: 17.207/17.225 **Questioned Costs:** None

Finding: No physical inventory of capital equipment (Prior Year Finding)

The Office of Management and Budget (OMB) Uniform Administrative Requirements for Grants and

Cooperative Agreements to State and Local Governments (Common Rule) states, ". . . a physical inventory of property must be taken and the results reconciled with the property records at least once very two years. . . ."

The Office of Administrative Services has not conducted a physical inventory of capital equipment within the past two years.

Recommendation:

We recommend that the Office of Administrative Services conduct a physical inventory of its equipment every two years and that it reconcile the results to the property records.

Auditee Response:

A schedule for physical capital inventory for all locations within the Office of Commissioner, Bureau of Employment Security and Maine Occupational Information Coordinating Committee is being prepared. We anticipate it will be completed by September 30, 1993.

(94) Unemployment Compensation Division

Employment Service/Unemployment Compensation
CFDA #: 17.207/17.225 **Questioned Costs:** None

Finding: Inaccurate data on the Contributions Operations Report (Prior Year Finding)

The Maine Department of Labor (MDOL) incorrectly reflected the amount of the unemployment payroll taxes receivable on the Contribution Operations Report (ETA-581) for the quarter ending June 30, 1992. MDOL reported receivables of $3,376,946 on the report. The payroll taxes receivable balance on the accounting control report at June 30, 1992 was $4,896,045. MDOL personnel did not use the correct data from the account aging report to compile the ETA-581. Thus, the receivables on the ETA-581 were understated by approximately $1.5 million.

Recommendation:

We recommend that MDOL personnel use the correct unemployment payroll taxes receivable reports to prepare the ETA-581 report.

Maine Department of Labor (cont.)

Auditee Response:

The Unemployment Compensation (UC) Tax Section has been unable to correct its mainframe computer programs to bring accounts aging report into balance with the accounting control report (trial balance). This will be incorporated in the rewrite project of the entire U.C. Tax system. The Department of Labor programmer who leads this project has given a completion date of January 1, 1994. Until that time, we will use the figures provided by the computer on the aging of accounts report to complete the ETA 581 report.

Department of Mental Health and Mental Retardation

(95) Bureau of Mental Retardation/Bureau of Mental Health

Social Services Block Grant
CFDA #: 93.667 **Questioned Costs:** None

Finding: Lack of an established system for monitoring advances to subrecipients

Department of Treasury Circular 1075, § 205.4 (a) states:
. . . cash advances to a recipient organization shall be limited to the minimum amounts needed and shall be timed to be in accord only with the actual immediate cash requirements of the recipient organization in carrying out the purpose of the approved program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual disbursements by the recipient organization for direct program costs and the proportionate share of any allowable indirect costs.

Section 205.4(e) of the circular states, ". . . cash advances made by primary recipient organizations to secondary recipient organizations shall conform substantially to the same standards of timing and amount as apply to cash advances by federal program agencies to primary recipient organizations." Also, Social Services Block Grant (SSBG) award letters state, ". . . you agree that when these funds are advanced to secondary recipients, you will be responsible for effectively controlling their use of cash in compliance with Federal requirements."

The Bureau of Mental Retardation (BMR) and the Bureau of Mental Health (BMH) render cash advances to subrecipients from Social Services Block Grant (SSBG) funds for providing authorized services. Subrecipients submit financial reports to BMR and BMH that include amounts received from each funding source, expenditures by type and the combined net remaining cash balance. Because subrecipients do not charge expenditures to the specific funding sources, only the total cash balance can be determined.

Recommendation:

We recommend that both BMR and BMH develop systems to effectively monitor cash balances in order to recover those funds which may exceed subrecipients' immediate cash needs.

Auditee Response:

All contractual agreements with subrecipients include a requirement that quarterly reports must be received prior to release of subsequent payments. One of the review procedures after receipt of the report includes monitoring for excess cash by comparing budget projections to actual expenditures. In addition, quarterly cash payments are generally made with state General Fund dollars early in the year so that payments of federal funds are, for the most part, reimbursement for expenditures that have already occurred. We believe that these practices correct the deficiency.

---

(96) Bureau of Mental Retardation

CFDA #: 93.778 **Questioned Costs:** $129

Finding: Provider overpayments due to inadequate controls

The Department of Mental Health and Mental Retardation - Bureau of Mental Retardation (BMR) sets the rate allowances for provider services to clients under the Medicaid Waiver Program for the Mentally Retarded. However, the Department of Human Services - Bureau of Medical Services (BMS) makes the payments to these providers.

We tested a sample of twenty-five payments to providers in five of the twenty-two service areas. Neither the BMS nor the BMR central office had rate allowances on file for providers in three of the five service areas although the BMR central office did obtain rate allowances from the regional offices. Two of the three service areas processed $12.2 million or 73 percent of all payments for this Medicaid Waiver Program.

Two providers were overpaid by $10 and $19 because paid rates exceeded the allowed rates. Also, a third provider received a $100 payment although the BMR had no rate allowance on file. Incorrect rates could result in significant over or underpayments depending on the number of service units billed and the differences between approved and applied rates.

Department of Mental Health and Mental Retardation (cont.)

Recommendation:

We recommend that:

1. BMR coordinate with BMS to recover any overpayments made to these providers;

2. BMS coordinate with BMR to ensure that BMS has up-to-date rate allowances on file for all service areas in the Medicaid Waiver Program for the Mentally Retarded; and

3. BMS develop a system of controls to ensure that all payments made to providers under this program are paid according to approved rates.

Auditee Response:

The Department recognizes that this is a problem and appreciates the efforts made by the auditor to clarify complex inter-departmental rate setting relationships.

1. *We will coordinate with BMR to recover the identified overpayment of $129.00.*

2. *We will coordinate with BMR to obtain an up-to-date rate file.*

3. *We will review and improve when necessary system controls for rate payments.*

Maine State Retirement System

(97) (Retirement for federally funded teachers)
CFDA #: None **Questioned Costs:** $248,483

Finding: Federally funded positions contributed at a higher rate

The Maine State Retirement System's (MSRS) effective contribution rate for federally funded teachers is higher than for state funded teachers. Actuarially determined contribution rates are applied to actual salaries for federally funded teachers and to estimated salaries for state funded teachers. Estimated salaries are used so that the amount needed to be appropriated for retirement contributions can be calculated prior to the biennial budget period. Estimated salaries have consistently been lower than actual costs, therefore the effective contribution rate for state teachers (20.06 percent) is lower than the actuarially determined rate (21.36 percent). In fiscal year 1992 this resulted in a federal overpayment of $248,483.

The Office of Management and Budget (OMB) Cost Principles for State and Local Governments Circular A-87, Section B, Allowable Costs, paragraph 13B allows employee benefits in the form of employer contributions or expenses for pension plans provided such benefits are distributed equitably to grant programs and to other activities.

Recommendation:

We recommend that the distribution of the expenses incurred for employer contributions to pension plans be equitable and according to OMB Circular A-87.

Auditee Response:

The employer rate for teachers as published by the retirement system was paid by local school administrative units on behalf of federally funded teachers. The fact that the effective rate was not paid by the state when funds were appropriated and deappropriated in the biennial budget is a matter that should be addressed by others.

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

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

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

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

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

State of Maine
Summary of Questioned Costs
By Federal Agency
For the Year Ended June 30, 1992

Federal Grantor Agency	CFDA Number	State Agency	Amount	Finding Number
U.S. Dept. of Education	84.048	Dept. of Education	$ 49,176	33
	84.126	Human Services	70	67
Total U.S. Dept. of Education			49,246	
U.S. Dept. of Health & Human Services	93.023	Human Services	85	59
	93.778	Human Services	129	66
Total U.S. Dept. Health & Human Services			214	
U.S. Dept. of Housing & Urban Development	14.228	Economic & Community	14,500	23
	14.228	Development	18,867	25
	14.228		67,624	26
	14.228		242,500	27
	14.228		44	31
Total U.S. Dept. of Housing & Urban Dev.			343,535	
Various	Various	Dept. of Administrative	5,800,000	1
Various	Various	& Financial Services	360,172	17
Various	Various	Dept. of Education	56,823	40
Various	Various	Human Services	83,387	45
Various	Various	Human Services	14,064	82
Various	None	Me. St. Retirement Sys.	248,483	97
Grand Total			$6,955,924	

State of Maine
Summary of Questioned Costs
By State Agency
For the Year Ended June 30, 1992

State Agency	CFDA Number	Federal Agency	Amount	Finding Number
Dept. of Administrative	Various	Various	$5,800,000	1
and Financial Services	Various	Various	360,172	17
Total Dept. of Administrative and Financial Services			6,160,172	
Dept. of Economic and Community	14.228	Housing & Urban Dev.	14,500	23
Development	14.228	Housing & Urban Dev.	18,867	25
	14.228	Housing & Urban Dev.	67,624	26
	14.228	Housing & Urban Dev.	242,500	27
	14.228	Housing & Urban Dev.	44	31
Total Dept. of Economic and Community Development			343,535	
Dept. of Education	84.048	Education	49,176	33
	Various	Various	56,823	40
Total Dept. of Education			105,999	
Dept. of Human Services	84.126	Education	70	67
	93.023	Health & Human Services	85	59
	93.778	Health & Human Services	129	66
	Various	Various	83,387	45
	Various	Various	14,064	82
Total Dept. of Human Services			97,735	
Maine State Retirement System	None	Various	248,483	97
Grand Total			$6,955,924	

State of Maine
Resolution Status of Prior Questioned Costs
For the Year Ended June 30, 1992

Year	State Agency & Federal Program	Federal Agency	CFDA Number	Amount	Current Status Unresolved	Resolved
	Human Services:					
1990	Food Stamps - Admin	USDA	10.561	$ 1,467		X
1990	Food Stamps - Admin	USDA	10.561	633	X	
1990	Food Stamps - Admin	USDA	10.561	8,175		X
1990	Food Stamps - Admin	USDA	10.561	1,810	X	
1990	Food Stamps - Admin	USDA	10.561	18,101	X	
1990	Title III, Part C, Nut. Serv.	HHS	93.635	1,081		X
1990	Title III, Part C, Nut. Serv.	HHS	93.635	86,112		X
1990	Title III, Part C, Nut. Serv.	HHS	93.635	12		X
1990	Medical Assistance Program	HHS	93.778	12,908		X
1990	AFDC	HHS	93.020	8,175		X
1990	Child Support Enforcement	HHS	93.023	141,174	X	
1990	Maternal & Child Health Services B/G	HHS	93.994	234,389	X	
1990	Maternal & Child Health Services B/G	HHS	93.994	6,125	X	
1990	Rehab. Services - Basic Support	ED	84.126	1,460	X	
1991	WIC Program	USDA	10.557	2,735	X	
1991	Crime Victim Assistance	DOJ	16.575	140	X	
1991	Independent Living Serv. - Older, Blind	ED	84.177	3,378	X	
1991	Ctrs. for Disease Control - Invest & Tech	HHS	93.283	4,597	X	
1991	Social Services B/G	HHS	93.667	1,064	X	
1991	Medical Assistance Program	HHS	93.778	2,449	X	
1991	SSA Research & Demonstration	HHS	93.812	705	X	
1991	PHHS Block Grant	HHS	93.991	18,744	X	
1991	ADMS Block Grant	HHS	93.992	40,438	X	
1991	Maternal & Child Health Services B/G	HHS	93.994	1,137	X	
1991	Foster Care - Title IV-E	HHS	93.658	8,478		X
1991	AFDC	HHS	93.020	948	X	
1991	Child Support Enforcement	HHS	93.023	154	X	
1991	JOBS	HHS	93.021	8,025	X	
1991	AFDC	HHS	93.020	84	X	
1991	Food Stamps	USDA	10.551	2,441	X	
1991	Various Federal Programs	Various	Various	366,882	X	
	Total Human Services			$984,021		
	Mental Health & Mental Retardation:					
1990	Social Services B/G	HHS	93.667	$ 31,299	X	
1990	Alcohol Drug Abuse B/G	HHS	93.992	6,000	X	
1991	Social Services B/G	HHS	93.667	30,491	X	
	Total Mental Health & Mental Retardation			$ 67,790		

State of Maine
Resolution Status of Prior Year Questioned Costs
For the Year Ended June 30, 1992

Year	State Agency & Federal Program	Federal Agency	CFDA Number	Amount	Current Status Unresolved	Current Status Resolved
	Economic & Community Development:					
1990	Community Development Block Grant	HUD	14.228	$94,699	X	
1991	Community Development Block Grant	HUD	14.228	12,526	X	
	Total Economic & Comm. Development			$107,225		
	Transportation:					
1990	Highway Planning & Construction	DOT	20.205	$1,815		X
	Total Transportation			$1,815		
	Division of Community Services:					
1990	Weatherization Assistance Prog.	DOE	81.042	$ 24	*	
1990	Weatherization Assistance Prog.	DOE	81.042	184,770	*	
1990	Weatherization Assistance Prog.	DOE	81.042	117,217	*	
1990	Weatherization Assistance Prog.	DOE	81.042	1,499	*	
1991	Weatherization Assistance Prog.	DOE	81.042	81,304	*	
	Total Division of Community Services			$384,814		
	Education:					
1990	Special Education - State Grants	ED	84.027	$ 402	X	
1990	Special Education - State Grants	ED	84.027	4,322	X	
1990	Public Library Services	ED	84.034	5	X	
1991	Educationaly Deprived Children	ED	84.012	27,189	X	
	Total Education			$31,918		
	Bureau of Human Resources:					
1991	Various Federal Programs	Various	Various	$615,437	X	
	Total Bureau of Human Resources			$615,437		

State of Maine
Resolution Status of Prior Year Questioned Costs
For the Year Ended June 30, 1992

Year	State Agency & Federal Program	Federal Agency	CFDA Number	Amount	Current Status Unresolved	Current Status Resolved
	Maine Arts Commission:					
1991	Promotion of the Arts	NFAH	45.007	$89,197	X	
	Total Maine Arts Commission			$89,197		
	Attorney General:					
1991	Crime Victim Assistance	DOJ	16.575	$2,000	X	
	Total Attorney General			$2,000		
	Office of Substance Abuse:					
1991	ADMS Block Grant	HHS	93.992	$102	X	
	Total Office of Substance Abuse			$102		
	Maine State Library:					
1991	LSCA - Title I / LSCA - Title III	ED	84.034/.035	$117,328	X	
1991	LSCA - Title I / LSCA - Title III	ED	84.034/.035	356,169	X	
1991	LSCA - Title III	ED	84.035	130,000	X	
	Total Maine State Library			$612,497		
	Grand Total			$2,896,816		

* As of April 1, 1991, the Maine State Housing Authority (MSHA) assumed all responsibilities for the program. Whereas MSHA is not included in the scope of our audit, follow-up on the status of questioned costs is not practical.

Note: Questioned costs are considered resolved when:
1. The federal grantor agency has determined that the funds do not have to be repaid.
2. The state has paid the federal grantor the agreed upon amount.

For the complete federal program name see the Schedule of Federal Financial Assistance.

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Management Letter

STATE OF MAINE
DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
AUGUSTA, MAINE 04333

Area Code 207
Tel. 287-2201
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Management Letter

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

In planning and performing our audit of the component unit financial statements of the State of Maine oversight unit for the year ended June 30, 1992, we considered the State of Maine's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The attachment that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the State's internal control structure in our report dated July 16, 1993. A separate report dated July 16, 1993, contains our report on reportable conditions on the State's internal control structure. This letter does not affect our report dated July 16, 1993, on the component unit financial statements of the State of Maine oversight unit.

We have already discussed these comments and suggestions with agency personnel, and we will be pleased to discuss them in further detail at your convenience.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 16, 1993

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State of Maine
Management Letter Findings and Recommendations
For the Year Ended June 30, 1992

Department of Administrative and Financial Services

(98) Bureau of Accounts and Control

Finding: Procedures for uncollectible receivables not followed

The Controller's office did not follow established procedures to adjust the allowance account for uncollectible medicaid receivables at Pineland Center. Instead of applying percentages to amounts reported on the accounts receivable aging schedule the Controller used a specific write- off approach. Had the Controller followed established procedures the allowance account balance would have increased and revenue would have decreased by $251 thousand.

Recommendation:

We recommend that, in the future, the Controller follow procedures when adjusting the allowance account for uncollectible receivables.

Auditee Response:

Agency did not respond.

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(99) Bureau of Accounts and Control

Finding: Social Security Contribution Fund balance not credited to Maine State Retirement System

Title 5 MRSA, § 19005 requires that interest and income earned on the Social Security Contribution Fund in excess of that needed for Social Security payments and overpayment refunds be credited to the expense fund of the Maine State Retirement System (MSRS).

For several years the MSRS collected Social Security payments from various participating local districts and forwarded them to the federal government. An agency fund account, the Social Security Contribution Fund, was used to account for the monies collected and for interest earned on the monies held. The account has not been used for Social Security collections or payments since at least 1986. At fiscal year-end accumulated interest earnings made up the entire equity balance of $2.5 million.

Although the MSRS is using monies in the account for system expenses as authorized by 5 MRSA,

§19005, the account balance has not been transferred from the agency fund to the MSRS account as required. Consequently, at June 30, 1992 agency fund assets and equity are overstated while MSRS assets and equity are understated by $2.5 million.

Recommendation:

We recommend that the excess $2.5 million earnings be credited to the expense fund of the Maine State Retirement System as required by 5 MRSA, §19005.

Auditee Response:

Agency did not respond.

(100) Bureau of Accounts and Control

Finding: MFASIS payroll capability incomplete (Prior Year Finding)

The MFASIS system for payroll does not include certain automatic calculations that affect both company and individual payrolls for paid and unpaid leave such as vacation, sick leave and discretionary time. The system does not automatically adjust special pay hours if an employee works less than 80 hours and modules do not exist for MFASIS to automatically calculate paid and unpaid leave. Thus each department enters original payroll data and often calculates leave differently.

There is no MFASIS module for Highway Crew payroll to make the calculations specific to their requirements. In addition the Maine Department of Transportation (MDOT) uses two systems: one for the regular statewide MFASIS payroll and another in-house system for the Highway Crew. This separate payroll is prepared on an MDOT electronic system, forwarded to MFASIS on tape and converted to MFASIS for check printing purposes only.

Additionally, both the Highway Crew and the Administrative Office of the Courts keep all personnel profiles. The Bureau of Human Resources and Payroll cannot automatically verify or edit items that affect payroll such as overtime, longevity, promotions, new hires, etc. Thus, there is no central cross-check capability or independent verification. As a result, statewide payroll calculations can differ for individuals and agencies. In addition, there is no way to calculate exact liability for accumulated paid leave.

Recommendation:

We recommend that the department modify the MFASIS system in order to automate certain calculations, provide consistent and accurate data at all agencies, and increase central accountability.

Auditee Response:

Agency did not respond.

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(101) Bureau of Accounts and Control

Finding: General Fixed Assets Account Group (GFAAG) balance misstated (Prior Year Finding)

The State of Maine Annual Financial Report for the fiscal year 1992 reported a balance of $343.3 million in the General Fixed Assets Account Group. The balance was determined by using the fiscal year 1991 detail records of the Bureau of General Services plus fiscal year 1992 capital equipment purchases. No adjustment was made to reduce GFAAG for a change in the capitalization amount or for other normal equipment retirements. As noted elsewhere in our report, agency capital equipment records are neither complete nor current.

Recommendation:

We recommend that the Bureau of Accounts and Control carefully compile information for its financial reporting purposes.

Auditee Response:

Agency did not respond.

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(102) Bureau of Accounts and Control

Finding: Incorrect accounting for working capital advance (Prior Year Finding)

In fiscal year 1989, a working capital advance was made to the special revenue fund of the Department of Environmental Protection. There were several incorrect entries in fiscal years 1989, 1990 and 1991. Although bureau personnel attempted to correct the errors, duplicate entries further misstated asset and liability account balances.

At fiscal year-end, special revenue fund assets were overstated by $602 thousand and liabilities were overstated by $198 thousand.

Recommendation:

We recommend that the bureau adjust the special revenue account balances to their correct amounts.

Auditee Response:

Corrected.

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(103) Bureau of Accounts and Control

Finding: Incorrect accounting for working capital advance

The method the bureau uses to account for working capital advance related transactions between governmental funds is incorrect. It results in misstated assets and revenue in the fund that receives the advance. Because of constraints of the accounting system, any transfer of funds by a governmental fund must be coded to a revenue source. To offset the revenue, an asset is debited upon receipt of the advance or credited upon repayment. Using the asset account in the fund receiving the advance offsets that fund's legitimate liability. In addition, using revenue to show the receipt or repayment of the advance is incorrect since there should be no effect on the operating statement resulting from a loan or advance.

Recommendation:

We recommend that when accounting for working capital advance related transactions between governmental funds, the bureau use a fund balance account such as profit or loss rather than an asset account to offset the use of revenue. Using a fund balance account would eliminate overstating assets and revenues.

Auditee Response:

Corrected.

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(104) Bureau of Accounts and Control

Finding: Records of interagency transactions not centralized (Prior Year Finding)

Title 5 MRSA, § 1545 provides the Bureau of Accounts and Control with authority to:
. . .cause to be made, at the expense of the State by any photostatic, photographic, microfilm or other mechanical process which produces a clear, accurate and permanent copy or reproduction thereof, copies of any or all of the state canceled checks, vouchers and other documents on file in the Bureau of Accounts and Control. We interpret the law to mean that the state Controller should maintain a permanent record of all transactions which the bureau processes.

Since the implementation of the new statewide accounting system, MFASIS, interagency transactions are processed via internal bills and internal payments. The Bureau of Accounts and Control does not retain copies of these documents. They are available only at the agencies affected by the transactions.

Recommendation:

We recommend that the Bureau of Accounts and Control retain adequate documentation to support receipt and expenditure of all state funds, including those transactions between state agencies.

Auditee Response:

We will meet with agencies involved to work out solution.

---

(105) Bureau of Accounts and Control

Finding: Signature cards not on file

Three of two-hundred General Fund expenditures were processed for payment based on signatures by a person not on file as authorized to approve the expenditures. Each instance was on a listing of Workers' Compensation payments. The entire listing was approved for payment based on a single approval signature.

Recommendation:

We recommend that the Bureau of Accounts and Control process for payment only those transactions approved by an authorized person.

Auditee Response:

Even though three transactions (1.5 percent of those tested) were approved for payment based on a signature not on file as specifically authorized to approved Workers' Compensation payments, the signature and the person signing were known to the Controller.

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(106) Bureau of Alcoholic Beverages

Finding: Inventory valued incorrectly (Prior Year Finding)

The Bureau of Alcoholic Beverages uses a "current cost" method for establishing inventory value. The practice does not conform with generally accepted accounting principles. In addition, it does not comply with Title 28-A MRSA, § 64 which requires that inventory be valued at cost.

Recommendation:

We again recommend that the Bureau of Alcoholic Beverages record inventory at cost. We also recommend that it use an acceptable costing method such as first-in - first-out (FIFO) or last-in-first-out (LIFO).

Auditee Response:

The bureau agrees with the auditor's recommendation. The costing method currently used by Accounts and Control, however, does not permit the use of FIFO or LIFO costing. Due to budget restrictions we have been unable to change these programs to one(s) which would be more compatible with retail inventory costing.

---

(107) Bureau of Alcoholic Beverages

Finding: Lack of inventory procedures

The Bureau of Alcoholic Beverages does not have written procedures for conducting physical inventories of liquor stock maintained at the state-operated liquor stores.

Recommendation:

We recommend that the bureau develop and implement written procedures for conducting physical inventories.

Auditee Response:

The Department of Administrative and Financial Services, Bureau of Alcoholic Beverages intends to use AICPA auditing programs or other generally acceptable programs such as those published by Practitioners Publishing Company for conducting physical inventories of liquor stock maintained at state-operated liquor stores. This will begin June 30, 1993 when efforts will be made to coordinate the count between the Financial Services' Internal Auditor, the Bureau of Alcoholic Beverages' Internal Auditor, and the State Department of Audit.

Procedures will be developed for interim counts to be made as decided by the staff and Director of Alcoholic Beverages.

Department of Administrative and Financial Services (cont.)

(108) Bureau of Alcoholic Beverages

Finding: Agency stores submitted blank checks (Prior Year Finding)

Due to its interpretation of Title 5, MRSA, § 707, the Bureau of Alcoholic Beverages requires agents to submit endorsed, blank checks with liquor orders. This practice contributes to poor internal control.

Recommendation:

We recommend that Bureau of Alcoholic Beverages cease this practice. It can comply with the law by using escrow accounts or by requiring agents to send payments equal to order amounts.

Auditee Response:

The Bureau of Alcoholic Beverages is in compliance with 28-A, MRSA Section 352, 1, C & D which states, "A licensee buying liquor at a state liquor store or from the commission must pay in cash or by check . . . (or pay) within 10 days if the agent has deposited cash in escrow with the commission to cover those purchases."

The bureau is therefore unable to cease this practice without a change in the law. Because of this practice, the state's cash flow is maximized and no personnel are required to manage accounts receivable.

The Department of Administrative and Financial Services is, however, sensitive to the unusual nature of this practice and, therefore, tested certain internal controls in the bureau. As a result of this testing, the department is satisfied that other compensating procedures are working as planned.

---

(109) Bureau of Alcoholic Beverages

Finding: Liquor-in-transit not in inventory (Prior Year Finding)

Liquor which does not sell in certain stores is sometimes transferred to the Kittery store to increase the probability of sale. When liquor is transferred from one store to another it does not appear on the state's liquor inventory.

Recommendation:

We recommend that the bureau establish procedures to ensure that liquor in transit between stores is included in the state's liquor inventory.

Auditee Response:

The bureau has developed a written procedure whereby liquor-in-transit status will always be included in the state's inventory.

---

(110) Bureau of Alcoholic Beverages

Finding: Journal entries not approved

Profit earned on the sale of alcoholic beverages is transferred by monthly journal entries from the bureau's enterprise fund to the General Fund. Only two of twelve journal entries made during the audit period had approval signatures.

Recommendation:

We recommend review and approval of all journal vouchers prior to transferring profit to the General Fund.

Auditee Response:

There has been a change in personnel and procedures in the Department of Administrative and Financial Services since June 30, 1992. All journal entries are now approved by someone other than the preparer.

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(111) Bureau of the Budget

Finding: State Cost Allocation Plan (STA-CAP) charges for space undercollected

The 1992 consolidated cost allocation plan overstated total square footage for building space by 12,180 square feet.

The miscalculation resulted in understating the rates used to reimburse the General Fund for space. It also decreased total collections of $17.7 million by approximately $137 thousand.

Recommendation:

We recommend that the department review calculations for space costs on the 1992 consolidated cost allocation plan, correct any deficiencies, and also review future calculations before collecting STA-CAP charges.

Auditee Response:

When totaling the amount of square footage from a report of the total square footage for each state owned building the amount of purchase requisitions, $12,180, was inadvertently included.

This error caused the unit cost of a square foot of space to be lower than it should have been resulting in an underallocation of approximately $137,000 of space cost to agencies. Because we recover approximately 50 percent of the indirect cost benefits identified this results in a loss of General Fund Revenue of approximately $68,500.

This office will work with our cognizant federal agency towards adjusting a future cost allocation plan to compensate for this error.

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(112) Bureau of the Budget

Finding: No documented basis for change in State Police funding

The Bureau of State Police receives monies from the General and Highway Funds. The Maine Constitution, Article 9 § 19 and a 1981 opinion of the Attorney General state that Motor Vehicle and Motor Vehicle Fuel (Highway Fund) revenues may be used to fund only that portion of the state police budget used for traffic law enforcement. The legislature must adjust the funding ratio if the proportion of expenses charged to the Highway Fund exceeds those attributable to state enforcement of traffic laws.

According to department personnel an informal analysis prepared several years ago supported a funding ratio of 60 percent Highway Fund and 40 percent General Fund. This analysis did not include indirect costs allocable to traffic law enforcement. Although there have been no subsequent analyses or studies to support changes in the funding ratio the legislature has authorized the following funding:

	Funding Percentage	
Fiscal Year	General Fund	Highway Fund
1991	50	50
1992	36	64
1993	22	78
1994	13	87

Although Public Law 592, § D-13 authorized funding for fiscal year 1992 to be "approximately" 64:36 Highway/General Fund, subsequent deappropriations to the General Fund resulted in an actual expenditure ratio of 75:25 Highway/General Fund.

	General Fund	Highway Fund	Total
Initial budget (67:33)	$8,550,270	$17,118,433	$25,668,703
Actual expenditures (75:25)	5,752,560	17,725,017	23,477,577
Authorized ratio (64:36)	8,451,928	15,025,649	23,477,577
Difference actual to authorized	($2,699,368)	$ 2,699,368	$ -0-

Recommendation:

We recommend that the Department of Public Safety analyze the Bureau of State Police operations to determine the proportional expenses attributable to enforcement of traffic laws. We further recommend that, in accordance with the Maine Constitution, expenses charged to the Highway Fund not exceed that portion of the State Police budget.

Auditee Response:

The legislature, in accordance with the combined recommendations of the Joint Standing Committee on Appropriations and Financial Affairs and the Joint Standing Committee on Transportation, may establish the level of Highway Fund to General Fund 'match' ratio for funding the biennial budget of the State Police. It seems that the legislature, through its authority to appropriate funds under Article V, Section 4 of the Maine Constitution, determined the appropriate matching ratio for funding the State Police in fiscal years 1991-1992, consistent with the intent of Article 9, section 19 of the Maine Constitution.

. . . The subsequent deappropriations referenced in the Audit finding were approved by the legislative branch and, as such, should be correctly included as part of the final authorized ratio. The intent and purpose of the word "approximately" was to allow the legislative branch to analyze and adjust the funding ratio to a level it felt more accurately reflected the current proportion of the Highway/General Fund State Police expenditures. The historical ratio had been authorized at 75:25 which apparently was a more appropriate funding mix than the 64:36 ratio. Thus, the final authorized ratio for fiscal year 1991-1992 was 75:25, Highway/General Fund.

Although it may be appropriate and timely to recommend a study to determine the actual proportion of the State Police expenses attributable to the enforcement of traffic laws, one must be more specific as to the methodology of the study and the guidelines that will be acceptable in order to ensure future reference and utilization. . . . (a prior study was reasonably valid but) an audit finding was not issued in FY 1989-90 and FY 1990-91 when the Highway/General Fund funding ratio for the State Police was 50:50 and 56:44, respectively.

Department of Administrative and Financial Services (cont.)

(113) Bureau of General Services

Finding: Inadequate reconciliation and internal control procedures

The equipment account maintained by the Bureau of General Services (BGS) for Central Fleet Management (CFM) was inaccurate at June 30, 1992. Although both BGS and CFM maintain computerized vehicle inventories, there was no year-end reconciliation between the two systems. Also, internal control over additions and deletions from vehicle inventories was weak. Based on a sample of equipment transactions the equipment account was understated by approximately $166 thousand at June 30, 1992.

Recommendation:

We recommend periodic reconciliations of BGS and CFM vehicle inventories. We also recommend formalizing written procedures to account for additions to and deletions from vehicle inventories.

Auditee Response:

The bureau agrees that the equipment account was understated and accepts the stated amount of $166 thousand. However, out of a total equipment account amount of $2.4 million we do not feel the amount is material.

The Department of Administrative and Financial Services is in the process of obtaining data-entry and computer programming help for the Bureau of General Services so that additions and deletions from vehicle inventory will be recorded more timely. The bureau also plans to change to a single inventory control system for the equipment account.

We recognize formalized written procedures should exist for recording additions and deletions from inventory, and will do so as time permits.

(114) Bureau of General Services

Finding: Liability not recorded on Controller's records

Title 5 MRSA, § 1811 states, "Central Motor Pool may develop a method of assigning appropriate credits to be used to reduce the charges for those agencies from which the vehicles are transferred to the Central Motor Pool." At June 30, 1992 the credits to be issued totaled $653 thousand but had not been recorded as a liability on the Controller's records.

Recommendation:

We recommend the bureau record the credits as a liability on the Controller's records.

Auditee Response:

The Bureau agrees that credits to be used to reduce future charges should be shown as a liability and intends to comply with the recommendation.

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(115) Bureau of General Services

Finding: Expenses not accrued at year-end

Section 1100.108 of the Codification of Governmental Accounting and Financial Reporting Standards (GASB) states, ". . . proprietary fund revenues and expenses should be recognized on the accrual basis. . . . expenses should be recognized in the period incurred, if measurable."
The Bureau of General Services did not accrue expenses for the Central Fleet Management Fund. A review of invoices paid in the subsequent fiscal year revealed that fifty percent of the items tested, a projected amount of approximately $27 thousand, should have been recorded as expense and accounts payable at June 30, 1992.

Recommendation:

We recommend that the Bureau of General Services follow the procedures established by the Bureau of Accounts and Control for recording payables at year-end so that expenses are recorded in the proper fiscal year.

Auditee Response:

The Bureau of General Services believes it is following procedures established by the Controller. However, as a result of this finding, renewed efforts have been made to encourage all state agencies throughout the state to send invoices in promptly.

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(116) Bureau of General Services

Finding: Lease-purchase agreement not recorded on Controller's records

Department of Administrative and Financial Services (cont.)

During fiscal year 1992 the Department of Administrative and Financial Services entered into a lease-purchase agreement for $2.1 million. Of this amount, $815 thousand was for Central Fleet Management. The lease-purchase was not recorded on the Controller's records at the time it was signed. Instead the lease-purchases were recorded as the proceeds were spent. Also, issue costs of the Certificates of Participation (COP) were not included in the lease-purchase payables. Therefore, the lease-purchase payables were understated by $15 thousand at June 30, 1992.

Section 120.118 of the Codification of Governmental Accounting and Financial Reporting Standards (GASB) states, ". . . capital lease accounting for proprietary funds should follow FASB (Financial Accounting Standards Board) Statement 13." FASB Statement 13 says that the capital lease obligation should be recorded once the lease is signed.

Recommendation:

We recommend that the bureau record all COPs on the state accounting system when the agreement is signed.

Auditee Response:

Correction has been made to the total of the 1992A COP to correct the understatement. The 1993A COP was recorded correctly.

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(117) Bureau of Accounts and Control
Bureau of Human Resources

Finding: Discretionary days cost savings unclear/ Required time off without pay not enforceable

Shutdown and furlough days (discretionary days off without pay) were established by the State of Maine and Maine State Employees Association (MSEA) agreement and applied to the majority of state employees as cost-saving measures for the 1992-1993 biennium. Pay raises to employees would be offset by unpaid leave.

Each agency calculated the required days off, which also included voluntary leave or Leave Without Pay (LWOP). Each agency kept its employees' records and entered data into MFASIS. The state Bureau of Human Resources (BHR) assembled the data, tracked the time off without pay for each individual in each agency. The assembled data generated quarterly reports that the agencies used to correct entries and that BHR used to verify data and keep track of targeted hours not worked. After the cutoff period in June 1992, the year-end quarterly reports for each agency were to be used to reconcile the year-end balance of their targeted days not taken and then returned to BHR. The agencies were asked to temporarily lay off those employees who had not taken their targeted days by the cutoff dates.

We note the following regarding the unpaid leave programs.

1. The exact cost savings due to the discretionary days is unclear. The targeted amount was not budgeted. The amount of savings was projected on one report but this was not edited or corrected to account for employee changes and/or unplanned or untargeted leave. BHR tracked targeted hours and requested edits to the quarterly reports but these reports did not include a corresponding dollar amount to be saved. Consequently, the actual amount saved cannot be determined and therefore cannot be compared to original estimated savings or to a budgeted amount.

2. Over one-half of state agencies representing more than half of all state employees did not respond to the year-end status inquiries.

3. BHR attempted to contact all agencies that had not responded but there were no formally reconciled year-end reports from those agencies. Consequently, we could not verify year-end balances of the time off without pay that was not taken and the related cost savings.

4. BHR has no enforcement power to require automatic layoffs, i.e., automatic deductions from individual paychecks if the individual had not taken the required time off.

5. Any savings from time taken off after the end of the fiscal year was not applied to the year in which the discretionary days applied.

6. Numerous employees who did not have targeted hours took unpaid leave. It is unclear whether this time was connected to the voluntary cost-savings program.

Recommendation:

We recommend that all agencies submit the year-end reconciliation reports; that BHR have the authority to enforce the required time off for any employee who has not used the discretionary days by the cutoff period; and that the layoffs occur within the proper fiscal year. We further recommend that the targeted hours not only be converted to potential cost savings, but that the edited reports relate to these projected savings so that the state can determine the actual savings due to discretionary days off.

Auditee Response:

Agency did not respond.

(118) Bureau of Information Services - Division of Telecommunications

Finding: No procedures to update equipment billing system

Costs of certain equipment items charged to state agencies varied from the valuations listed on the most current stock inventory. This resulted from the Division of Telecommunications not updating the billing system to agree with the equipment catalog listing.

Recommendation:

We recommend that the division periodically review and update the equipment billing system.

Auditee Response:

We agree with the finding and have implemented the recommendation.

(119) Bureau of Lottery

Finding: Accounts receivable not reconciled

The Bureau of Lottery does not reconcile the accounts receivable detail for instant ticket vendors to the Controller's records. As of June 30, 1992 the Controller's records reflected an ending balance of $2.6 million while the Bureau of Lottery's detail records showed a balance of $2.3 million, after adjustments. Not reconciling could result in inaccurate financial information or loss of assets.

Recommendation:

We recommend that Lottery accounting personnel reconcile the instant ticket accounts receivable detail to the Controller's records.

Auditee Response:

The Bureau of Lottery has identified much of the unreconciled difference in the accounts receivable. The errors will be corrected and procedures developed to keep the account reconciled in the future.

(120) Bureau of General Services - Division of Purchases

Finding: Federal Surplus Property Program not self-sustaining (Prior Year Finding)

Maine statutes require the Federal Surplus Property Program to be self-sustaining. However, the program had a loss of $16 thousand because the service fees charged to recipients of federal surplus property were insufficient to cover the acquisition, warehousing, handling, administration and delivery costs of that property.

Recommendation:

We recommend that the Department of Administrative and Financial Services-Division of Purchases charge sufficient fees to recover the program's operating costs as outlined in the State of Maine Plan of Operation-Surplus Property Program.

Auditee Response:

This is true; however, each year the deficit in federal surplus property is smaller and a surplus is predicted for fiscal year 1993.

(121) Bureau of General Services - Risk Management Division

Finding: Depreciation of fixed assets not recorded

Capital equipment valued at $22 thousand was not depreciated in fiscal year 1992. Codification of Governmental Accounting and Financial Reporting Standards (GASB) 1400.104 requires the depreciation of internal service fund fixed assets.

Recommendation:

We recommend that the division depreciate fixed assets in accordance with GASB.

Auditee Response:

We agree that the depreciation of some equipment was overlooked in fiscal year 1992; however, we wish to note the depreciation on the remaining book value of that equipment was $4,021 and would be immaterial for this division.

(122) Bureau of General Services - Risk Management Division

Finding: Incorrect accounting for interfund loans (Prior Year Finding)

According to Title 5 MRSA, §1731, the Reserve Fund for Self-Insured Retention Losses may be used to ensure prompt payment of Workers' Compensation claims for state agencies. Use of these funds requires a ". . . written agreement which specifies reimbursement . . . . " At the end of fiscal year 1992 there were four outstanding loans totaling $403 thousand. All loans were expensed when cash was distributed in fiscal years from 1989 through 1991. Later, the loans were established as accounts receivable and recorded as revenue. Therefore, both expenses and revenue were overstated. In addition, no written agreement exists for three of the loans.

Recommendation:

We recommend that the division properly account for loans and maintain a written loan agreement.

Auditee Response:

We now have written agreements signed and notarized for all loans.

---

(123) Bureau of General Services - Risk Management Division

Finding: Loans made for unauthorized purposes

Title 5 MRSA, §1731 authorizes loans from the Reserve Fund for Self-Insured Losses to state agencies to ensure the ". . . prompt payment of Workers Compensation claims." The division made unauthorized loans totaling $208 thousand to the departments of Attorney General and Mental Health and Mental Retardation to cover the cost of tort claims against the agencies.

Recommendation:

We recommend that the division make loans from the reserve fund only for purposes authorized in 5 MRSA, §1731.

Auditee Response:

We agree and will not loan any future monies, except as permitted.

---

(124) Risk Management Division

Finding: Incorrect revenue recognition (Prior Year Finding)

During fiscal years 1991 and 1992 Risk Management received $1 million from the Maine Low Level Radioactive Waste Authority. The division recorded the monies as revenue and as a reservation of retained earnings. These funds were not for purchasing insurance and no risk has been transferred to the state. Risk Management should have recognized this amount plus accrued interest as a liability on the balance sheet of the Reserve Fund for Self-Insured Losses.

Recommendation:

We recommend that the division recognize the $1 million plus accrued interest as a liability rather than a reservation of retained earnings.

Auditee Response:

We agree with the finding and have implemented the recommendation.

---

(125) Bureau of Taxation

Finding: Cigarette distributor account exceeds bond amount

Title 36 MRSA, § 4366 permits a distributor to purchase cigarette stamps on account, "... provided a bond ... in an amount not less than the sale price of such stamps shall have been filed with the State Tax Assessor conditioned upon payment for such stamps."

One of twenty distributors had an outstanding receivable balance which exceeded its bond amount by $8,000.

Recommendation:

We recommend that Taxation personnel ensure that distributors' bonds are sufficient to cover stamp orders in compliance with Title 36 MRSA, § 4366.

Auditee Response:

The bureau will more closely review the outstanding receivable balance in comparison to the bonded amount to ensure the bonded amount is sufficient.

Department of Administrative and Financial Services (cont.)

(126) Commissioner's Office

Finding: No meeting of Advisory Council on Deferred Compensation Plans

Title 5 MRSA, § 884 states, "The Advisory Council on Deferred Compensation Plans . . . shall meet at least once a year. . . ."The council did not meet from January 11, 1991 through October 7, 1992.

Recommendation:

We recommend that the Advisory Council on Deferred Compensation Plans meet at least once a year.

Auditee Response:

We agree with the recommendation. The council membership was incomplete for about a year after a statutory change gave the employee unions appointing powers. The council met on October 7, 1992 and on December 16, 1992. Two subsequent meetings were scheduled but had to be postponed during the legislative session. It is expected that the council will meet three to four times per year.

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(127) Division of Financial and Personnel Services

Finding: Lease-Purchase Payable Account not reconciled

The Division of Financial and Personnel Services currently maintains the accounting and related records of the Division of Telecommunications. It had not reconciled the Lease-Purchase Payable Account as of June 30, 1992. There was a $381 thousand variance between the Controller's and the division's records.

Recommendation:

We recommend that the Division of Financial and Personnel Services reconcile the Lease- Purchase Payable Account each month and make necessary adjustments.

Auditee Response:

We agree with the finding and have implemented the recommendation.

Department of Administrative and Financial Services (cont.)

(128) Division of Financial and Personnel Services

Finding: No cross-training of accounting personnel

As of July 1992, lottery accounting personnel were organizationally relocated to the Department of Administrative and Financial Services - Division of Financial and Personnel Services. One person maintains the manual general ledger of the State Lottery Fund and also prepares most of the accounting entries that affect the fund's operating accounts. If the one person who knows the accounting system is absent it could affect the recording of sales data and therefore affect timely revenue projections for the State of Maine.

Recommendation:

We recommend that the division train other personnel to account for the State Lottery Fund so that knowledge of that system is not limited to one person.

Auditee Response:

A procedures manual is being written to describe the duties of all personnel with Lottery Fund responsibilities. To date, the job descriptions of all accountant positions have been completed which includes the duties of the person referred to in this finding. This was tested recently when the person was on vacation and everything that needed to be done was done.

This manual is available for inspection.

---

(129) Bureau of General Services - Division of Purchases

Finding: Accounts payable understated (Prior Year Finding)

The division did not perform certain expense accruals in the Postal Printing and Supply Fund and therefore had $90 thousand in unrecorded liabilities at June 30, 1992.

Recommendation:

We recommend that the division improve the system it uses to record the year-end accounts payable amount.

Auditee Response:

We agree with the finding, and have given directives to all division directors to send all invoices in promptly. However, we wish to point out that net profit (total revenue less the cost of goods sold) for the Division of Purchases was $3.2 million and that $90 thousand would not make the financial *statements materially misstated. The division has no objection to the State Audit Department making this adjustment for its report.*

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(130) Bureau of General Services - Division of Purchases

<u>Finding</u>: Potential transfer of approximately $734 thousand to the General Fund (Prior Year Finding)

A suspense account for the Division of Purchases' Internal Service Fund is used to record transactions from the sale of surplus property. Once the agency that provided the surplus property is identified, the suspense account should be reduced and a portion of the related revenue distributed to that agency. The General Fund also shares some proceeds of the sale as established by the division's policies and procedures.

Over the past four years this suspense account increased from about $467 thousand to $734 thousand. We noted that part of the suspense account balance dates back to March 1984. Since a suspense account should only be used as a temporary holding account, it is unusual to have old items included in the account balance and for the balance to increase significantly over time.

<u>Recommendation</u>:

We recommend that the Division of Purchases review the miscellaneous suspense account in detail and make the appropriate accounting entries. In addition, we recommend that the division analyze the account monthly so that income from the sale of surplus property can be posted promptly. If lack of detail prevents making the needed accounting entries, we suggest closing the suspense account and crediting the General Fund with approximately $734 thousand of revenue, the amount in the suspense account. The suspense account could then be maintained with a minimal balance and transactions could be posted in the correct fiscal year as required by generally accepted accounting principles.

<u>Auditee Response</u>:

The division has reviewed and returned all current year monies and made the appropriate accounting entries. The process of reviewing and identifying prior year accumulations is underway, as recommended by the Audit Department, and monies will be returned promptly upon identification.

Our research to date has shown that the majority of the buildup from prior years is dedicated fund monies and not due back to the General Fund; the division agrees that funds unidentified at the end of the review process should be returned to the General Fund.

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(131) Bureau of General Services - Division of Purchases

Finding: Source documents for postal billings destroyed (Prior Year Finding)

The Division ofPurchases uses postal charge cards and tapes as source documents for monthly billing reports. The reports are then used to charge departments for postal costs. Between July and December 1991 the division destroyed the postal charge cards and tapes. Consequently, we were unable to verify the accuracy of postal billings.

Recommendation:

We recommend that the division retain source documents for postal billings.

Auditee Response:

As a result of the loss of postal charge cards and tapes, as identified in this finding, the Division of Purchases has acquired video recording equipment and all postal charge information is stored on optical disk. In addition, extra tapes have been obtained so that there are enough for current storage needs.

(132) Bureau of General Services - Division of Purchases

Finding: Internal control of accounts receivable not adequate (Prior Year Finding)

The internal control environment for the accounts receivable and the due from accounts is inadequate with minimal follow-up on delinquent accounts. For example, $478 thousand or 28 percent of the total amount ofboth accounts was over 120 days old. In addition, twelve out of twenty account verifications had discrepancies in the amounts owed to the Division ofPurchases. Since July 1991 the Department of Administrative and Financial Services has mailed out numerous delinquent notices to its user agencies and received only minimal payments toward these accounts.

Recommendation:

We recommend that the department review its collection procedures to determine the reasons for the slow collection rate, and the variances between accounts receivable records and the account verifications. Also, we recommend that the department determine whether delinquent accounts are collectible and take appropriate action.

Auditee Response:

The division has reviewed collection procedures, and noted that accounts receivable were still *recorded although they were considered to be uncollectible. These old accounts were the cause of the variances noted in the finding. All accounts receivable from 1990 or earlier have been written off. All accounts receivable are now billed monthly and examined regularly for collectivity.*

(133) Bureau of General Services - Division of Purchases

Finding: Capital equipment records not maintained (Prior Year Finding)

The Division of Purchases has not reconciled its capital equipment records to those of the Bureau of General Services as required by the State of Maine Manual of Financial Procedures, Section 66. The division's capital equipment detail records totaled $668,916 at June 30, 1992 while the control ledger balance showed $712,355, or a variance of $43,439. Also, the department has neither completed the June 30, 1992 report nor conducted a physical inventory of equipment in six years.

Recommendation:

We recommend that the division complete a physical inventory, properly maintain capital equipment records, keep them current, and periodically reconcile detail records to the control account.

Auditee Response:

The division agrees with this finding and has implemented the recommendation.

(134) Bureau of General Services - Division of Purchases

Finding: Accumulated depreciation records not adequately maintained (Prior Year Finding)

We note the following on the accumulated depreciation account for fiscal year-end 1992:

1. Detail records were not reconciled to the ledger balance, a variance of $43,439;
2. The June 30, 1992 detail reports lacked full disclosure of asset life, salvage value, yearly depreciation amounts and depreciation base; and
3. There was no written policy on the method used for calculating depreciation;

Recommendation:

We recommend that the division:

1. Adopt a written policy concerning the methods for calculating depreciation;

2. Maintain records which disclose asset life and salvage value; and

3. Periodically reconcile reports to the ledger balance.

Auditee Response:

1. We agree and have located the $43,439; this account is now reconciled and being kept current.

2. We agree that the detail report designed by the accountant for calculating depreciation does not show all detail on its face due to space limitations.

3. The division is working on codifying procedures for calculating depreciation.

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(135) Bureau of General Services - Division of Purchases

Finding: Inadequate inventory controls

The Division of Purchases' inventories as of June 30, 1992 had the following discrepancies:

1. Postal valuation records had not been reduced by $68,022, the difference between the records and the physical inventory; and

2. Out of twenty-five inventory counts there were thirteen variances between the perpetual inventory records and the physical counts.

Recommendation:

We recommend the division improve its inventory procedures in the following ways:

1. Adjust all inventory records for changes before June 30 of each year; and

2. Periodically sample inventory items through test counts and compare to records at times other than the scheduled inventory count.

Auditee Response:

1. We agree with the finding and will attempt to implement the recommendation.

2. *Management agrees that controls over inventory could be improved. We hope to computerize the inventory system and gain more control in this area; however, resources are not presently available. We will attempt to implement the recommendation.*

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(136) Bureau of General Services - Division of Purchases

Finding: Contract monitoring procedures need strengthening

Title 5 MRSA, § 1811 gives the Division of Purchases authority to purchase all services, supplies, materials and equipment for any department or agency of state government. Correct procurement procedures are essential to the responsible use of public money. Our review of twenty-five contracts and related invoices showed that eight contracts had invoice amounts that exceeded the contract prices.

Personnel at the division periodically compare invoices and contract terms. In order to prevent state agencies and departments from overpaying for goods and services purchased there should be a sufficient contract monitoring system conducted by independent personnel with the expertise and understanding of detailed and complex contracts.

Recommendation:

We recommend that the division reevaluate and strengthen contract monitoring procedures. We also recommend that personnel independent of the procurement of specific contracts review invoices and related contracts for pricing discrepancies.

Auditee Response:

The Division of Purchases . . . disagrees with this finding . . .. We do agree this is a serious finding, but feel that it should be directed against . . . agencies or departments . . .. (Detailed response on file at the Audit Department)

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(137) Division of Purchases

Finding: Established purchasing procedures not followed

Our review of twenty-five commodity contract files showed that the Division of Purchases did not consistently follow key procedures in the operations manual. We noted the following weaknesses in the internal control system:

1. Commodity buyers did not maintain central vendor performance files;

2. Two contracts did not have proper signatures when the bidding procedures were waived; and

3. Two contracts did not document calculations used for the bidding process.

Recommendation:

We recommend that the Division ofPurchases identify the key internal control procedures and ensure that those are consistently followed.

Auditee Response:

Our responses (to the findings are):

1. The State Purchasing Agent has been able to attain this objective in fiscal year 1993, and has computerized a listing of vendors, maintained decentrally, whereby vendor performance can be evaluated . . . . we feel this is a management decision, based upon available resources;

2. . . . this has been addressed by retraining buyers in correct procedures;

3. . . . this was a very unusual emergency situation which required the State Purchasing Agent to complete work within twenty-four hours. . . .

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(138) Bureau of Accounts and Control
Bureau of Financial and Personnel Services

Finding: Working capital advance not repaid

During fiscal year 1992, the responsibility for the Vehicle Rental Agency (renamed the Central Motor Pool) was transferred from the Department of Conservation to the Department of Administrative and Financial Services. During the year, a $10,000 payment on a working capital advance from the General Fund was not made as required by Public Laws of 1985, Chapter 453.

Public Laws of 1991, Chapter 591 Section III-27 provides for transferring the fund balance and all assets and liabilities to the Central Motor Pool. Therefore, the liability for the working capital advance was assumed by the Department of Administrative and Financial Services.

The Bureau of Accounts and Control is the agency responsible for monitoring working capital advances and should contact agencies if the required payments are not made.

Recommendation:

We recommend that payments for fiscal year 1992 and subsequent years be made as required. We further recommend that the Bureau of Accounts and Control carefully monitor working capital advances to assure compliance with repayment provisions.

Auditee Response:

The payment identified in this finding was made in February 1993.

(139) Bureau of the Budget

Finding: No documented basis for overhead costs charged to the Unorganized Territory Education and Services Fund

Chapter 622, Public Laws of 1991 authorized the transfer of $1,270,000 from the unexpended balance of the Unorganized Territory Education and Services Fund (UTESF) to fiscal year 1992 General Fund undedicated revenue for the purpose of meeting State Cost Allocation Program (STACAP) obligations. Chapter 881, Public Laws of 1989 authorized a similar transfer in the 1991 fiscal year. The 1992 transfer equalled 15 percent of UTESF budgeted direct reimbursements to state agencies. STACAP fees generally are based on actual use records and cost data but there was no formal study or analysis of overhead costs to support the amount transferred.

Recommendation:

We recommend that any cost allocations be based on a documented plan that identifies, accumulates and distributes costs in accordance with a uniform allocation method.

Auditee Response:

The finding correctly states that PL 1991, c. 622, Section T-2 authorized the transfer of $1,270,000 of the unexpended balance of the Unorganized Territory Education and Services Fund to the General Fund as undedicated revenue in fiscal year 1994 in order to meet State Cost Allocation Program obligations. Although the Bureau of the Budget is responsible for the administration of the State Cost Allocation Program, the bureau was not involved in the determination of the appropriate indirect cost rate for the Unorganized Territory Education and Services Fund. While the Bureau of the Budget documents all indirect cost rates subject to audit by your agency and the U.S. Department of Health and Human Services in accordance with the audit finding, the bureau cannot respond to the recommendation related to the indirect cost rate established in c. 622 as it did not originate from this office.

Department of Administrative and Financial Services (cont.)

(140) Bureau of General Services - Risk Management Division

Finding: Estimated claims recorded incorrectly

At the end of fiscal year 1992 the Risk Management Division recorded estimated potential claims of \$1.1 million by reserving a portion of fund equity. The estimated claims should have been recorded as a liability and expensed, as required by Codification of Governmental Accounting and Financial Reporting Standards (GASB) Section C50.110.

Recommendation:

We recommend that the division record estimated potential claims as a liability.

Auditee Response:

We agree with the finding and will be recording an expense and liability for those events known to have occurred but not yet asserted at year-end.

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(141) Bureau of General Services

Division of Telecommunications
Division of Financial and Personnel Services

Finding: Capital equipment records not properly maintained or reconciled

The Telecommunications' capital equipment records had the following deficiencies:

1. Capital equipment valued at less than \$500 was not adjusted from the records as required by the Bureau of General Services interdepartmental memorandum which states that, effective July 1, 1991, any item with a value less than \$500 should be a supply item, not capital equipment;

2. Capital equipment balances were not reconciled to internal records at year-end;

3. A physical inventory of all the division's fixed assets was not completed; and

4. Internal records supporting depreciation/amortization expenses were not reconciled to MFASIS data.

Recommendation:

We recommend that the Division of Financial and Personnel Services correct these deficiencies.

Department of Administrative and Financial Services (cont.)

Auditee Response:

We agree with the findings and plan to implement the recommendations with the exception of 1, the expensing of all items less than $500. Per GAAP, "The goal of a depreciation method should be to provide for a reasonable, consistent matching of revenue and expense, by systematically allocating the cost of the depreciable asset over its estimated useful life." (HBJ Miller Comprehensive GAAP Guide, 1992, 11.04). We believe that depreciation accounting is an important element of the income-determination process, and to allocate the cost of the asset over its economic life provides management with more useful information for decision making. Further, we believe the difference between what is a supply item and what is a capital item should be determined by function, not cost.

Auditor's Concluding Comment:

The state, through the Department of Administrative and Financial Services - Bureau of General Services adopted a capitalization policy for capital equipment. The policy stated that any item less than $500 would not be considered capital equipment. We believe this policy is reasonable and in accordance with generally accepted accounting principles (GAAP) as the amount is immaterial for the purpose of accounting and financial reporting of fixed assets.

Department of Agriculture, Food and Rural Resources

(142) Division of Administrative Services

Finding: Cash receipts diverted

The Department of Agriculture is responsible for the Potato Marketing Improvement Fund (PMIF). Title 7 MRSA, § 2 says that the commissioner "... shall collect the legal and usual fees payable to him by virtue of his office and shall pay them over forthwith to the Treasurer of State."

The department has a contract with the Finance Authority of Maine (FAME) to administer the agricultural loans financed through the PMIF. The contract terms agree with the statutes and require the Department of Agriculture to receive the loan payments.

However, FAME procedures violate the contract in that they require mortgagors to send loan payments directly to FAME offices. FAME then redirects the payments to the Department of Agriculture. This practice also affects good internal control because remittances may be lost or not deposited promptly.

Recommendation:

We recommend that the Department of Agriculture comply with the statutes and enforce the terms of the contract with FAME.

Auditee Response:

Until about a year ago, PMIF borrowers were required to submit loan payments directly to the Department of Agriculture. This practice was changed by the department because the potato industry had experienced a poor crop year, and numerous requests for deferrals and delinquent payments were anticipated. Because FAME administers the loans and serves as the primary contact point for all borrowers, the most efficient way to handle irregular loan payments was to have FAME receive the payments for the department. Consolidating the receipt of loan payments and servicing of accounts in one agency operated to avoid the potential adverse legal consequences of erroneously accepting a payment on a loan which had been declared to be in default or had pending legal proceedings.

The department believes that the contract with FAME, which is also an instrumentality of the state, makes FAME an agent for the commissioner. As such, the arrangement cited does not violate 7 MRSA, § 2.

The audit finding correctly points out that good internal controls are somewhat compromised, but this concern is outweighed by the considerations cited above.

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(143) Seed Potato Board

Finding: Administrative subsidy not recorded (Prior Year Finding)

The financial records for the Seed Potato Board Fund do not reflect the board's total cost of operations. Twelve Department of Agriculture employees who are paid from the General Fund work for the Seed Potato Board at least 15 to 85 percent of the time, based on employees' estimates. The Seed Potato Board received a General Fund subsidy of $245,000 in fiscal year 1991 and also received $242,550 in fiscal year 1992.

Recommendation:

We recommend that the department maintain records that provide an accurate estimate of costs to operate the Seed Potato Board Fund.

Auditee Response:

Time spent by central office administrative and managerial staff on any one of numerous programs or mandates fluctuates significantly from day to day, month to month and season to season. To track time spent on such a multitude of programs would create an untenable and inefficient administrative burden of doubtful value. We are prepared, however, to provide an estimated time-value of central office staff support services when needed or requested.

Department of Agriculture, Food and Rural Resources (cont.)

(144) Seed Potato Board

Finding: Petty cash account not reconciled (Prior Year Finding)

The Seed Potato Board has not reconciled its $10,000 petty cash account to official state accounting records or to bank statements. The actual account balance is unknown. Even when the account has no funds, the bank pays all checks presented. This causes the fund to exceed the $10,000 balance authorized by the Bureau of Accounts and Control. For each of the many overdrafts, the bank charges $15.00 per check. The account has never been reconciled. Likewise, accounting personnel of the Department of Agriculture process replenishment payments but do not reconcile or otherwise control the accounts.

Recommendation:

We recommend that the Seed Potato Board reconcile the petty cash account to the bank statement each month; maintain the account correctly during the month; and, at the time that the fund is replenished, reconcile it to the authorized amount that is recorded on the Controller's records.

Auditee Response:

We concur with the audit finding and recommendation. The responsibility for balancing and reconciling the petty cash account will be assigned to the new farm manager and his office staff and monitored by central office staff for compliance.

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(145) Seed Potato Board

Finding: Personnel expenses paid from petty cash account (Prior Year Finding)

Section 6.2 of State of Maine Manual of Financial Procedures states:
A petty cash advance may be needed by a department having recurring transactions involving small amounts which may be more practicably and economically liquidated at the point of origin.

The Seed Potato Board's policy is to pay wages of casual laborers from the board's petty cash checking account. In fiscal year 1992 the board did not follow approved personnel procedures:

1. The board paid $30,605 from the petty cash account for casual labor costs; and

2. The supervisor did not sign time sheets for the casual labor.

In the first part of fiscal year 1993, labor positions were established through the Bureau of Human Resources and the payroll is now through the state payroll system. Time sheets supporting hours of work are now submitted to the Human Resource Division of the Department of Agriculture, Food and

Rural Resources.

Recommendation:

We recommend that the Seed Potato Board not pay wages from the petty cash account and that it follow correct procedures regarding personnel matters.

Auditee Response:

The Seed Potato Board is in compliance with the recommendation.

(146) Seed Potato Board

Finding: No physical inventory of capital equipment taken (Prior Year Finding)

The Seed Potato Board has not completed a physical inventory of its capital equipment for many years. The Seed Potato Board has not complied with state procedures and regulations and has not exercised accountability for all the capital equipment that it holds. The reason stated for not doing a physical inventory is that the department has not had the staff or time to perform an inventory of all capital equipment.

Recommendation:

We recommend that the department perform a physical inventory of all its capital equipment and reconcile this amount annually to the capital equipment reconciliation form (Me. C.P.R. #17).

Auditee Response:

A physical inventory of all capital equipment assets was completed on April 1, 1993 and will be reconciled to the capital equipment reconciliation form.

(147) Seed Potato Board

Finding: Florida land rental not recorded (Prior Year Finding)

In fiscal year 1992, the Seed Potato Board rented farm land that it owns in Homestead, Florida to a local farmer for $11,000. There is no written agreement and no record of board approval.

Recommendation:

We recommend that the Seed Potato Board approve and record any land rental agreements.

Auditee Response:

The Seed Potato Board did in fact approve the land rental agreement in question, but due to the fact that the Board's minutes had not been prepared at the time of the audit, no record of this approval was on file.

(148) Seed Potato Board

Finding: Inadequate Board Minutes (Prior Year Finding)

Minutes of the September, October, and December 1991 Seed Potato Board meetings were not available. Minutes were approved for only one board meeting.

A permanent record ofboard actions should always be prepared promptly after a meeting and approved by board members at the next scheduled meeting. Delays could result in questions about board decisions.

Recommendation:

We recommend that the minutes ofthe Seed Potato Board be approved at the next board meeting and dated.

Auditee Response:

We take the audit recommendation seriously and will take steps to assure that minutes are complete, final, timely, and approved by the Seed Potato Board.

(149) Seed Potato Board

Finding: No segregation of duties (Prior Year Finding)

Workers at the Masardis farm control seed potato inventory, access to inventory records, and distribution to growers. They also have access to the computer records of seed sales contracts. They can initiate, update, or amend sales contracts and collect revenue from the sales. There are no controls to ensure that all revenue collected is deposited or that all revenue earned is collected.

Recommendation:

We recommend that the Seed Potato Board segregate the duties of cash receipts, revenue recognition and reconciliation, and restrict access to inventory records and sales agreements. We further recommend that contract sales agreements be reconciled to revenue collected.

Auditee Response:

The Seed Potato Board is in the process of simplifying and strengthening cash collection and inventory maintenance/control by requiring partial or full prepayment of contracts.

(150) Administrative Services Division
Seed Potato Board

Finding: Inadequate accounting records (Prior Year Finding)

Neither the Seed Potato Board in Presque Isle nor the Department of Agriculture, Food and Rural Resources in Augusta maintain a cash receipts log or accounting ledger to record fund activity.

Most payments are received in the Presque Isle office. Information is entered into a computer system but there is no single record of cash receipts. Cash is received by office personnel and agricultural workers at both the farm and the office. Cash receipts are not reconciled to bank deposits or to billing records.

The Administrative Services Division uses information forwarded from Presque Isle to prepare cash receipt statements and record revenue on the state's accounting records. Division personnel process whatever is received but have no controls in place to know what has been billed or what revenue is expected. Accounting personnel stated that miscodings have occurred and that revenue has been credited to incorrect accounts.

Controls are not adequate to ensure that all payments collected are deposited, that all money due is collected or that revenue is credited to the correct account.

Recommendation:

We recommend that the Seed Potato Board designate only certain persons to receive cash; maintain a cash receipts log and reconcile to bank deposits; and record revenue in the Controller's records.

We also recommend that the department's accounting personnel maintain records that detail the amounts billed, received, and refunded as well as any other records necessary to control program operations.

Department of Agriculture, Food and Rural Resources (cont.)

Auditee Response:

We concur that the internal controls affecting cash receipts and accounts receivables should be strengthened, and proper procedures will be established to accomplish this.

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(151) Seed Potato Board

Finding: Incorrect recognition of the General Fund subsidy

The fiscal year 1992 General Fund subsidy was credited to the unappropriated surplus account instead of a nonrevenue/operating transfer as required by Governmental Accounting and Financial Reporting Standards, paragraph 1800.106.

Recommendation:

We recommend that the Seed Potato Board record the General Fund subsidy as an operating fund transfer.

Auditee Response:

The Seed Potato Board complied with the recommendation in fiscal year 1993.

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(152) Division of Soil and Water Conservation District - Hancock

Finding: Inadequate accounting records/internal control

Title 12 MRSA, § 102 states that all employees and officers who are entrusted with funds or property shall keep accurate records of all proceedings.

We performed a limited review of records maintained by the Hancock County Soil and Water Conservation District. The district does not maintain a cash receipts log or accounting ledger to record fund activity; it does not reconcile to bank deposits; and it does not correctly maintain or reconcile bank accounts.

The district has not established criteria for granting refunds. Requests for refunds lack authorizing signatures. The district does not maintain support documents nor permanent records such as journals or logs of refunds issued.

Recommendation:

We recommend that the Hancock County Soil and Water Conservation District establish adequate internal controls and accounting records so that its activities can be correctly accounted for and recorded.

Auditee Response:

The department's understanding is that the Hancock County Soil and Water District (the Auditee) has complied with the audit recommendation.

Baxter State Park Authority

(153) Finding: Internal control needs improvement (Prior Year Finding)

Segregation of duties over revenue, expenditures, capital equipment and supplies inventory functions should be improved. One clerk who prepares checks and records disbursements also performs the related bank account reconciliation. Another clerk who purchases supplies and capital equipment also maintains capital equipment and inventory records.

An adequate system of internal control would preclude the person recording disbursements from performing the related bank reconciliations. In addition, the person responsible for purchasing supplies would be precluded from performing the related recordkeeping responsibilities.

Recommendation:

To strengthen internal control we recommend the Baxter State Park Authority either realign duties or perform additional management review over these functions.

Auditee Response:

We will review our job functions and will consider the realignment of duties.

(154) Finding: Records not reconciled (Prior Year Finding)

No procedures are in place for reconciling the Authority's revenue to the state Controller's records. The Authority recorded $10,456 more than the Controller recorded. The Baxter State Park Authority should ensure that recorded revenue agrees with the state accounting records.

Recommendation:

We recommend that the Baxter State Park Authority reconcile its revenue to the Controller's records.

Auditee Response:

We will reconcile our records with the state Controller's records.

(155) Finding: Inventory record-keeping procedures needed (Prior Year Finding)

Baxter State Park Authority uses an automotive garage to maintain vehicles and store supplies. The Authority does not adequately account for automotive supplies, maintain perpetual inventory of supplies, or perform periodic physical inventories.

Recommendation:

We recommend that Baxter State Park Authority account for automotive supplies through maintaining inventory records and conducting periodic physical inventories.

Auditee Response:

We now have a software package and will implement its use to have automotive supplies on a perpetual basis prior to the 1993 fiscal year-end.

Department of Corrections

(156) Finding: Controller's records do not include $975,000 of inmate benefit funds (Prior Year Finding)

The State of Maine is accountable for inmate benefit funds at state institutions. At June 30, 1992 these sources totaled approximately $975,000. These funds were not reflected on the official accounting records of the state.

Recommendation:

So that state accounting records will present a more accurate record of agency activity and financial liabilities, we recommend that the Department of Corrections compile the information on all the funds or assets in the custody of its individual agencies and institutions, and have the data recorded on the official accounting records of the state.

Auditee Response:

The Department of Corrections will contact the Controller's office to discuss this recommendation and the appropriateness of reflecting inmate funds on the official state accounting records.

(157) Maine State Prison

Finding: Prison industries activities supported by General Fund

The Prison Industries Fund was established to account for operations that relate to goods manufactured by inmates of the Maine State Prison in Thomaston. Goods produced, primarily furniture, are sold to the public.

Nine employees whose efforts relate to Prison Industries Fund activities are paid from the General Fund. Because these payroll expenses are not charged to the Prison Industries Fund, production costs are understated. In fiscal year 1992 this unrecorded subsidy was approximately $356,000.

Recommendation:

We recommend that employees whose efforts directly contribute to the prison industries operation be paid from the Prison Industries Fund. For budgeting review purposes, this change in financial accounting practice would highlight General Fund subsidies to other funds that are not otherwise apparent.

Auditee Response:

This recommendation requires legislative approval and will be reviewed with the Bureau of the Budget to determine if it is feasible.

(158) Maine State Prison

Finding: Delinquent accounts receivable should be adequately reserved or charged off

As of June 30, 1992 the accounts receivable balance for the Prison Industries Fund was $41,347. Of this, $19,204 was one to nine years old and may not be collectible. The Prison Industries Fund has not established an allowance account for uncollectible accounts.

Department of Corrections (cont.)

Recommendation:

We recommend that the department periodically review accounts receivable to determine collectability, establish an allowance account for estimated uncollectible accounts and write off those determined to be uncollectible.

Auditee Response:

Fiscal year 1993 receivables have been reviewed and uncollectible accounts have been submitted for write off. Fiscal year 1992 was not submitted in time for this to occur. However, procedures are in place through the Bureau of Accounts and Control for periodic review.

Department of Education

(111) Division of Management Information

Finding: Student enrollment information not verified/Calculation errors affect school subsidies

Before adjustments, the maximum state allocation for each School Administrative Unit (SAU) is calculated by multiplying the average number of resident elementary and secondary pupils in a unit on April 1 and October 1 of the calendar year by the elementary and secondary per pupil operating rates as established by statute.

School administrative units submit forms to the Department of Education that report the number of resident pupils on the dates noted. The Department of Education does not verify the reported amounts before the subsidy calculation stage.

A detailed review of a School Administrative Unit's (SAU) subsidy allocation revealed that the incorrect student count (75% attendance violations at the elementary level) was used. As a result, the SAU was oversubsidized by $2,473.

Because of a key punch error, all of the student counts (75% attendance violations at the elementary and secondary levels used as part of the fiscal year 1992 subsidy allocations) were taken from the incorrect reporting period. As a result, an additional thirty-six SAUs were either oversubsidized or undersubsidized.

Recommendation:

We recommend that the Department of Education, on a sample basis, verify the accuracy of the reported student enrollment used to compute each school unit's state subsidy allocation. We further recommend that the department calculate the fiscal year 1992 subsidy allocations regarding the 37 affected SAUs and that it adjust its subsequent state allocations.

Auditee Response:

Audit adjustments have been made in the fiscal year 1994 subsidy for the student enrollment information errors in the fiscal year 1992 subsidy.

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(160) Division of Management Information

Finding: Calculation errors affecting school subsidies not corrected (Prior Year Finding)

In the 1991 fiscal year audit, a test of school transportation operation costs revealed the Division of Management Information used incorrect transportation costs to determine the state allocation for six School Administrative Units (SAUs). As a result, three SAUs were oversubsidized by $11,292 and three were undersubsidized by $9,724.

Although we did not detect similar instances during the current audit, the department did not adjust subsequent state allocations for the affected School Administrative Units.

Recommendation:

We again recommend that the division make audit adjustments to subsequent state allocations for those school units affected.

Auditee Response:

Audit adjustments for the fiscal year 1991 transportation errors have not been made. When the department submitted these adjustments for inclusion in the fiscal year 1993 subsidy, the legislature had already frozen subsidy at exactly the fiscal year 1992 level except for changes made in debt service and P.L. 81-874 adjustments. The legislature did not permit any changes for audit adjustments.

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(161) Governor Baxter School for the Deaf

Finding: Handling of receipts not according to statutory provisions (Prior Year Finding)

Title 20-A MRSA, § 256 states, "Gifts and donations received by the Governor Baxter School for the Deaf (GBSD) must be credited to a special revenue account." In addition, Title 20-A also states, "The commissioner (Education) may charge service and rental fees for use of facilities at GBSD. The fees are to be credited to the General Fund."

We performed a test of fifteen prenumbered receipts issued from June 1, 1992 through June 22, 1993.

We noted the following:

1. In four transactions GBSD received total donations of $22,450; although it later transferred the money to a dedicated revenue account, GBSD originally deposited the money in a locally handled student activity account rather than depositing it in a state bank account and crediting the funds to a special revenue account; and

2. In seven transactions GBSD collected an aggregate of $4,800 from rentals of school facilities and credited the proceeds to a dedicated revenue account.

Recommendation:

We recommend that when accepting gifts and donations GBSD credit the funds directly to the special revenue account established for that purpose. We further recommend that GBSD credit facilities fees to the General Fund in order to comply with state law and reduce the state's share of monies used to support its operations.

Auditee Response:

In the future, all donations will be deposited into the dedicated revenue account. Also, all facility fees will be deposited in the General Fund.

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(162) Governor Baxter School for the Deaf

Finding: Locally handled funds not used for their intended purpose (Prior Year Finding)

Governor Baxter School for the Deaf (GBSD) maintains and uses a student benefit fund primarily for funding certain student activities conducted at the facility.

The school obtains special services such as speech pathology and social work. It pays for these services by advancing monies from a student benefit account for the contracted work. When the state or local school district pays a contractor he reimburses the student benefit fund.

Recommendation:

We recommend that the GBSD use the student benefit fund for its intended purpose of supporting student activities.

Auditee Response:

We do not anticipate this situation occurring in the future.

Department of Education (cont.)

(163) Governor Baxter School for the Deaf

Finding: Noncompliance with statute (Prior Year Finding)

The late Percival P. Baxter bequeathed $100,000 to the Governor Baxter School for the Deaf (GBSD). The gift had no conditions and was for the sole use of the school. GBSD placed this money, a certificate of deposit, in a local depository not in the state treasury. In addition, the accumulated interest on the certificate of deposit that was maintained in a separate bank account was never paid to the treasury.

According to Title 5 MRSA, § 131, "Every department and agency of the state, whether located at the capital or not, collecting or receiving public money, or money from any source whatsoever, belonging to or for the use of the State, or for the use of any state department or agency, shall pay the same immediately into the state treasury. . . ."

Recommendation:

We again recommend that GBSD immediately transfer the certificate of deposit and its accumulated interest to the state treasury so that these funds will be held in trust by the state. We further recommend that these monies be recorded on the Controller's records.

Auditee Response:

Baxter School for the Deaf will work with the Division of Finance to resolve this issue. Appropriate steps will be taken during fiscal year 1994 to shift the locally controlled Baxter funds to the custody of the state Treasurer for investment purposes.

Department of Human Services

(164) Finding: Controller's records do not include public guardianship/conservatorship account assets (Prior Year Finding)

The Department of Human Services (DHS) administers public guardianship/conservatorship accounts. At June 30, 1992 these accounts totalled approximately $1.5 million. These funds, as well as other assets of an indeterminable value for which the department secured a $4 million bond, were not reflected on the official accounting records of the state.

Recommendation:

So that state accounting records present an accurate record of agency activity and financial liabilities, we recommend that DHS compile information on all funds and assets and record the data on the official accounting records of the state.

Auditee Response:

We recognize the concern of the Department of Audit and will attempt to satisfy its concerns while maintaining the flexibility these accounts require.

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(165) All Bureaus/Divisions

Finding: Compliance supplement texts not included in grant agreements

On October 11, 1989 the Deputy Commissioner of Management and Budget for the Department of Human Services (DHS) issued a memorandum instructing all bureau directors to include the text of all pertinent compliance supplements as part of the standard agreements used in contracts with subrecipients. We noted that eleven of thirteen subgrant agreements did not include the text of the compliance supplements.

Recommendation:

We recommend that DHS include the text of all compliance supplements in contracts entered into with subrecipients.

Auditee Response:

All department contract units incorporate the compliance supplements by reference in each contract. Each provider or agency has a complete set of compliance supplements provided by the department. We believe it would be costly and inefficient to mail them with each contract.

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(166) Office of Management and Budget - Division of Audit

Finding: Insufficient rotation of audit staff

All auditors should consider whether they can be impartial during an audit. One way to increase staff independence is to periodically rotate assignments. Auditors have various levels of experience. Rotation can provide different assessments of operations and reduce the risk that specialized knowledge is restricted to one auditor.

We reviewed nursing home audit staff assignments. We found that of approximately 148 facilities, twenty-eight have had the same auditor for five or more consecutive operating periods.

Recommendation:

We recommend that the department periodically rotate internal audit assignments in order to increase auditor independence.

Auditee Response:

...We make every attempt possible to rotate auditors when practical but in some cases it is almost impossible to do... some auditors from handling certain audits. Another consideration is the availability of auditors to handle the audits since we are dealing with vacations, and lately shutdown and furlough days. We attempt to handle our audits ... at the convenience of the provider...

The only possible way we could rotate auditors more frequently would be to have more auditors which is impossible due to the budget shortages.

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(167) Office of Management and Budget - Division of Audit

Finding: No policy for assurance of audit independence or confidential information

Government auditing standards require an auditor to be independent on all matters that relate to the audit. The Department of Human Services - Division of Audit does not formally require its auditors to report potential conflicts of interest or impairments to independence. Also, there is no formal mechanism for auditors to state that they will not divulge confidential information obtained during an audit.

Recommendation:

We recommend that the Division of Audit establish a written policy to require each auditor to disclose any personal conflicts of interest and sign a confidentiality statement.

Auditee Response:

We concur with the finding and recommendation. We plan on adopting the sample independent auditor certification form provided to us be the State Auditor's office. We appreciate their bringing this matter to our attention.

Department of Human Services (cont.)

(168) Office of Management and Budget - Division of Financial Services

Finding: Accounts receivable not established (Prior Year Finding)

One objective of adequate internal control is accountability for assets. The Division of Audit of the Department of Human Services (DHS) is responsible for ensuring that all DHS subcontracts and subgrants are audited. These audits identify amounts due the state from grant overpayments and disallowed costs. As of June 30, 1993 the department had identified $2.8 million dollars due to the state. However, the department has not established accounts receivable for the amounts due.

Recommendation:

In order to strengthen control over amounts due the state we recommend that the department establish an accounts receivable on the state accounting records. We also recommend that the department establish an allowance for uncollectible accounts.

Auditee Response:

As part of our audit resolution project, we will take up the issue of establishing an accounts receivable record with the Controller's office. Estimated time to completion of the audit resolution project is January 1, 1994.

Judicial Department

(169) Administrative Office of the Courts

Finding: Inadequate revenue reconciliations

The Administrative Office of the Courts (AOC) has inadequate reconciliation procedures for revenue. It has procedures for reconciling to the District Courts but it does not reconcile to the Controller's records. Consequently, the AOC does not know whether transactions have been posted correctly to the Controller's records.

Recommendation:

We recommend the Administrative Office of the Courts obtain revenue reports from the Controller's office and reconcile its records to the Controller's records.

Auditee Response:

The Administrative Office of the Courts is unable to reconcile Judicial records with Controller records because the system which contains the Controller's records, MFASIS, produces reports whose format make reconciliation time consuming and difficult. Efforts to find a useful report have proven fruitless to date. We will continue our efforts to obtain a report that will solve this problem.

Department of Mental Health and Mental Retardation

(170) Finding: Controller's records do not include $1.7 million of representative payee and patient/ benefit funds (Prior Year Finding)

The Department of Mental Health and Mental Retardation (MHMR) administers the representative payee fund and patient/benefit funds at state institutions. At June 30, 1992 these funds totaled approximately $1.7 million and were not reflected on the official accounting records of the state. MHMR has no central record of funds that it administers.

Recommendation:

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

Auditee Response:

We are in the process of establishing, through the state Controller, an official record of all funds held in trust for MHMR patients and clients. The initial amount will represent the collective fund balance at June 30, 1993 and will be updated each year on the state's accounting records.

(171) Bureau of Mental Health

Finding: Providers not monitored adequately (Prior Year Finding)

Title 34-B MRSA, § 1203-A(5) states, "Regardless of the term of the license, the commissioner shall monitor the licensee, at least once a year, for continued compliance with applicable laws and rules."

The Department of Mental Health and Mental Retardation does not monitor the providers of mental health services each year. Licenses are granted for up to two years and monitoring occurs when the provider's license expires.

Recommendation:

We recommend that the department monitor agencies each year regardless of the license term.

Auditee Response:

A process of annual review of all licensed agencies was implemented effective July 1, 1993. It should be noted that current practice of the Division of Licensing is (to have) a minimum of three visits to each licensed provider within a two-year licensing period.

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(172) Division of Reimbursement

Finding: Rejected Medicaid claims totaling $500,000 not resubmitted for payment

The Division of Reimbursement submits claims to the Department of Human Services (DHS) for patients' Medicaid charges. DHS rejects some claims and the division must then correct/adjust the claims and resubmit them for payment.

The Maine Medical Assistance Manual, Chapter 1, Section 1.08-2 states that all claims shall be submitted to DHS within one year of the date of service. It also states that providers have one year from the date of initial submission to resubmit a corrected claim for payment. As of August 19, 1992 the division had approximately fifty remittance statements totaling more than $500,000 in rejected claims that had not been resubmitted for payment.

We also found that the division does not have adequate procedures to monitor either resubmissions or payments resulting from resubmissions. There were sixteen instances where the division exceeded the one-year limit for submission of initial claims. Consequently, payments were denied.

Recommendation:

We recommend that the division review the current rejected claims, adjust, and resubmit them for payment as soon as possible.

We also recommend that the division develop a better monitoring system for rejected claims.

Auditee Response:

Both recommendations have been carried out. The rejected claims in question pertained to Pineland Medicaid reimbursable services. The division has, in fact, resubmitted over 100 claims totaling over $650,000. Over $500,000 has been paid with the balance due within four to six weeks. DHS agreed to process these claims since changes made at DHS had not been conveyed to us.

We now have procedures in place that assure timely rebilling.

---

(173) Division of Reimbursement

Finding: Commercial accounts at Augusta Mental Health Institute (AMHI) not collectible

As of March 31, 1992 $605,310 of the $622,697 AMHI accounts receivable balance, or 97 percent, was over one year old. The balance consists of accounts that are from one to seven years old.

Year	Number of Accounts	Amount	Percentage of Total
1985	1	$ 2,708	1
1986	7	19,171	3
1987	29	92,439	15
1988	37	102,810	17
1989	36	134,182	22
1990	28	158,778	26
1991	20	95,222	16
	158	$605,310	100

Recommendation:

We recommend that the division review the AMHI commercial accounts and seek payments from the responsible parties. These steps should be undertaken as soon as possible due to the age of the accounts.

Auditee Response:

We have reviewed over 100 of these accounts thus far and have determined that $258,000 was unbillable (patient not covered, benefits exhausted, etc.); $195,000 was over the time limit for billing purposes; and approximately $50,000 has been paid or will soon be. Receivables over one year old totaled $600,000 in March 1992 and $150,000 in March 1993. A reorganization now places the *follow-up responsibility on reimbursement specialists which helps keep receivables current.*

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(174) Division of Reimbursement

Finding: Accounts adjusted and written off without authorization or supervisory review

Although the commissioner is authorized by 34-B MRSA, § 1409 §§ (7) to adjust care and treatment charges, the Department of Mental Health and Mental Retardation has delegated authority to reimbursement specialists to adjust or write off accounts receivable. Neither their recommended adjustments or write-offs are reviewed or approved by a supervisor. Additionally, an adjustment recommended in January 1991 was not made as of August 1992.

Recommendation:

We recommend that:

1. The division review the statutory authority to determine if the Reimbursement Specialists can adjust or write off account receivables;
2. The division director review and approve all adjustments and write-offs of account receivables recommended by the reimbursement specialists; and
3. The division ensure that recommended adjustments are made.

Auditee Response:

We believe that the director of the division does have the authority (as delegated by the commissioner) to adjust or write off account balances when appropriate. We have reaffirmed our procedure which requires director approval prior to any write-offs.

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(175) Division of Reimbursement

Finding: Inadequate supervisory review of accounts receivable aging reports

Supervisory review of the March 31, 1992 aging reports was inadequate. Two accountants in the division prepared the aging reports; however, the Business Manager did not review them before they were sent to the Controller. As a result, inconsistencies and errors in aging of individual accounts and control card balances were not detected.

The Controller questioned the significant increase in Pineland Center's Medicaid accounts from March 31, 1991 to March 31, 1992 which were from 180 days to over one year old. As a result, the division had to conduct a detailed review of these accounts and prepare a revised aging report.

Recommendation:

We recommend that the division's Business Manager review the aging reports prior to submitting them to the Controller.

Auditee Response:

We certainly agree. The Business Manager had been overloaded with other responsibilities at the time. Future aging reports will be thoroughly reviewed prior to being forwarded to the state Controller.

(176) Division of Reimbursement

Finding: Detailed agings of accounts receivable improperly prepared

The Division of Reimbursement used both the dates of service and the transaction posting dates to age individual accounts receivable. Twelve accounts, ten percent of those examined, were incorrectly aged. Additionally, two control card balances for Pineland Center were not aged correctly.

Recommendation:

We recommend that the division correctly age the accounts receivable.

Auditee Response:

We agree with the recommendation. As noted, corrections have been made and the staff will be more diligent with regard to accounts receivable record keeping.

(177) Division of Reimbursement

Finding: Receipts deposited to incorrect account

Department of Mental Health and Mental Retardation (cont.)

Title 22 MRSA, Chapter 402, § 1732, established a disproportionate share program consistent with the requirements of the federal Social Security Act, Title XIX. Both the Augusta and Bangor Mental Health Institutes (AMHI, BMHI) were designated as disproportionate share hospitals under the program.

Title 34-B MRSA, Section 1409, Subsections 13 and 14 required the commissioner of Mental Health and Mental Retardation to establish special revenue accounts for both the Augusta and Bangor Mental Health Institute for deposits of income received from residents of the two institutions, the Medicaid program or other third party payers. The funds were to be used for expenses of the two institutions.

Although statutes require payments or income received from AMHI and BMHI residents, the Medicaid program or other 3rd-party payers to be deposited into the special revenue accounts the division is only depositing receipts of disproportionate share patients into these accounts.

Recommendation:

We recommend that the division deposit the funds into the correct accounts.

Auditee Response:

Fiscal year 1992 was a transition year with regard to the establishment of disproportionate share designation for AMHI and BMHI. Procedures are now in place which assure the deposit of receipts associated with psychiatric care to special revenue accounts. Receipts for nursing care are deposited to undedicated revenue.

(178) Division of Reimbursement

Finding: Confirmation procedure indicates need for adjustment

In order to confirm the division's year-end balance of accounts receivable we sent sixty-one confirmations totaling $384,133 to various individuals and companies. Test results were:

Department of Mental Health and Mental Retardation (cont.)

	Total
Two were not forwarded by the Postal Service	$ 5,883
Twelve did not respond	76,260
Nineteen agreed with the balance	64,836
Seven disagreed with the balance	13,554
Thirteen balances need to be adjusted by the division	128,443*
Eight responders requested additional information	64,733
Two paid the balance in full	30,421
Total	$384,133

* Of this amount, nine balances totaling $56,311 were either too old to be confirmed by the provider or the provider never received a billing.

Recommendation:

We recommend that the division follow up on those confirmations not in agreement with the stated balance, and adjust balances.

Auditee Response:

Follow-up has been completed on all of the confirmations with the result being that approximately $200,000 of the total has been adjusted as being uncollectible. Some of the accounts are AMHI related and, as such, were already included as part of the commercial accounts finding referenced earlier.

Department of Public Safety

(179) Bureau of State Police

Finding: No documented basis for change in State Police funding

The Bureau of State Police receives monies from the General and Highway Funds. The Maine Constitution, Article 9 § 19 and a 1981 opinion of the Attorney General state that Motor Vehicle and Motor Vehicle Fuel (Highway Fund) revenues may be used to fund only that portion of the state police budget used for traffic law enforcement. The legislature must adjust the funding ratio if the proportion of expenses charged to the Highway Fund exceeds those attributable to state enforcement of traffic laws.

According to department personnel an informal analysis prepared several years ago supported a funding ratio of 60 percent Highway Fund and 40 percent General Fund. This analysis did not include indirect costs allocable to traffic law enforcement. Although there have been no subsequent analyses or studies to support changes in the funding ratio the legislature has authorized the following funding:

	Funding percentage	
Fiscal Year	General Fund	Highway Fund
1991	50	50
1992	36	64
1993	22	78
1994	13	87

Although Public Law 592, § D-13 authorized funding for fiscal year 1992 to be "approximately" 64:36 Highway/General Fund, subsequent deappropriations to the General Fund resulted in an actual expenditure ratio of 75:25 Highway/General Fund.

	General Fund	Highway Fund	Total
Initial budget (67:33)	$8,550,270	$17,118,433	$25,668,703
Actual expenditures (75:25)	5,752,560	17,725,017	23,477,577
Authorized ratio (64:36)	8,451,928	15,025,649	23,477,577
Difference actual to authorized	($2,699,368)	$ 2,699,368	$ -0-

Recommendation:

We recommend that the Department of Public Safety analyze the Bureau of State Police operations to determine the proportional expenses attributable to enforcement of traffic laws. We further recommend that, in accordance with the Maine Constitution, expenses charged to the Highway Fund not exceed that portion of the State Police budget.

Auditee Response:

... it is our position that the decision on this matter is not the Department of Public Safety's, but is generally determined by the legislature's Appropriations and Transportation Committees. I expect they are fully aware of the constitutional provision you cite and the nature of the varied tasks of the State Police as to highway and non-highway functions.

Secretary of State

(180) Division of Motor Vehicles

Finding: No accounts receivable reconciliation

The division did not prepare monthly reconciliations of accounts receivable for motor vehicle driving records and protested checks. The Division of Motor Vehicles' records did not agree with the Controller's records as of June 30, 1992.

Recommendation:

We recommend that the Division of Motor Vehicles strengthen internal control by reconciling records each month.

Auditee Response:

Monthly accounts receivable reconciliations for driving records and protested checks are current. Motor Vehicle records agree with the Controller's records.

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(181) Division of Motor Vehicles

Finding: Insufficient internal control for registrations

Control procedures are insufficient to ensure that all registrations issued by municipal agents are reported to the Division of Motor Vehicles (DMV). There is no reconciliation of the number of registrations assigned and distributed to agents versus the number of registrations the agents actually issue. There is no audit trail between the registrations recorded on the DMV computer system and the related municipal agent reports and deposits.

Recommendation:

We recommend that the division do one or the other of the following: either periodically reconcile the total number of motor vehicle registrations that the municipal agents report as issued to the total number of registrations originally distributed to the municipal agent; or verify registrations by another method such as machine validation.

We also recommend that the division develop an audit trail to ensure that it collects the correct fee for all registrations.

Auditee Response:

The department is in general agreement with this finding; however, the level of control that is desirable cannot be accomplished within the capabilities of the current manual system. The resolution of funding problems and future computerization will enable us to reach an acceptable accountability level.

At the present time an effort is underway to establish a pilot project with a municipal agent utilizing personal computer technology to account for Motor Vehicle registrations and fees.

Maine State Retirement System

(182) Finding: Social Security Contribution Fund balance not credited to Maine State Retirement System

Title 5 MRSA, § 19005 requires that interest and income earned on the Social Security Contribution Fund in excess of that needed for Social Security payments and overpayment refunds be credited to the expense fund of the Maine State Retirement System (MSRS).

For several years the MSRS collected Social Security payments from various participating local districts and forwarded them to the federal government. An agency fund account, the Social Security Contribution Fund, was used to account for the monies collected and for interest earned on the monies held. The account has not been used for Social Security collections or payments since at least 1986. At fiscal year-end accumulated interest earnings made up the entire equity balance of $2.5 million.

Although the MSRS is using monies in the account for system expenses as authorized by 5 MRSA, §19005, the account balance has not been transferred from the agency fund to the MSRS account as required. Consequently, at June 30, 1992 agency fund assets and equity are overstated while MSRS assets and equity are understated by $2.5 million.

Recommendation:

We recommend that the excess $2.5 million earnings be credited to the expense fund of the Maine State Retirement System as required by 5 MRSA, §19005.

Auditee Response:

The funds are to be used to meet expenses of the new Participating Local District Consolidated Plan implementation and about $500 thousand will be transferred to the State's General Fund in the fiscal years 1994-1995 biennium to meet the revenue shortfall. When all this is accomplished, in about two year's time, all the funds will be exhausted . . . .

(183) Division of Benefits

Finding: Errors in retirement benefit calculations (Prior Year Finding)

As part of our examination of retiree benefit payments we selected a random sample of fifty-one active retirees to verify the accuracy of their monthly benefit calculations. Twenty-five in the sample had retired before 1983. According to Maine State Retirement System (MSRS) personnel, all information is not available to recalculate the benefit amount for personnel who retired before 1983. Of the remaining twenty-six sample items six had incorrect benefit calculations. The MSRS benefits section operates on a manual system. Despite a series of checks for accuracy some errors go undetected.

Although projecting errors to the total retiree population does not result in a material misstatement of the financial statements, the retirement system should accurately calculate all retiree benefits.

Recommendation:

We recommend that MSRS personnel use all possible care in calculating and reviewing the accuracy of benefit calculations, and consider modernizing the system for calculating benefits.

Auditee Response:

The sample was based on retirements over a wide time-frame. The errors can be attributed to files worked in the early part of the sample's time-frame. Recently, procedures have been put in place to minimize the potential for error.

The plan provisions in place for state employees and teachers are some of the most complex in the country and the retirement system is constantly striving to improve internal controls to mitigate the size and frequency of errors.

Department of Transportation

(184) Bureau of Maintenance and Operations - Motor Transport Service

Finding: Fuel and oil usage tickets discarded

Motor Transport Service (MTS) discarded fuel and oil usage tickets from July 1, 1991 through April 8, 1992. As a result we could not trace several revenue transactions to their source documents.

Department of Transportation (cont.)

Recommendation:

We recommend MTS keep all documentation until an audit is completed.

Auditee Response:

Fuel and oil usage tickets will be retained. All of fiscal year 1993 tickets are available and will be stored for future audit testing.

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(185) Bureau of Maintenance and Operations - Motor Transport Service

Finding: Liquid inventory overstated

Motor Transport Service (MTS) liquid fuel balances reported on official state accounting records (MFASIS) do not agree with balances calculated using MTS fuel summary reports at June 30, 1992. The differences are:

Fuel summary report - adjusted stick reading	$658,000
MFASIS	728,096
Difference	$ 70,096

MTS did make an adjusting entry but the reconciling amount was not completed correctly.

Recommendation:

We recommend that MTS reconcile the fuel on hand to the financial statements at the fiscal year-end and make any necessary adjustments.

Auditee Response:

We concur with the audit recommendation. Motor Transport will conduct a physical inventory at June 30, 1993 and make appropriate adjusting entries.

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(186) Bureau of Maintenance and Operations - Motor Transport Service

Finding: Lack of adherence to capitalization policy

According to the Motor Transport Service (MTS) capitalization policy, preventive maintenance and normal wear items such as tires and brakes should not be capitalized. However, several items such as tires were capitalized.

Recommendation:

We recommend MTS not capitalize any items that are considered repairs.

Auditee Response:

MTS personnel have been advised to strengthen their review of work orders in order to assure conformance to the capitalization policy. This will reduce the likelihood of these oversights.

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(187) Bureau of Maintenance and Operations - Motor Transport Service

Finding: Inadequate internal control over parts inventory (Prior Year Finding)

The Motor Transport Service (MTS) has insufficient control over its parts inventory. This weakness has contributed to inventory differences.

Our review of inventory procedures at Motor Transport Service revealed inadequate segregation of duties within the storeroom function. The same clerk may be responsible for ordering, receiving, counting inventory, and posting to the perpetual inventory records. In at least one case there was no segregation between storeroom functions and operations: one storeroom clerk was responsible for store items and initiating "overhead job orders" with no other approval. In addition, there was nothing signed indicating operations personnel received the items. The storeroom functions also seemed short staffed in all locations that we visited. Physical access to storerooms was not always restricted. In order to test inventory counts, a sample of inventory items is generated by computer each day. Because of staff shortages, the same person may take the physical count and make adjustments on the perpetual inventory records. MTS generates a variance report but it is not routinely investigated or reconciled.

Recommendation:

We recommend that MTS:

1. Maintain records that will identify trends in variances;

2. Supervisors approve changes to inventory records;

3. Investigate and reconcile all significant variances; and

4. Segregate stores and operations functions, and maintain sufficient staff to ensure this segregation.

Auditee Response:

The department recognized deficiencies in internal control over parts inventory. Accordingly, it developed and implemented written procedures and disseminated them in August, 1992. We believe these procedures will adequately satisfy the concerns of the Department of Audit.

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(188) Bureau of Transportation Services

Finding: Year-end inventory reconciliation procedures not performed

The agency's year-end balance, according to supplies inventory records for the Island Ferry Services Fund, was $42,713 greater than the amount on the state's official accounting records.

Without conducting periodic physical inventories of supplies and making timely adjusting entries to the state accounting records, the financial statements may be misstated.

Recommendation:

We recommend that the Bureau of Transportation Services reconcile supplies inventory balances between the agency's perpetual records and the state's accounting records.

Auditee Response:

The discrepancy identified was primarily the result of a procedural weakness discovered and corrected some time ago. In short, average inventory values were being improperly inflated causing a significant gap between the Ferry Service inventory records and MFASIS.

Changes in computer applications and strengthening our own internal processing procedures have reduced the probability of further deficiencies of this nature.

We will process appropriate adjusting entries to the close of fiscal year 1993.

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(189) Bureau of Transportation Services

Finding: Unauthorized transfer of $80,208

The bureau did not obtain proper authorization before making a transfer of $80,208 from the Marine Ports Fund to the Island Ferry Services Fund. Title 5 MRSA, § 1585 requires that any transfer of money between accounts must be preauthorized by a financial order approved by the governor.

Recommendation:

We recommend that the department transfer funds according to statutory requirements.

Auditee Response:

This finding consists of two separate journal transfers: one for $20,208, and one for $60,000.

The first transaction was a correction to previous transfers that were $20,208 in excess of what they should have been. The second transaction was to provide additional operating cash to the Maine State Ferry Service. We believe these transactions were not unauthorized as they were within the scope of the required purpose of the original General Fund appropriation.

Nevertheless, since the Department of Audit has questioned these transactions, we will seek authorization through the financial order process as set forth in Title 5 MRSA, § 1585 for future transactions.

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(190) Bureau of Transportation Services

Finding: Inconsistent accounting for depreciation of donated fixed assets

Donated fixed assets or fixed assets acquired with contributed capital can be accounted for by one of two depreciation methods. The various funds of the Department of Transportation use both methods. The Marine Ports Fund has adopted elements of each.

Although both depreciation methods are acceptable, they result in significantly different balances for retained earnings and contributed capital. For example, the Marine Ports Fund retained earnings would be approximately $2.5 million more in one alternative versus the other. To ensure comparability the state should adopt a single method and apply it consistently.

Recommendation:

We recommend that the Department of Transportation adopt a consistent method for depreciating donated fixed assets of the enterprise and internal service funds of the state.

Auditee Response:

We have discussed these inconsistencies with the Deputy State Controller and are currently in the process of writing procedures that will be acceptable to both the Controller and the Department of Transportation.

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(191) Bureau of Finance and Administration (Highway Crew Payroll)

Finding: Time and leave records not centralized

Payroll for the Maine Department of Transportation (MDOT) Highway Crew is prepared independently from the regular exception payroll. Unlike other sections of MDOT where original time records are centrally located, each highway division keeps its own records for Highway Crew and forwards reports to the crew payroll section at MDOT. In addition, copies of the records are not centrally located.

During our verification of employee records for time worked we requested original time records for certain pay periods at selected divisions. If these were not available we reviewed copies of the originals. In one division we were unable to verify the employee's work or leave records for the selected payroll period because the division could not provide documentation of either an original or copy of the employee time record.

Recommendation:

We recommend that payroll sections of each MDOT highway division retain original time worked and leave records. We further recommend that the Highway Crew payroll section retain copies at a central location.

Auditee Response:

MDOT highway divisions have been instructed to retain original time worked and leave records. With original records retained at highway division headquarters, it is not necessary to incur the additional cost of photocopying, transporting, and filing copies of these records.

Office of Treasurer of State

(192) Finding: Inadequate segregation of duties

One individual is responsible for authorizing, recording and reconciling investment transactions for trust funds managed by the Treasurer's Office. At fiscal year-end this amount exceeded $10.7 million.

Recommendation:

We recommend that the Treasurer's Office segregate the authorization, recording and reconciling functions in order to strengthen internal control over trust fund activity.

Auditee Response:

Due to staff reductions, shutdown and furlough days, Treasury personnel have been struggling to keep up with the ever-increasing workload in the Office of the Treasurer. The office will work toward implementing this audit finding.

(193) Finding: Deposits not recorded

Cash receipts of $295,194 collected at least sixty days before the end of the fiscal year were not reflected on year-end state accounting records.

Because collecting agencies did not submit cash receipt statements, treasury personnel could not credit the funds to appropriate accounts. The funds cannot be disbursed until properly recorded.

Recommendation:

We recommend that the Treasurer's Office promptly investigate and resolve outstanding items.

Auditee Response:

Treasury will contact departments that are late in submitting cash receipts to encourage timely revenue filing.

(194) Finding: Bank reconciliations not timely nor adequately documented

We examined reconciliations of four bank accounts administered by the Office of Treasurer of State which represented 85 percent of the June 30, 1992 cash balances. Although reconciliations were completed correctly, some reconciling entries required explanations from the preparer in order to be understood. Also, documentation supporting the reconciliations was filed separately and not referenced.

We also selected a fifth bank account with a June 30, 1992 book balance of $1,035,300 but were unable to examine the reconciliation since treasury personnel had reconciled the account only through December 1991.

Recommendation:

We recommend that each bank reconciliation include sufficient explanation and documentation filed with it, or reference to the documentation, so that a third party can perform or review the reconciliation. We also recommend that treasury bring the reconciliations up-to-date so that errors can be promptly corrected.

Auditee Response:

Hopefully fiscal year 1994 will not include furlough and shut down days which will allow more time to be devoted to keeping deposit accounts reconciled timely. The fifth account is reconciled through June 30, 1992 and into August of calendar year 1992. Plans are in process to have the account current by August 1993.

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(195) Finding: Wire transfers of $10.3 million recorded incorrectly

The Treasurer's Office routinely wire transfers funds between financial institutions. It then notifies the Controller to make appropriate accounting entries to record the transactions. At the 1992 fiscal year-end, before audit adjustment, cash and accounts payable were overstated by $4.1 million. The overstatement occurred because the Controller recorded a wire transfer by crediting accounts payable rather than cash. Also, cash was overstated and cash with the fiscal agent was understated by $6.2 million because the Treasurer's Office did not advise the Controller of a transfer of funds for debt service payments until the next fiscal year.

Recommendation:

We recommend that the Treasurer's Office inform the Bureau of Accounts and Control when it makes wire transfers close to the end of the fiscal year so that the bureau can adjust its financial statements accordingly.

Auditee Response:

This happening is only impacted at year-end and will be worked out with the Controller for the year-end each year.

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(196) Finding: Deposit or demand account contracts outdated or not located/ No competitive bids

Banks holding deposits or demand deposits for the Office of Treasurer of State reported cash balances at fiscal year-end totaling $41.8 million. Of this, $38.9 million was on deposit in one bank. Contracts for the several accounts were either outdated or could not be located. Contracts document terms with a bank and therefore should be current.

In addition, the Treasurer issued various official statements which reported that funds are disbursed to bank accounts established under competitive bidding every two years. Our audit indicated that the Treasurer's Office does not generally seek competitive bids.

Recommendation:

We recommend that the Treasurer's Office obtain current contracts for deposits or demand deposit accounts and also comply with its stated practice.

Auditee Response:

Up-to-date and per check charge amendments are in file.

The Treasurer feels his present per check charge will increase beyond the value of rebidding and updated the contracts previously bid annually. The payroll account was recently put out for bidding.

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(197) Finding: Collateral procedures inadequate

In order to safeguard state assets Title 5 MRSA, § 135 limits the amount of deposits in a financial institution at any one time. The limitation does not apply to funds subject to immediate withdrawal. The statute requires financial institutions to pledge securities as collateral for state deposits that exceed those authorized, and to notify the Treasurer and State Auditor of the securities pledged. The statute also requires the Treasurer to review the value of the securities pledged. The reviews should occur each year on January and July 2, and should include calculations to assure compliance with the statutory limitation.

At June 30, 1992 unsecured deposits amounted to $34 million. Of this, $4 million was not subject to immediate withdrawal and was, therefore, subject to the statutory limitation. Although the deposits appear to have complied with the statute, the Treasurer's Office had no formal procedure to ensure compliance; had not reviewed the securities pledged; and had not required the financial institutions to notify the Treasurer and State Auditor of the collateral pledged.

Recommendation:

We recommend that the Treasurer's Office do the following:

1. Perform the biannual review of the value of pledged securities;

2. Ensure that state deposits comply with the statutory limitation; and

3. Require institutions, at the time of deposit, to notify the Treasurer's Office and the Department of Audit of the collateral pledged.

Auditee Response:

Once each year the accounts of each bank are reviewed and this review becomes the basis for the January and July collateral reviews. Accounts over $100,000 are adjusted. Individual investments made with Maine banks are collateralized on a daily basis. Collateral receipts for these transactions can be sent to Audit if requested. The Treasurer can, at his discretion, require collateral this side of 25 percent of a bank's surplus, capital and undivided profits if felt necessary.

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(198) Finding: Trust fund assets understated (Prior Year Finding)

Trust fund assets are understated because of the way the Treasurer's Office records income. Trust funds managed by the Treasurer's Office are divided into two portions: the principal account and the income account. All interest, dividends, fees and taxes are posted to the income account. The Treasurer's Office does not post this activity to the state accounting records until the income is either drawn or transferred to the principal account. Consequently, the assets are misstated at year-end.

1. Several Trusts	($ 99,658)
2. Land Reserved Trust	(113,989)
3. Baxter - MacWorth Island Trust	(9,868)
4. Baxter State Park Trust	(230,591)
Total Misstatement	($454,015)

Recommendation:

We recommend that the Treasurer's Office provide information to adjust state accounting records to reflect all trust fund assets at year-end.

Auditee Response:

1. Trust Fund records reconcile with the Controller and bank.

2. The audit difference is earned income which will be recorded beginning in fiscal year 1994.

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(199) Finding: Detail records do not support Controller's balance

Title 24-A MRSA, § 1254 and 1255 establish the state's responsibility for the safekeeping of approximately $30 million in guaranty deposits provided by certain insurance companies doing business in Maine. Variances exist between the detail records supplied by the Bureau of Insurance and the manual ledger maintained by the state Treasurer's Office. In addition, neither support the state Controller's balance.

Recommendation:

As the agency responsible for the custody and recording of the guaranty deposits, the Treasurer's Office should periodically reconcile its ledger balances with the balances maintained by the Bureau of Insurance and the Controller's accounting records. It should also prepare any journal entries or corrections necessary to accurately reflect fund holdings.

Auditee Response:

A review of the detailed records will be made during calendar year 1993 to correct posting errors.

Appendices

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DEPARTMENT OF AUDIT
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Additional Information

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

Our report on our audit of the component unit financial statements of the State of Maine oversight unit, as of and for the year ended June 30, 1992, appears on page one. That audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The graphs on pages 257 through 260 are presented for purposes of additional analysis and are not a required part of the component unit financial statements. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, 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

July 16, 1993

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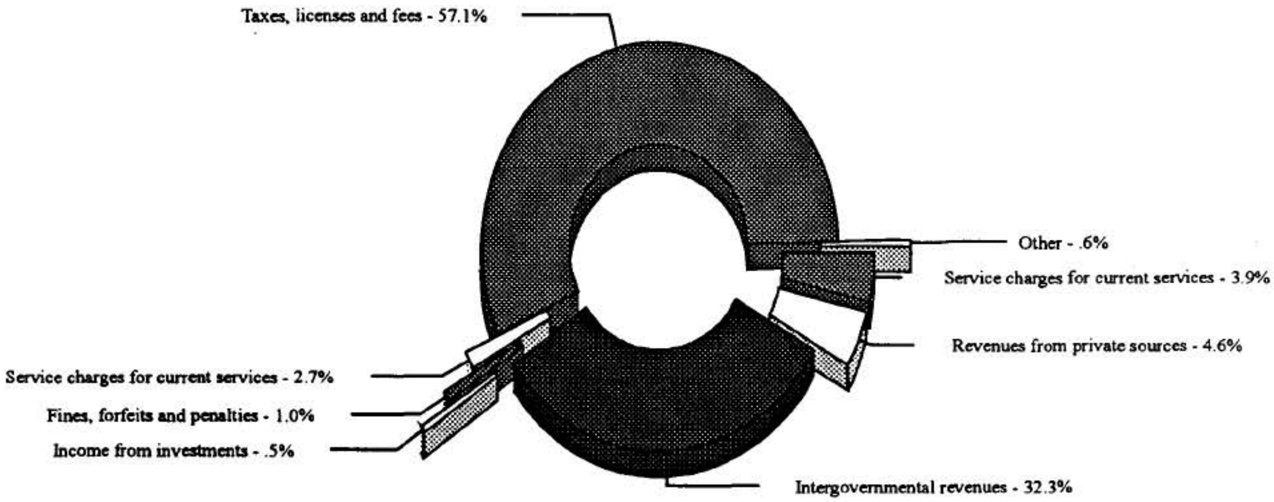
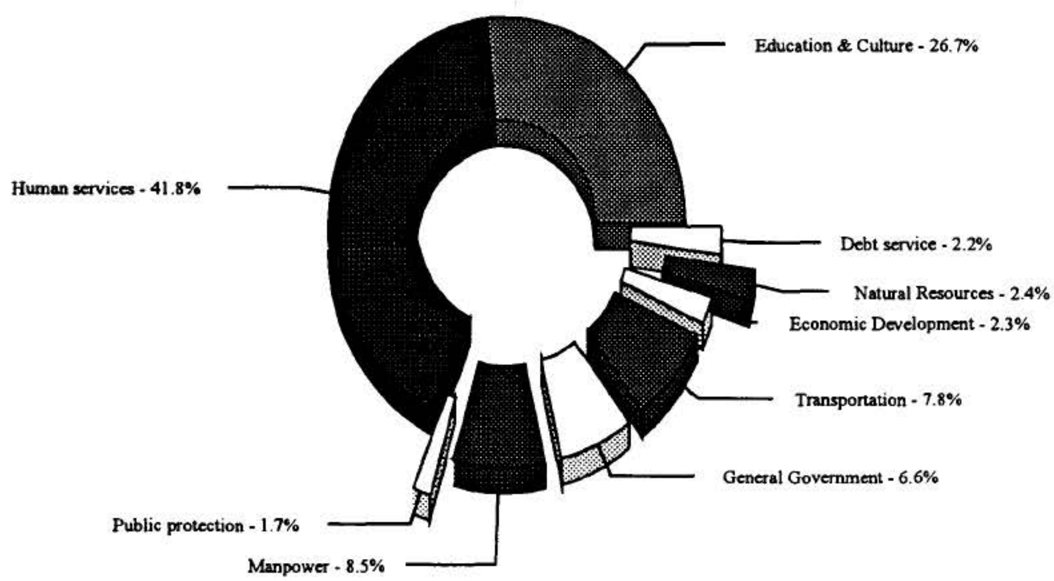
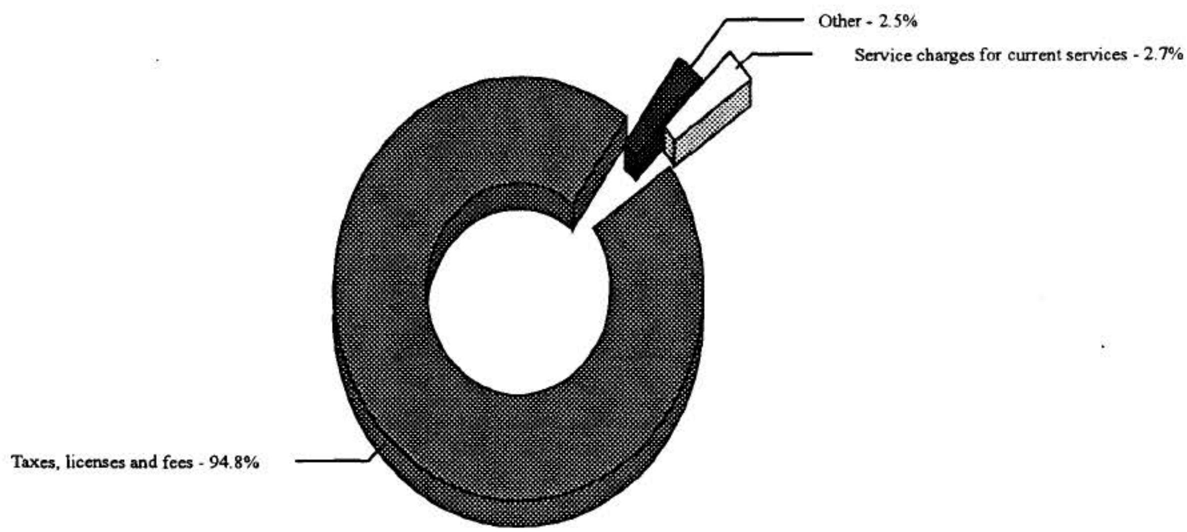
Revenues by Source
(All Governmental Fund Types)



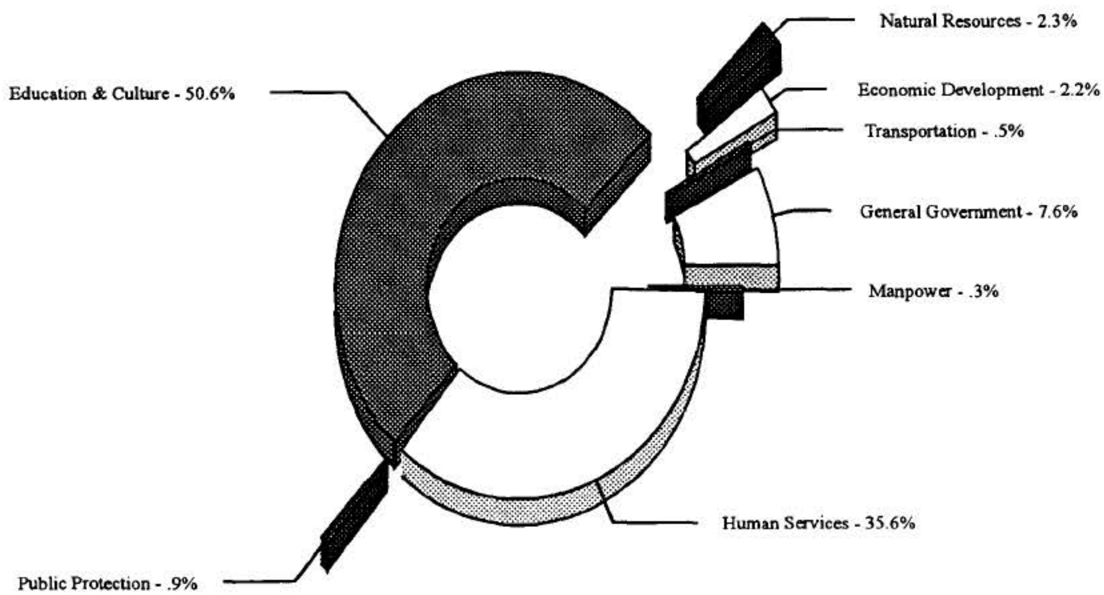
Expenditures by Function
(All GovernmentalFund Types)



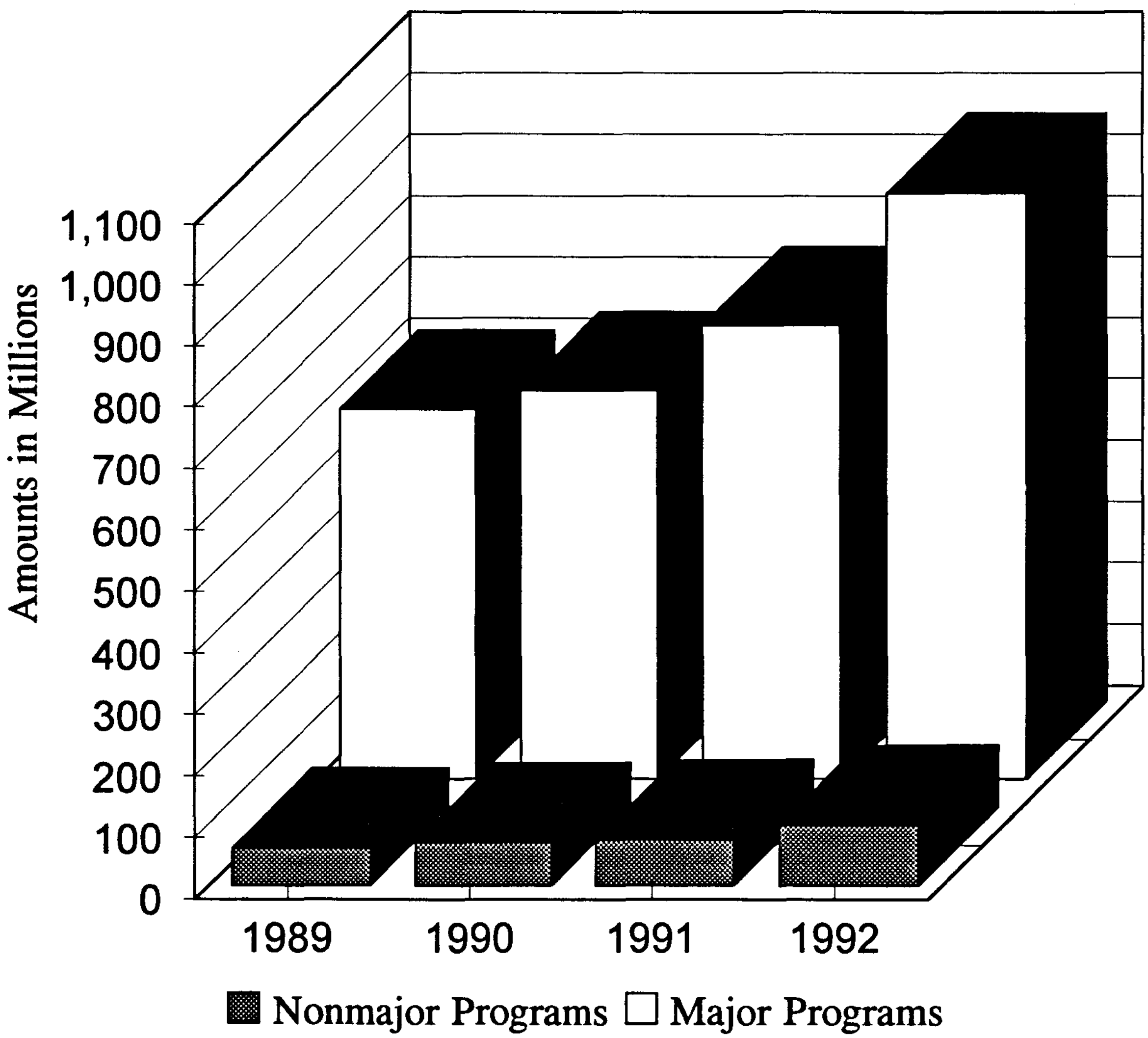
Revenues by Source
(General Fund)



Expenditures by Function
(General Fund)

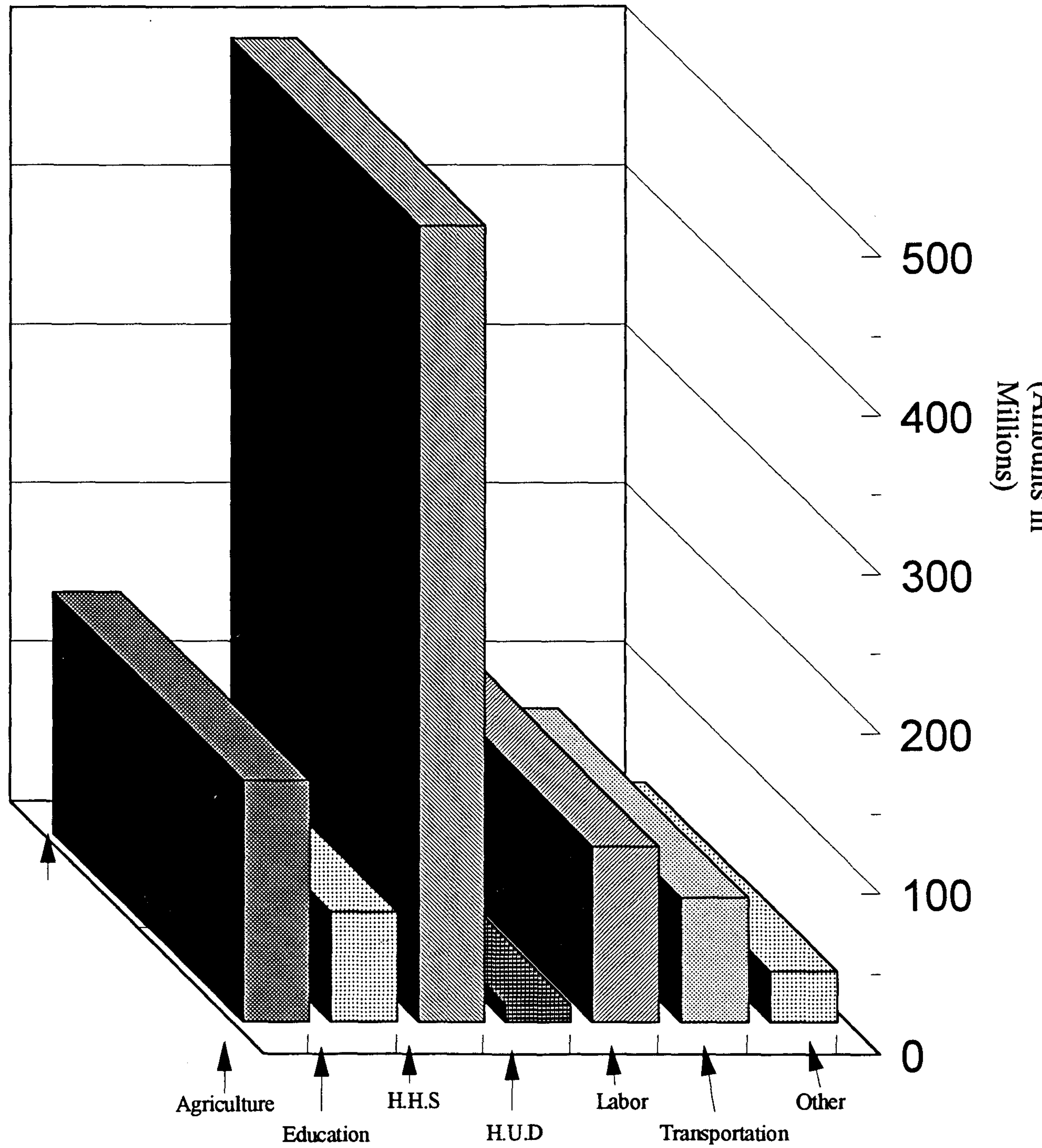


Federal Financial Assistance



Federal Funding Levels by Grantor Agency

June 30, 1992



State of Maine
Legend of State Agencies/Departments
For the Year Ended June 30, 1992

Abbreviations	Agency/Department
ADFIN	Administrative and Financial Services
AGRI	Agriculture, Food and Rural Resources
BSPA	Baxter State Park Authority
DECD	Economic and Community Development
DHS	Human Services
DOC	Corrections
DSS	Secretary of State
DVS	Defense and Veterans' Services
ED	Education
EXEC	Executive
JD	Judicial
MDOL	Labor
MDOT	Transportation
MHMR	Mental Health and Mental Retardation
MSRS	Maine State Retirement System
PS	Public Safety
TREAS	Office of the Treasurer of State

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State of Maine
Summary of Federal Findings
by Federal Grantor Agency
For the Year Ended June 30, 1992

Federal Grantor Agency	CFDA#	Program	Finding Number (Schedule D)
U.S. Dept. of Agriculture	10.551	Food Stamps	54
	10.557	Special Supplemental Food Program - Women, Infants and Children	53, 85
	10.558	Child and Adult Care Food Program	46, 47
	10.561	State Administrative Matching Grants for Food Stamp Program	55, 73, 74
U. S. Dept. of Education	84.010	Chapter 1 Programs - Local Educational Agencies	34
	84.011	Migrant Education - Basic State Formula Grant Program	35
	84.048	Vocational Education - Basic Grants to States	33
	84.126	Rehabilitation Services - Basic Support	67, 75
	Various	Various	36, 37, 38, 39, 40, 41, 42
U.S. Federal Emergency Management Agency	83.516	Disaster Assistance	20
	Various	Various	21
U.S. General Services Administration	39.003	Donation of Federal Surplus Personal Property	18
U.S. Dept. of Health & Human Services	93.020	Family Support Payments to States - Assistance Payments	48, 49, 56, 76
	93.023	Child Support Enforcement	57, 58, 59, 77
	93.658	Foster Care - Title IV-E	78
	93.667	Social Services Block Grant	50, 51, 52, 79, 95
	93.778	Medical Assistance Program	60, 61, 62, 63, 64, 65, 66, 69, 96
	93.802	Social Security - Disability Insurance	68
	93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	43
	Various	Various	44, 45, 70, 71, 72, 80, 81, 82, 83, 84, 86, 87

State of Maine
Summary of Federal Findings
by Federal Grantor Agency
For the Year Ended June 30, 1992

Federal Grantor Agency	CFDA #	Program	Finding Number (Schedule D)
U.S. Dept. of Housing and Urban Devel.	14.228	Community Development Block Grant	22, 23, 24, 25, 26, 27, 28, 29, 30, 31
	14.235	Supportive Housing Demonstration	32
U.S. Dept. of Labor	17.207	Employment Service	91, 92, 93, 94
	17.225	Unemployment Insurance	91, 92, 93, 94
	17.250	Job Training Partnership Act	88, 89, 90
		Various Other Federal Programs	17, 19, 97

State of Maine
Summary of Findings/Conditions
by State Department
For the Year Ended June 30, 1992

Department	Material Weakness	Reportable Condition	Federal Finding	Management Letter	Total
ADFIN	3	11	2	44	60
AGRI				11	11
BSPA				3	3
DECD			11		11
DHS			44	5	49
DOC			1	3	4
DSS				2	2
DVS			2		2
ED			11	5	16
EXEC			1		1
JD				1	1
MDOL			6		6
MDOT		1		8	9
MHMR		1	2	9	12
MSRS		1	1	2	4
PS				1	1
TREAS		2		8	10
TOTAL	3	16	81	102	202

Published under appropriation 010 27A 1001 012