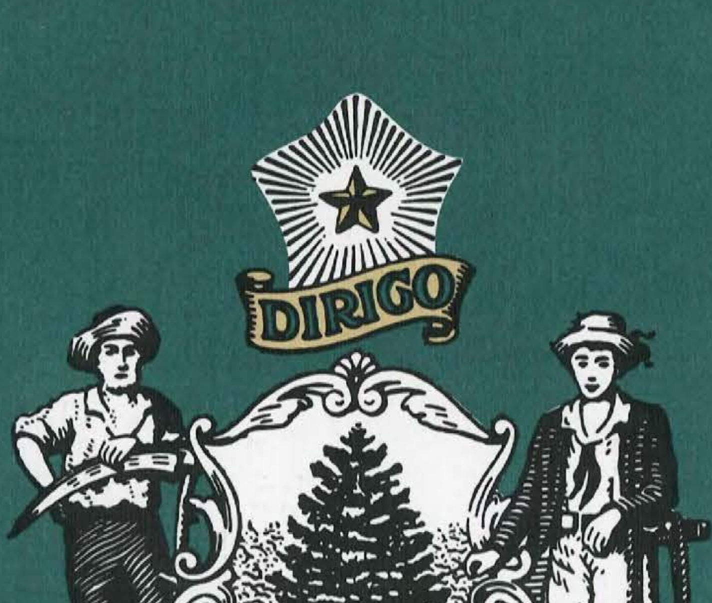
State of Maine

Single Audit Report

Fiscal Year Ended June 30, 1993



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

State of Maine

Single Audit Report
Fiscal Year Ended
June 30, 1993

Prepared by

State Department of Audit

Rodney L. Scribner, CPA, State Auditor

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STATE OF MAINE

SINGLE AUDIT REPORT

FOR THE YEAR ENDED

JUNE 30, 1993

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

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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

Mr. John Fisher
Manager, National External Audit Review Center
U.S. Department of Health and Human Services

We are pleased to submit the seventh Single Audit of the State of Maine, covering the fiscal year ended June 30, 1993.

The state expended $3.9 billion during fiscal year 1993 of which $1.2 billion was for various federal programs. 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."

We also conducted the audit pursuant to Title 5 MRSA, Chapter 11 which authorizes the 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 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.

During the course of our audit we identified certain weaknesses in the State of Maine's accounting system and procedures, internal control, and compliance with rules and regulations 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 five findings which identify material weaknesses in internal control; these can be found on pages 67 and 75; one that affects compliance with state laws and regulations is on page 125.

- 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 thirty-five reportable conditions begin on page 79.

- Schedule of Findings and Questioned Costs - includes sixty-five findings which resulted from our review of certain federal programs administered by the State of Maine. These findings begin on page 133.

- Management Letter - includes seventy audit findings with recommendations to strengthen internal controls and operating efficiencies that affect many state agencies. These findings begin on page 215.

We again must render a qualified opinion on the state's financial statements because the state's accounting records for the General Fixed Assets Account Group are incomplete. 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.

Since 1987 seven Single Audit reports have been issued. We believe each one has had a significant impact on the state's accounting policies and procedures, systems of internal control and compliance with its laws and regulations and those of the federal government. We would like to express our gratitude to all of those who assisted in the preparation of this document. We continue our efforts to provide the Governor, Legislature and management of state government with meaningful information useful in their decision making process.

We would be pleased to respond to any of your questions or comments about the 1993 Single Audit Report.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

February 1995

EXECUTIVE SUMMARY OF FINDINGS

Material Internal Controls; Material Noncompliance; Reportable Conditions; Federal Findings and Questioned Costs; Management Letter

OVERVIEW

There are 175 findings that the Department of Audit has reported relating to the State of Maine's 1993 fiscal year financial operations. About 20 percent are ***Material Weaknesses*** or ***Reportable Conditions*** representing significant deficiencies in accounting controls affecting key areas of state finances. The remaining findings also affect millions of dollars under the state's fiduciary responsibilities and represent substantive accounting deficiencies and instances of noncompliance with state and federal law. Some findings, reported under the Single Audit Act, are federal government requirements where we have identified questioned costs (costs not allowable for federal reimbursement); others are generally related to state management. The findings include the following types of deficiencies.

1. Financial reporting not according to Generally Accepted Accounting Principles (GAAP), and not in compliance with the Governmental Accounting Standards Board (GASB) Statement of Principle, *Accounting and Reporting Capabilities;*

2. Noncompliance with state and federal laws and regulations;

3. Insufficient internal auditing/monitoring functions undertaken by certain agencies;

4. Inadequate or unavailable records and supporting documents;

5. Internal control procedures not in place or not followed;

6. Unrecorded and/or unauthorized accounts and transactions;

7. Inadequate cash management and/or corrective actions for various federal programs;

8. Incorrect allocation of funds to various programs; and

9. Insufficient routine accounting functions.

Of the 175 findings for fiscal year 1993, 35 percent have been **previously reported** to the legislature, the state and its agencies. These deficiencies have not been corrected and consequently have been reported again. Some findings are three to five years old. Many of the state's most serious accounting problems have been previously reported. Of these, four of the five ***Material***

Internal Control and ***Material Non-Compliance*** conditions (80 percent) and eleven of the thirty-five ***Reportable Conditions*** (31 percent) have been previously reported.

MATERIAL INTERNAL CONTROLS

The ***Material Internal Control*** conditions reflect deficiencies in the state's accounting control system that result in incomplete and inaccurate information for GAAP financial reporting. Significant financial information is not readily available, not recorded and/or not reconciled. This includes data regarding taxes and other collections that form the basis for the state's revenue, expenditures for current operations, borrowing, and debt repayment. Also, we once again note that records are not adequate to allow us to express an opinion on the state's general fixed assets. These ***Material Internal Control*** weaknesses do not reduce to a relatively low level the risk that material errors or irregularities may occur and not be detected within a timely period by employees in the normal course of performing their assigned duties.

MATERIAL NONCOMPLIANCE

The ***Material Non-Compliance*** condition represents a violation of debt payment provisions of the Maine Constitution as well as incorrect accounting for Tax Anticipation Notes. The Legislature and Treasurer of State have taken corrective action.

REPORTABLE CONDITIONS

The ***Reportable Conditions*** report significant deficiencies in the state's internal control structure and operation that could adversely affect the state's ability to record, process, and summarize financial data. These conditions include failing to record and collect all amounts due to the state, ineffective monitoring of contracted prices paid, accounting errors, unreconciled cash and revenue accounts, errors in financial reporting, unauthorized loans, ineffective administration of state laws, providing insurance coverage in excess of that for which premiums were collected, unrecorded state bank accounts and unallowable allocation of costs.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

This section identifies instances of noncompliance with federal laws and regulations governing expenditure of federal funds; some include *questioned costs* which are a potential liability to the state in that they represent overcharges or costs charged that are not eligible for federal reimbursement. The report identifies approximately $5.0 million in questioned costs that may have to be repaid by the state.

Federal compliance findings include: inadequate monitoring of subrecipients' use of federal funds; late submission of program reports; and failure to comply with expense allocation guidelines.

MANAGEMENT LETTER

Of the conditions found under the ***Management Letter***, many originate from routine transactions that are inaccurate or do not follow prescribed internal control measures. These are frequently found in inventory functions, account reconciliations, detail records, uncollectible accounts and aging of accounts receivable, contract reviews, reimbursement provisions and purchasing procedures. There is also the failure of management to adequately supervise staff and approve daily operations such as calculations and journal entries.

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Component Unit Financial Statements

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

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, 1993, as listed in the table of contents. These component unit financial statements are the responsibility of the State of Maine, oversight 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 oversight 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 $330.6 million).

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, oversight government, as of June 30, 1993, 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 21 to the financial statements, certain fund balances have been restated.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

December 21, 1994

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STATE OF MAINE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 1993
(Dollars in Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
Assets and Other Debits				
Equity in treasurer's cash pool (Note 1E, 4)	$ (68,274)	$ 109,904	$ 65	$ 4,460
Cash with fiscal agent	17,943	2,755	322	
Cash - other (Note 1E, 4)	95	1,644		
Deposits with U.S. Treasury (Note 1E, 4)				
Investments (Note 1E, 4)				62,190
Receivables (net of allowances for uncollectibles)				
Taxes	106,846	6,008		
Accounts	9,557	10,721		
Loans	1	5		
Accrued interest				
Pension contributions (Note 21)				
Securities sold				
Due from other funds (Note 17)	4,857	9,157		
Due from other governments (Note 7)		62,537		
Advances to other funds (Note 17)	2,226	13,182		
Inventories				
Other assets		6,169		
Restricted assets (Note 1E)				833
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	**$ 73,251**	**$ 222,082**	**$ 387**	**$ 67,483**
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts payable	$ 41,196	$ 78,157	$	$ 2,573
Accrued payroll	19,501	20,773		
Lease purchase payable (Note 13)				
Workers' compensation benefits payable	2,883	2,811		
Compensated absences payable (Note 1F)				
Tax refunds payable	1,571			
Securities purchased				
Claims payable				
Other liabilities	2,196	8		
Due to other funds (Note 17)	19,872	5,105		
Due to other governments		6,271		
Due to program participants and providers				
Deferred revenue (Note 1F)	132,977	3,706		
Advances payable (Note 17)		575		
Matured bonds payable			215	
Matured interest payable			107	
Certificates of participation payable (Note 14)				
Bonds payable (Note 15)				
Total Liabilities	220,196	117,406	322	2,573
Fund Equity and Other Credits:				
Contributed capital				
Investment in general fixed assets (Note 9)				
Retained earnings (deficit) (Note 2)				
Fund Balances:				
Reserved for encumbrances	12,190	32,847		24,400
Reserved for retirement contributions				
Reserved for advances	2,226	13,182		
Reserved for group life insurance				
Reserved for Rainy Day Fund	6,714			
Reserved for other purposes	2,196			
Unreserved:				
Designated for subsequent year expenditures		42,271		40,510
Designated for debt service			65	
Undesignated	(170,271)	16,376		
Total Fund Equity and Other Credits	(146,945)	104,676	65	64,910
Total Liabilities, Fund Equity and Other Credits	**$ 73,251**	**$ 222,082**	**$ 387**	**$ 67,483**

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)
$ 3,565	$ 13,525	$ 99,939	$	$	$ 163,184
					21,020
357	5	5,227			7,328
		35,387			35,387
1		2,397,613			2,459,804
					112,854
4,776	893	8,211			34,158
7,321		48			7,375
		5,791			5,791
		21,060			21,060
		8,789			8,789
121	11,899	4,020			30,054
					62,537
					15,408
4,931	6,337				11,268
1,552	480	797			8,998
	1,119	28,526			30,478
55,206	90,700	7,591	330,574		484,071
(14,323)	(56,577)	(593)			(71,493)
				65	65
				699,237	699,237
$ 63,507	$ 68,381	$ 2,622,406	$ 330,574	$ 699,302	$ 4,147,373
$ 5,354	$ 7,446	$ 8,000	$	$	$ 142,726
	1,284	239		1,996	43,793
	690			17,117	17,807
1,798	1,980	335		93,201	103,008
	1,142	180		28,468	29,790
					1,571
		19,394			19,394
	1,413				1,413
1,125	463	5,507			9,299
3,491	1,543	43			30,054
	1,119				7,390
		161,307			161,307
460	1,032	2,479			140,654
1,500	13,333				15,408
					215
	55				162
	10,702			13,815	24,517
				544,705	544,705
13,728	42,202	197,484	-	699,302	1,293,213
46,634	5,013	10			51,657
			330,574		330,574
2,390	21,166				23,556
					69,437
		2,324,451			2,324,451
					15,408
		23,236			23,236
					6,714
755					2,951
					82,781
					65
		77,225			(76,670)
49,779	26,179	2,424,922	330,574	-	2,854,160
$ 63,507	$ 68,381	$ 2,622,406	$ 330,574	$ 699,302	$ 4,147,373

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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, 1993
(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	$ 1,381,486	$ 416,829	$	$	$ 107,703	$ 1,906,018
Fines, forfeits and penalties	21,968	4,110				26,078
Income from investments	3,295	682	6	2,444	4,437	10,864
Intergovernmental revenues	5,708	1,078,416			4,616	1,088,740
Revenues from private sources	1,485	19,622				21,107
Service charges for current services	36,921	94,826	1,736			133,483
Group life insurance premiums					5,627	5,627
Other	370	194			1,112	1,676
Total Revenues	1,451,233	1,614,679	1,742	2,444	123,495	3,193,593
Expenditures:						
General government	120,545	104,404		14,255	957	240,161
Economic development	30,010	43,317		27,868		101,195
Education and culture	854,091	88,624		19,234		961,949
Human services	486,053	853,119		1,163	8,373	1,348,708
Manpower	5,339	147,084			110,254	262,677
Natural resources	34,435	37,301		26,777	113	98,626
Public protection	11,745	41,882				53,627
Transportation	2,713	243,797		45,006		291,516
Debt service			79,822			79,822
Total Expenditures	1,544,931	1,559,528	79,822	134,303	119,697	3,438,281
Excess of Revenues over (under) Expenditures	(93,698)	55,151	(78,080)	(131,859)	3,798	(244,688)
Other Financing Sources (Uses):						
Operating transfers (net)	46,173	(27,341)	77,917	(24,388)	(650)	71,711
Bond proceeds				162,580		162,580
Other	15,021	(6,750)		8,028	(1,481)	14,818
Total Other Financing Sources (Uses)	61,194	(34,091)	77,917	146,220	(2,131)	249,109
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(32,504)	21,060	(163)	14,361	1,667	4,421
Fund Balances - July 1 (as adjusted) (Note 21)	(114,441)	83,616	228	50,549	85,103	105,055
Fund Balances - June 30	$ (146,945)	$ 104,676	$ 65	$ 64,910	$ 86,770	$ 109,476

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, 1993
(Dollars in Thousands)

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes, licenses and fees	$ 1,399,907	$ 1,420,384	$ 20,477
Fines, forfeits and penalties	24,841	21,968	(2,873)
Income from investments	(3,055)	(2,732)	323
Intergovernmental revenues	5,629	5,708	79
Revenues from private sources	1,229	1,500	271
Service charges for current services	21,713	41,357	19,644
Other	29,942	4,370	(25,572)
Total Revenues	1,480,206	1,492,555	12,349
Expenditures:			
General government	120,054	118,339	1,715
Economic development	31,797	30,010	1,787
Education and culture	861,118	854,091	7,027
Human services	501,575	492,642	8,933
Manpower	6,058	5,339	719
Natural resources	37,253	34,435	2,818
Public protection	12,093	11,745	348
Transportation	3,280	2,713	567
Total Expenditures	1,573,228	1,549,314	23,914
Excess of Revenues over (under) Expenditures	(93,022)	(56,759)	36,263
Other Financing Sources (Uses):			
Operating transfers (net)	15,057	37,785	22,728
Other	26,044	15,989	(10,055)
Total Other Financing Sources (Uses)	41,101	53,774	12,673
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses (Note 3)	(51,921)	(2,985)	48,936

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)
$ 312,941	$ 386,423	$ 73,482	$ 1,712,848	$ 1,806,807	$ 93,959
3,539	4,110	571	28,380	26,078	(2,302)
918	683	(235)	(2,137)	(2,049)	88
1,331,633	1,077,410	(254,223)	1,337,262	1,083,118	(254,144)
180,170	46,627	(133,543)	181,399	48,127	(133,272)
71,275	87,936	16,661	92,988	129,293	36,305
39,222	3,794	(35,428)	69,164	8,164	(61,000)
1,939,698	1,606,983	(332,715)	3,419,904	3,099,538	(320,366)
99,695	99,329	366	219,749	217,668	2,081
73,930	43,317	30,613	105,727	73,327	32,400
110,533	84,969	25,564	971,651	939,060	32,591
1,020,225	889,708	130,517	1,521,800	1,382,350	139,450
210,581	147,084	63,497	216,639	152,423	64,216
67,081	37,301	29,780	104,334	71,736	32,598
50,232	41,882	8,350	62,325	53,627	8,698
320,950	244,659	76,291	324,230	247,372	76,858
1,953,227	1,588,249	364,978	3,526,455	3,137,563	388,892
(13,529)	18,734	32,263	(106,551)	(38,025)	68,526
(17,445)	(18,137)	(692)	(2,388)	19,648	22,036
	(7,911)	(7,911)	26,044	8,078	(17,966)
(17,445)	(26,048)	(8,603)	23,656	27,726	4,070
(30,974)	(7,314)	23,660	(82,895)	(10,299)	72,596

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, 1993
(Dollars in Thousands)

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Operating Revenues:					
Sales and services	$ 193,445	$ 68,271	$	$	$ 261,716
Fees and licenses	13,990				13,990
Income from investments, net			1,024	148,071	149,095
Contributions -					
Employer				226,906	226,906
Employee				65,569	65,569
Participating districts				41,044	41,044
Other	1,294			712	2,006
Total Operating Revenues	208,729	68,271	1,024	482,302	760,326
Operating Expenses:					
Cost of sales and services	119,087	23,188			142,275
Personal services	8,090	15,748		3,381	27,219
General operating expenses	5,019	13,327	36	7,190	25,572
Depreciation	1,548	8,990		200	10,738
Refunds				11,655	11,655
Claim and benefit payments	3,974	1,355		230,539	235,868
Total Operating Expenses	137,718	62,608	36	252,965	453,327
Operating Income (Loss)	71,011	5,663	988	229,337	306,999
Nonoperating Revenues (Expenses):					
Interest revenue (expense)	739	(1,083)			(344)
Other	865	(1,818)	234	3	(716)
Total Nonoperating Revenues (Expenses)	1,604	(2,901)	234	3	(1,060)
Income before Operating Transfers	72,615	2,762	1,222	229,340	305,939
Operating Transfers In (Out)	(71,481)	-	(230)	-	(71,711)
Net Income (Loss)	1,134	2,762	992	229,340	234,228
Retained Earnings/Fund Balances - July 1 (as adjusted) (Note 21)	1,256	18,404	12,699	2,095,111	2,127,470
Retained Earnings/Fund Balances - June 30 (Note 2)	$ 2,390	$ 21,166	$ 13,691	$ 2,324,451	$ 2,361,698

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, 1993
(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	$ 207,184	$ 68,537	$	$ 275,721
Cash paid to suppliers and vendors	(121,835)	(23,675)		(145,510)
Cash paid to employees for services	(9,339)	(15,090)		(24,429)
Cash paid for claims and benefits	(3,974)	(1,354)		(5,328)
Other operating revenues	1,294			1,294
Other operating expenses	(3,675)	(11,944)	(36)	(15,655)
Net Cash Provided by Operating Activities	69,655	16,474	(36)	86,093
Cash Flows from Noncapital Financing Activities:				
Operating transfers, net	(71,481)		(230)	(71,711)
Advances from (to) other funds	(575)	(20)		(595)
Other nonoperating revenues (expenses)	448	(2,246)	234	(1,564)
Net Cash Provided (Used) by Noncapital Financing Activities	(71,608)	(2,266)	4	(73,870)
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets, net	(1,203)	(13,130)		(14,333)
Interest revenue (expense)	739	(1,083)		(344)
Installment payments on lease purchase contracts		493		493
Net Cash Provided (Used) by Capital and Related Financing Activities	(464)	(13,720)	-	(14,184)
Cash Flows from Investing Activities:				
Sale/purchase of investments (net)			(1,015)	(1,015)
Interest on investments			1,024	1,024
Net Cash Provided by Investing Activities	-	-	9	9
Net Increase (Decrease) in Cash and Cash Equivalents	(2,417)	488	(23)	(1,952)
Cash and Cash Equivalents - July 1	6,339	14,161	46	20,546
Cash and Cash Equivalents - June 30 (Note 1E)	$ 3,922	$ 14,649	$ 23	$ 18,594
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	$ 71,011	$ 5,663	$ 988	$ 77,662
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Interest and other investment income, net			(1,024)	(1,024)
Depreciation	1,548	8,990		10,538
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable, net	(1,488)	(632)		(2,120)
(Increase) decrease in loans/notes receivable, net	516	392		908
(Increase) decrease in interfund receivables	427	318		745
Increase (decrease) in accounts payable and accruals	(1,957)	(96)		(2,053)
Increase (decrease) in interfund payables	(1,825)	169		(1,656)
Increase (decrease) in deferred revenue	1,379	1,478		2,857
Increase (decrease) in other liabilities	44	192		236
Total Adjustments	(1,356)	10,811	(1,024)	8,431
Net Cash Provided by Operating Activities	$ 69,655	$ 16,474	$ (36)	$ 86,093

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, 1993

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. Except in specific instances, transfers require approval of the legislature.

Expense budgets are prepared on a cash basis. Sales and income tax revenues are accrued when the tax returns are received and recorded. Also, telecommunications personal property tax revenue is accrued in May for following years.

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, except for investments in the deferred compensation agency fund which are stated at market value. 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 consist of expendable supplies held for consumption. They are recorded by the purchases method and valued at cost, which approximates market. The first-in/first-out (FIFO) cost flow method is used for the majority of inventories in the governmental funds. 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 FIFO methods. Inventories consist of both expendable supplies held for consumption and merchandise for resale, the cost of which is recorded as an expense as they are used.

Restricted Assets

Cash resulting from issuance of certificates of participation, $833 thousand, 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, $28.5 million consisting primarily of escrow deposits from 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. Such assistance consists primarily of food stamps, donated commodities and surplus property. The inventory valuation of such assistance as assigned by the federal government was approximately $23.8 million as of June 30, 1993.

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 the cost of vacation benefits is recognized when payments are made. A long-term liability of approximately $28.5 million of accrued vacation benefits at June 30, 1993 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 and the Pension Trust Fund 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

General Fund deferred revenue represents taxes receivable of $133 million which are not expected to be collected in time to finance expenditures of the current period.

2. Stewardship, Compliance and Accountability

At June 30, 1993 the following funds had deficit fund balances/retained earnings as follows: General Fund $146.9 million; Alcoholic Beverages enterprise fund $1.7 million; Department of Transportation enterprise funds $863 thousand; Telecommunications internal service fund $3.8 million and Central Fleet Management internal service fund $746 thousand.

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, with the exception of the Telecommunications internal service fund whose deficit resulted from an inadequate rate structure, 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, 1993 is:

(Dollars in Thousands)

	General Fund	Special Revenue Fund
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses (Exhibit 3)	($2,985)	($7,314)
Accounts payable	19,070	2,912
Accrued payroll	(5,340)	(5,950)
Worker's comp payable	(201)	(323)
Interfund payables	(12,277)	(416)
Tax refunds payable	2,239	
Deferred revenue	(44,556)	21,781
Accounts receivable	(3,271)	2,940
Taxes receivable	12,044	
Interfund receivables	2,503	7,630
Unrecorded accounts	270	(200)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses (Exhibit 2)	($32,504)	$21,060

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.

Title 18-A, Section 7-302 of the Maine Revised Statutes Annotated provides that the Maine State Retirement System and Group Life Insurance Program invest assets as would a prudent person dealing with the property of another. Those investments include 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, 1993. Although depositories held collateral totalling $18 million for the state on deposits in excess of FDIC coverage at June 30, 1993 the deposits are classified in category 3 because the collateral did not comply with certain requirements of section 1823(e) of the Financial Institutions Reform Recovery and Enforcement Act of 1989 (FIRREA). One such unmet requirement is that collateral must be approved by the institution's board of directors or loan committee and that approval must be reflected in the minutes of the board or committee.

Deposits consist of Cash-Other, Deposits with U.S. Treasury, and $7.8 million held in Equity in Treasurer's Cash Pool. At year-end, the carrying amount of the state's deposits was $71.2 million and the bank balance was $81.6 million. The difference was due primarily to timing of transactions.

(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Demand and time deposits	$ 6,429	-	$19,110	$ 25,539	$ 15,083
Maine Employment Security Commission deposits with U.S. Government	35,387	-		35,387	35,387
Total	$41,816	$ -	$19,110	$60,926	$50,470

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 $155.4 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	$	$ 74,681	$	$ 74,681	$ 74,755
Cash Equivalents		1,497	1,189	2,686	2,688
Government Securities		142,869	4,836	147,705	153,189
Corporate Obligations		5,573	6,191	11,764	12,202
Equity Securities		4,095	11,745	15,840	18,590
Subtotal	-	228,715	23,961	252,676	261,424
Add amounts managed by the Maine State Retirement System:					
Cash Equivalents			7,057	7,057	7,072
Government Securities			112,916	112,916	121,289
Corporate Obligations			96,953	96,953	98,595
Equity Securities			721,529	721,529	836,651
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				1,306,914	1,830,295
Real estate				39,351	22,540
Other				2,755	2,931
Subtotal	-	-	938,455	2,287,475	2,919,373
Deferred compensation plan investments				75,082	75,082
Total Investments	$ -	$ 228,715	$ 962,416	$ 2,615,233	$ 3,255,879

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, 1993 allowances for uncollectible accounts were approximately $35.7 million, $13.3 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; prepayment of one half of the telecommunications tax is due on June 1 and all other property taxes are due on October 1. 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**

Due from other governments is comprised primarily of federal grants receivable, which represent $57.6 million due for Medicaid claims.

8. **Joint Venture**

Tri-State Lottery Commission

The Tri-State Lottery Commission was established in 1985 as an interstate body, both corporate and politic, to serve as a common agency of the member states of Maine, New Hampshire, and Vermont for the purposes of raising additional revenue. 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.

Tri-State Lottery and Daily Numbers tickets are sold in each of the party states and processed in a central location as determined by the commission. Fifty percent of the gross sales from each state are reserved for prize awards and agent bonuses in a common pool. Operating costs are charged proportionally to each of the party states. The remaining revenues generated within each state remain in that particular state.

As of and for the year ended June 30, 1993 the following selected financial information was reported in audited financial statements of the Tri-State Lottery Commission:

(Dollars in Thousands)

Total assets	$202,715
Total liabilities	197,848
Retained earnings	4,867
Total revenues	103,472
Total expenses	66,159
Allocation of funds to member states	37,313
Increase in retained earnings	305

Liabilities consist primarily of current unclaimed prizes payable of $27.4 million and the present value of installment prize obligations of $169.7 million.

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	$ 34,880	$ 948	$ 243	$ 1,453
Buildings and improvements	176,474	16,391	6,082	1,121
Equipment and fixtures	119,220	37,867	84,375	5,017
	330,574	55,206	90,700	7,591
Less:				
Accumulated depreciation	-	(14,323)	(56,577)	(593)
	$330,574	$40,883	$34,123	$6,998

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, 1993 there were 39 payees of the Public Safety plan and 43 payees of the Judicial plan. Pension payments during 1993 for these two plans were $647,447 and $1,687,061 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, 1993 MSRS, JRS, and LRS membership consisted of:

	MSRS	JRS	LRS	Total
Employers	250	1	1	252
Active members:				
state	14,723	48	162	14,933
teachers	27,296	-	-	27,296
districts	8,869	-	-	8,869
Retirees/beneficiaries*	25,075	25	27	25,127
Inactive vested	715	1	-	716

* includes active PLD members

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 creditable 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.

The MSRS covered employees are eligible for disability retirement, ordinary and accidental death benefits and a portion of the employer contribution is acknowledged for these purposes. Disability benefits and eligibility are contingent on dates of hire and options selected by employees consistent with applicable statutes. At June 30, 1993, 678 state employees and 394 teachers were receiving disability retirement benefits.

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). The increase is equal to the annual percentage change in the consumer price index (CPI) to a maximum amount of four percent. Additional amounts may be paid, up to the actual amount of the change in the CPI, contingent on sufficient funding and with the Governor's approval. Effective July 1, 1993 employees receiving ordinary and disability retirement benefits and their beneficiaries are provided an automatic cost-of-living adjustment effective September 1 which is applied to all benefits that have been in payment for twelve months.

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.

The JRS covered employees are eligible for disability retirement, ordinary and accidental death benefits and a portion of the employer contribution is acknowledged for these purposes. Disability benefits and eligibility are contingent on dates of hire and options selected by employees consistent with applicable statutes. At June 30, 1993, one JRS employee was receiving disability retirement benefits.

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). The increase is equal to the annual percentage change in the consumer price index (CPI) to a maximum amount of four percent. Additional amounts may be paid, up to the actual amount of the change in the CPI, contingent on sufficient funding and with the Governor's approval. Effective July 1, 1993 employees receiving ordinary and disability retirement benefits and their beneficiaries are provided an automatic cost-of-living adjustment effective September 1 which is applied to all benefits that have been in payment for twelve months.

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.

The LRS covered employees are eligible for disability retirement, ordinary and accidental death benefits and a portion of the employer contribution is acknowledged for these purposes. Disability benefits and eligibility are contingent on dates of hire and options selected by employees consistent with applicable statutes. At June 30, 1993, no LRS employee was receiving disability retirement benefits.

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). The increase is equal to the annual percentage change in the consumer price index (CPI) to a maximum amount of four percent. Additional amounts may be paid, up to the actual amount of the change in the CPI, contingent on sufficient funding and with the Governor's approval. Effective July 1, 1993 employees receiving ordinary and disability retirement benefits and their beneficiaries are provided an automatic cost-of-living adjustment effective September 1 which is applied to all benefits that have been in payment for twelve months.

C. Employee and Employer Obligations to Contribute

MSRS, JRS and LRS covered employees are required to contribute to the system at a rate set by statute of 6.5% of earnable compensation unless a state employee or teacher was hired after July 1, 1992 in which case the rate is 7.5%. LRS covered employees participate with a 4.0% contribution. Effective July 1, 1993, all MSRS, JRS, and LRS covered employees contribute at a rate of 7.65% of earnable compensation. The state contributes the remaining amounts necessary to fund the systems. For the fiscal year ended June 30, 1993 the percentages were: MSRS, 16.49%; JRS, 30.74%; and LRS, 8.03%. 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, 1993. Significant actuarial assumptions used in the valuation include a rate of return on investments of 8.2%; projected salary increases of 6% to 10% per year, depending on age; and cost-of-living increases of 4% annually.

At June 30, 1993 the plans' unfunded pension benefit obligations were:

(Dollars in Millions)

	MSRS	JRS	LRS	Total
Pension benefit obligation:				
Retirees, beneficiaries and terminated vested employees	$1,827	$12	$*	$1,839
Current employees				
Accumulated employee contributions	788	2	*	790
Employer-financed vested	529	5	*	534
Employer-financed nonvested	960	4	1	965
Total pension benefit obligation (Does not include obligations or liabilities for health insurance)	4,104	23	1	4,128
Less:				
Net assets available for benefits at cost (market value - MSRS $1,967, JRS $15, LRS $2)	1,531	12	2	1,545
Unfunded pension benefit obligation	$2,573	$11	$(1)	$2,583

* less than $1 million

E. Effects of Current Year Changes on Contribution Requirements

The actuarial assumptions were modified for fiscal year 1993 to reflect liability increases due to contributions less than expected and decreases due to asset gain, salary increases lower than expected, shrinkage in membership, and a favorable relationship assumed/ actual. The approximate effect of these changes on the contribution amount is $59.8 million or a decrease of 5.6% 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, 1993 indicate that the unfunded liability liquidation period is 35 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, 1993 aggregated $1.1 million; $3.8 million; and $1.7 million respectively.

Contributions were made by employers and employees in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 1992. However, legislation was passed authorizing the deappropriation and deallocation of $27.2 million: $16.2 million was withheld from the state's required contribution for teachers; $9.4 million was returned to the General Fund by MSRS that had been paid for state employees; $1.6 million was returned to the Highway Fund. These reductions plus the balance of the unfunded liability in the retirement system at June 30, 1993 will be amortized over a 35 year period.

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, 1993.

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

	MSRS	JRS	LRS
Normal cost	4.85%	15.43%	5.45%
Unfunded actuarial reserve	9.97	12.82	0.00
Ancillary benefits	1.67	2.49	2.58
Total cost	16.49%	30.74%	8.03%

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 insurance policies 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, 1993 there were 9,499 retired state employees and 8,258 retired teachers. During the 1993 fiscal year health care expenditures for retirees were approximately $10.6 million.

Effective July 5, 1991 for state employees first employed before July 1, 1991 the Maine State Retirement System pays 100% of the retirees' share of health insurance premiums. For state employees first employed after July 1, 1991 the Maine State Retirement System pays 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 $2.2 million for the fiscal year ended June 30, 1993.

C. Other Postemployment Benefits

Cobra

Federal law requires large employers to continue health insurance benefits for up to 18 months to employees who have terminated employment. The former employees must pay 102 percent of the total premium, employee plus employer share, funded on a pay as you go basis. Insurance coverage is not mandatory if the former employee is eligible for Medicare or has coverage with another group medical plan. The state covered 115 employees as of June 30, 1993.

Disability

State law allows confidential employees who become temporarily disabled to receive 66.67% of their salary for up to 335 calendar days. The number of covered employees and expenditure amount for this benefit cannot be reasonably determined.

D. 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

A portion of the payment that is made to municipalities for general purpose aid to education is allocated for debt service. This portion represents the subsidy for the state's share of the debt service resulting from local outstanding indebtedness of school construction and renovation projects. As of June 30, 1993 outstanding commitments by municipalities for school construction projects totaled $589 million.

At June 30, 1993 the Department of Transportation had contractual commitments of approximately $37.9 million for construction of various highway projects. Funding for these future expenditures is expected to be provided from federal funds, state funds, local funds, and bond proceeds.

At June 30, 1993 the Department of Environmental Protection had contractual commitments for various waste treatment and disposal projects. The amounts of these commitments could not be determined. Funding for these future expenditures is expected to be provided from federal funds, state funds, local 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
1994	$6,729
1995	6,050
1996	5,304
1997	4,487
1998	3,824
Thereafter	11,364
Total	$37,758

Rental expense for the year ended June 30, 1993 was approximately $14.1 million.

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

(Dollars in Thousands)

Year Ending June 30	Minimum Capital Lease Payments
1994	$2,209
1995	2,123
1996	1,792
1997	1,793
1998	1,796
Thereafter	19,860
Total minimum lease payments	29,573
Less interest	(11,766)
Present value of minimum lease payment	$17,807

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 net value of assets acquired through capital lease agreements is $19.7 million.

14. **Certificates of Participation**

The State of Maine entered into several lease purchase agreements between 1988 and 1993 with principal totaling $49.4 million for the construction of buildings and the rental and purchase of equipment. A portion of one COP issue was used to refinance an existing internal service fund capital lease and notes payable. The 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 2.75% 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. Title to 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.

The future minimum payments on certificates of participation as of June 30, 1993 are:

(Dollars in Thousands)

Year Ending June 30	Minimum Payments
1994	$ 9,111
1995	6,528
1996	3,122
1997	2,656
1998	1,872
Thereafter	4,999
Total minimum payments	28,288
Less interest	(3,771)
Present value of minimum payments	$24,517

The total value of assets purchased or constructed with certificates of participation is approximately $48 million. Also, at June 30, 1993 a total of $833 thousand in unspent funds remained with the trustee.

15. **Bonds and Notes Payable**

A. General Obligation Bonds

The State of Maine issues general obligation bonds primarily to provide funds for acquisition , construction and improvement of public properties in the state. In addition, general obligation bonds have been issued to refund general obligation bonds and bond anticipation notes.

General obligation bonds are secured by the full faith and credit of the state. Debt service requirements are provided by legislative appropriation from the state's general tax revenue for general purpose bonds, legislative appropriation from highway fund revenue for highway bonds, and by transfers from the Maine Veterans Home for self-liquidating bonds.

As of June 30, 1993, the state had $34.3 million of authorized but unissued general obligation bonds. In November 1993, an additional $59.2 million in general purpose and highway bonds were authorized by the voters. In March 1994, $46.8 million in general purpose and highway bonds were issued. In November 1994, an additional $51 million in general obligation bonds were authorized by the voters.

During fiscal year 1993, the state received advance payment of $8.7 million from the University of Maine for approximately $9.5 million of outstanding debt maturing between February 1994 and February 2006. As a result of the advance payment, the state assumed responsibility for making the future debt service payments.

Changes in general obligation bonds outstanding for the year ended June 30, 1993 are:

(Dollars in Thousands)

Bond Type	Rate Range/ Maturity Dates	Outstanding July 1	Additions	Reductions	Outstanding June 30
General Purpose	(0.1% to 10.25%) 7/1993 to 7/2006	$305,890	$133,047	$36,115	$402,822
Highway	(1.75% to 10.5%) 7/1993 to 5/2004	110,395	39,000	10,075	139,320
Self-Liquidating	(3.0% to 10.5%) 12/1993 to 4/2005	13,395		10,832	2,563
Total		$429,680	$172,047	$57,022	$544,705

The requirements to amortize all bonds outstanding as of June 30, 1993 are:

(Dollars in Thousands)

Fiscal Year	Principal	Interest
1994	$ 62,205	$31,789
1995	71,540	27,188
1996	71,815	22,544
1997	67,365	18,397
1998	50,490	15,025
Thereafter	221,290	41,226
Totals	$544,705	$156,169

B. Bond and Tax Anticipation Notes

On July 1, 1992, the state issued $170 million of general obligation tax anticipation notes (TANs) at 3.75% to improve the state's cash position. The TANs matured and were retired on June 30, 1993. General obligation tax anticipation notes are authorized by Article 9 Section 14 of the Constitution of Maine. The notes are backed by the full faith and credit of the state.

In September 1993, the state issued $170 million of general obligation tax anticipation notes at 3.5% with a maturity date of June 30, 1994. In July 1994, the state issued $175 million of general obligation tax anticipation notes at 4.5% with maturity date of June 30, 1995. Both the September 1993 and the July 1994 TANs were issued to improve the state's cash position.

During fiscal year 1993, bond anticipation notes (BANs) totalling $62.1 million were issued by the state. The BANs are backed by the full faith and credit of the state. As of June 30, 1993 there are no BANs outstanding.

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 $1 million 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, 1993 and is reported as the Risk

Management Fund fund balance. Estimated claims liabilities of $1.4 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, 1993.

Changes in the claims liabilities balance during fiscal year 1993 are as follows:

(Dollars in thousands)

	Beginning Liability	Changes in Estimates	Claim Payments	Ending Liability
1992-1993	$1,066	$1,779	($1,432)	$1,413

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 $1.4 million for the fiscal year ended June 30, 1993. For losses incurred for workers' compensation settlements a claim liability of $103 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, 1993.

17. Interfund Assets and Liabilities

Interfund assets and liabilities for each individual fund at June 30, 1993 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	$ 4,857	$ 2,226	$19,872	$
Special Revenue Fund				
Highway	205	13,182	1,793	
Federal Expenditures	1,019		203	200
Other Special Revenue	7,933		3,109	375
Total Special Revenue Fund	9,157	13,182	5,105	575
Enterprise Funds				
Dept. of Transportation	105		30	
Alcoholic Beverages			56	1,500
Prison Industries	16			
Seed Potato Board	1		32	
State Lottery Fund			3,373	
Total Enterprise Funds	121		3,491	1,500
Internal Service Funds				
Highway Garage	1,271		2	13,182
Postal, Printing & Supply	1,395		393	111
Telecommunications Division	1,698		97	
Risk Management	3,259		3	
Division of Data Processing	3,676			
Central Fleet Management	554		1,057	40
Other Internal Service Funds	47		(7)	
Total Internal Service Funds	11,899		1,543	13,333
Trust and Agency Funds				
Employment Security	19			
Payroll Withholding	4,000			
Maine State Retirement			42	
Abandoned Property			1	
Total Trust and Agency Funds	4,020		43	
Total All Funds	$30,054	$15,408	$30,054	$15,408

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

18. **Changes in Contributed Capital**

During fiscal year 1993, contributed capital changed as follows:

	(Dollars in Thousands)		
Fund/Fund Type	Balance at June 30, 1992	Balance at June 30, 1993	Change Increase (Decrease)
Enterprise Funds	$36,700	$46,634	$9,934
Internal Service Fund	5,000	5,013	11
Trust Funds		10	10
Total	$41,700	$51,657	$9,955

The Enterprise Funds contributed capital changed due to additional contributed assets. The contributed capital within the Internal Service Funds changed due to increased contributed assets and also a return of contributed capital to the General Fund.

19. **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. Net income is transferred to the General Fund.

Department of Transportation

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, 1993 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	$87,452	$118,074	$2,104	$ 1,099	$208,729
Depreciation expense	67	11	1,405	65	1,548
Operating income (loss)	35,879	37,086	(2,787)	833	71,011
Operating transfers in (out)	(35,707)	(37,283)	1,432	77	(71,481)
Tax revenues	12,592	-	1,357	41	13,990
Net income (loss)	203	80	(274)	1,125	1,134
Capital contributions	-	-	993		993
Acquisition of property, plant and equipment (net)			1,104	99	1,203
Net working capital	258	568	515	12,778	14,119
Total assets	6,782	6,035	39,817	10,873	63,507
Total equity	(1,222)	755	39,696	10,550	49,779

20 .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 1993 Single Audit of the State of Maine resulted in questioned costs of $5 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.

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 $80-90 million over the next few years.

Deferred Payments

Chapter 780, Public Law 1991 deappropriated certain 1993 fiscal year funds and deferred General Fund payments until after July 1, 1993 for the following:

		(Dollars in Millions)
°	Maine Maritime Academy	$ 0.5
°	Maine Technical College System	1.9
°	University of Maine System	11.0
	Total Deferred	$13.4

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, 1993, the amount due to local schools was $37 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 $98 million, for the following purposes: $90 million for insurance of mortgage loans for industrial manufacturing, fishing, agricultural and recreational enterprises; $4 million for student loan guarantees; and $4 million for veterans mortgage loan guarantees. As June 30, 1993 amounts committed pursuant to these authorizations were approximately $58.9 million. In addition, the state has a $150 million reserve fund restoration commitment with FAME. As of June 30, 1993, FAME had committed to $53.7 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 $6 million. As of June 30, 1993 the total principal amount of outstanding MSBA bonds was $375 thousand. As of December 30, 1993 the remaining bonds were retired.

Maine State Housing Authority

The state has a reserve fund restoration commitment with the Maine State Housing Authority (MSHA) to an amount equal to the required debt service reserve for the capital reserve fund and the housing reserve fund. At June 30, 1993, the required debt service reserve was approximately $84.4 million and $7.4 million for the housing reserve fund and the capital reserve fund, respectively. 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) to an amount equal to the required debt service reserve of the capital reserve fund. At June 30, 1993 the required debt service reserve was approximately $102.1 million. The state has not been required to restore the reserve fund.

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 $7.0 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 of $1 million in mortgage loans to members of the two tribes on the several Indian reservations. As of June 30, 1993 there were no bonds issued pursuant to this section of the constitution.

21. Fund Equity Restatement

Fund Equity at June 30, 1992 has been restated as:

(Dollars in Thousands)

	General	Special Revenue	Pension Trust
Fund Balance / Retained Earnings at June 30, 1991 as previously reported	$(103,559)	$81,624	$2,182,104
Prior period adjustments	(10,882)	(1,992)	86,993
Fund Balance / Retained Earnings as restated July 1	$(114,441)	$83,616	$2,095,111

Prior Period Adjustments

A. General Fund: Fund balance was overstated by $10.9 million due to understated accounts payable.

B. Special Revenue Fund: Fund balance was overstated by $14.4 million due to understated accounts payable. Fund balance has also been restated to reflect the reclassification of $16.4 million of trust fund assets as special revenue funds.

C. Pension Trust Fund: Pension Trust Fund fund balance has been restated to remove $86.9 million from pension contributions receivable. This amount represents the accrual of pension contribution deappropriations in the General and Special Revenue Funds during fiscal year 1992. Pension plan provisions and actuarial assumptions have been changed, thus reducing the amount of actuarially required contributions from these funds, as more fully described in Notes 10 and 22.

22. Subsequent Events

New Bond Issues and Authorizations

On April 1, 1994 the State of Maine issued $46.8 million in general obligation bonds which carry interest rates of 4.5% to 7.3% and mature from April 15, 1995 through April 15, 2004. Of the $46.8 million issued, $37.8 million was issued to finance the acquisition, construction and improvement of certain public properties. The remaining $9 million was issued to pay at maturity the principal amount of certain bond anticipation notes.

On November 2, 1993 voters authorized additional bond issues of $59.65 million to provide funds for closure and remediation of municipal solid waste landfills, transportation projects, and construction of water pollution control facilities.

On November 8, 1994 voters authorized additional bond issues of $51 million to provide for pollution control projects; job creation through state business financing programs; training and equipment at Maine's technical colleges; and safety improvements at the Baxter School for the Deaf.

Bond Anticipation Notes

The State of Maine issued $10 million in bond anticipation notes (BANs) on September 27, 1994 to mature on March 1, 1995. An additional $3 million in BANs were issued on December 14, 1994 which will also mature on March 1, 1995. Both BAN issues were issued in connection with the general obligation bonds approved by the voters on November 2, 1993.

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 September 1, 1993 the State of Maine issued $170 million in general obligation tax anticipation notes (TANs) at 3.5% to improve the state's cash flow position. The TANs matured on June 30, 1994.

On July 1, 1994 the State of Maine issued $175 million in general obligation tax anticipation notes at 4.5% to improve the state's cash flow position. The TANs will mature on June 30, 1995.

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 $4 million were issued January 1, 1994 to finance the acquisition of motor vehicles and telecommunications equipment. The state is required to make lease payments consisting of basic rent which is equal to the principal and interest on certificates, and additional rent which 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 1994A certificates carry interest rates of 3.25% to 4% and mature between September 1, 1995 and September 1, 1997.

Retirement System - Body Corporate and Politic

On June 30, 1993 the Maine State Retirement System became a body corporate and politic and an incorporated public instrumentality of the State.

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) instituted the PLD Consolidated Retirement Plan. This plan consists of two regular plans and four special plans that replaced 250 separate plans which MSRS currently administers. All PLDs must elect a regular plan and if applicable, a special plan from those available.

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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

December 21, 1994

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State of Maine
Schedule of PERS Historical Trend Information
June 30, 1993

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							
1993	$1,531	$4,104	37.3%	$2,573	$1,062	242.3%	16.49%
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							
1993	$ 12	$ 23	52.1%	$ 11	$ 4	296.7%	30.74%
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							
1993	$ 2	$ 1	100.0%	$ 0	$ 2	0%	8.03%
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 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, as of and for the year ended June 30, 1993, and have issued our report thereon dated December 21, 1994. 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

December 21, 1994

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1993

Schedule B

Recipient/Grantor Agency	Federal Catalog Number	Program Title		Expenditures 1993
		Major Federal Programs		
			$	
Department of Economic and Community Development				
U.S. Department of Housing and Urban Developme	14.228	Community Development Block Grants /State's Program		10,953,750
		Total Economic and Community Development		**10,953,750**
Department of Education				
U.S. Department of Agriculture	10.555	National School Lunch Program		14,575,745
U.S. Department of Education	84.010	Chapter I - Programs - LEA's		30,298,782
	84.027	Special Education - State Grants		10,698,481
	84.048	Vocational Education - Basic Grants to States		4,915,508
		Total Education		**60,488,516**
Department of Human Services				
U.S. Department of Agriculture	10.551	Food Stamps (Note B)		112,202,787
	10.557	Special Supplemental Food Program-Women, Infants, Childre		14,476,033
	10.558	Child and Adult Care Food Program		8,403,198
	10.561	State Administrative Matching Grants for Food Stamp Progra		6,110,929
U.S. Department of Education	84.126	Rehabilitation Services - Basic Support		11,087,078
U.S. Department of Health and Human Services	93.560	Family Support Payments to States - Assistance Payments		78,987,231
	93.563	Child Support Enforcement		10,039,641
	93.658	Foster Care - Title IV-E		9,391,199
	93.667	Social Services Block Grant		12,640,373
	93.778	Medical Assistance Program		521,651,683
	93.802	Social Security - Disability Insurance		4,540,306
		Total Human Services		**789,530,458**
Department of Labor				
U.S. Department of Labor	17.207	Employment Service		4,420,710
	17.225	Unemployment Insurance (Note F)		117,170,369
	17.250	Job Training Partnership Act		14,949,778
		Total Labor		**136,540,857**
Department of Transportation				
U.S. Department of Transportation	20.205	Highway Planning and Construction		84,888,458
		Total Transportation		**84,888,458**
Total Federal Assistance - Major Programs:			$	**1,082,402,039**

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1993

Schedule B (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1993
		Non-Major Federal Programs	
			$
Department of Administration and Financial Services			
General Services Administration	39.003	Donation of Federal Surplus Property (Note E)	139,278
		Total Administration and Financial Services	**139,278**
Department of Agriculture			
U.S. Department of Agriculture	10.025	Plant and Animal Disease, Pest Control and Animal Care	155,865
	10.162	Inspection Grading and Standardization	484,884
	10.568	Temp. Emergency Food Assistance - Administrative Costs	328,177
	10.569	Temp. Emergency Food Assistance - Commodities (Note D)	1,253,090
	10.571	Food Commodities for Soup Kitchens (Note D)	180,130
	10.xxx	Crabmeat	13,792
U.S. Environmental Protection Agency	66.700	Cons. Pesticide Compliance Monitoring and Prog. Coop. Agts.	287,328
	66.xxx	Aroostook Water/Soil Improvement Fund	75,910
		Total Agriculture	**2,779,176**
Maine Arts Commission			
National Foundation on the Arts and the Humanities	45.001	Promotion of the Arts - Design Arts	13,465
	45.003	Promotion of the Arts - Arts in Education	126,564
	45.007	Promotion of the Arts - State and Regional Program	561,495
	45.010	Promotion of the Arts - Expansion Arts	88
	45.011	Promotion of the Arts - Presenting & Commissioning	9,038
	45.015	Promotion of the Arts - Folk Arts	36,462
	45.023	Promotion of the Arts - Local Arts Agencies Programs	12,000
		Total Arts Commission	**759,112**
Atlantic Sea Run Salmon Commission			
U.S. Department of Commerce	11.xxx	Cooperative Agreement-National Marine Fisheries	267,292
U.S. Department of the Interior	15.600	Anadromous Fish Conservation	28,593
		Total Atlantic Sea Run Salmon Commission	**295,885**
Department of the Attorney General			
U.S. Department of Health and Human Services	93.775	State Medicaid Fraud Control Units	158,091
		Total Attorney General	**158,091**
Department of Conservation			
U.S. Department of Agriculture	10.025	Plant and Animal Disease, Pest Control and Animal Care	10,351
	10.652	Forestry Research	81,231
	10.663	Management Agricultural Conservation Practices	39,700
	10.664	Cooperative Forestry Assistance	708,266
U.S. Department of the Interior	15.808	Geological Survey-Research and Data Acquisition	57,337
	15.916	Outdoor Recreation-Acquisition ,Development & Planning	392,959
National Science Foundation	47.050	Geosciences	23,039
	47.076	Education and Human Resources	113,286
Small Business Administration	59.009	Procurement Assistance to Small Business	70,032
Commission on National & Community Service	94.001	Serve - America	339,686
		Total Conservation	**1,835,887**

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1993

Schedule B (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1993
		Non-Major Federal Programs	
			$
Department of Corrections			
U.S. Department of Justice	16.540	Juvenile Justice & Delinquency Prevention - Alloc to States	261,402
	16.603	Corrections - Technical Assistance/Clearinghouse	47,869
		Total Corrections	**309,271**
Department of Defense and Veterans Services			
U.S. Department of Veterans Affairs	64.101	Burial Expenses Allowance for Veterans	54,976
Federal Emergency Management Agency	83.011	Hazardous Materials Training Program	41,543
	83.503	Civil Defense - Emergency Management Assistance	650,225
	83.505	State Disaster Preparedness Grants	29,055
	83.516	Disaster Assistance	3,766,652
	83.528	Emergency Management Institute - Field Training Program	69,187
	83.531	State and Local Emergency Management Assistance - Other	236,523
		Total Defense and Veterans Services	**4,848,161**
Department of Economic and Community Development			
U.S. Department of Housing and Urban Development	14.235	Supportive Housing Program	383,583
U.S. Department of the Interior	15.916	Outdoor Recreation-Acquision, Development & Planning	34,471
U.S. Environmental Protection Agency	66.456	National Estuary Program	13,387
U.S. Department of Energy	81.041	State Energy Conservation	63,024
	81.050	Energy Extension Service	46,531
	81.052	Energy Conservation for Institutional Buildings	45,194
	81.502	Miscellaneous Federal Assistance Action	19,888
Federal Emergency Management Agency	83.100	Flood Insurance	91,905
		Total Economic and Community Development	**697,983**
Department of Education			
U.S. Department of Agriculture	10.550	Food Distribution Program (Note A)	3,681,436
	10.553	School Breakfast Program	2,172,843
	10.556	Special Milk Program for Children	126,689
	10.559	Summer Food Service Program for Children	478,666
	10.560	State Admin. Expenses for Child Nutrition	249,894
	10.564	Nutrition Education and Training Program	68,755
U.S. Department of Education	84.002	Adult Education-State-Administered Basic Grant Program	1,239,854
	84.003	Bilingual Education	79,327
	84.004	Desegregation Assist. Civil Rights Training and Advisory Svs	221,299
	84.009	Education of Handicapped Children in State Schools	670,280
	84.011	Migrant Education - Basic State Formula Grant Program	3,699,231
	84.012	Educationally Deprived Children-State Admin.	351,431
	84.013	Chapter 1 Program for Neglected and Delinquent Children	196,220
	84.029	Special Ed. Personnel Development and Parent Training	88,260
	84.049	Vocational Education - Consumer and Homemaker Education	206,974
	84.151	Fed., State and Local Partnerships for Educ. Improvement	2,216,622
	84.158	Sec. Educ. and Transitional Svcs. for Youth w/Disabilities	413,030
	84.159	Disabled-Special Studies & Evaluation	20,716
	84.162	Emergency Immigration Education	9,827
	84.164	Eisenhower Mathamatics and Science Education - State Gts.	1,186,260
	84.173	Special Education - Preschool Grants	2,828,636

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1993
		Non-Major Federal Programs	
			$
Department of Education - continued			
	84.174	Vocational Education-Community Based Organizations	59,930
	84.185	Robert C. Byrd Honors Scholarships	60,593
	84.186	Drug-Free Schools and Communities - State Grants	2,568,865
	84.192	Adult Education for the Homeless	186,259
	84.196	Education of Homeless Children and Youth - State/Local	130,995
	84.207	Drug-Free Schools and Comm - School Personnel Training	165,383
	84.213	Even Start-State Educ. Agencies	262,420
	84.215	The Secretary's Fund for Innovation in Education	86,901
	84.216	Capital Expenses	75,482
	84.218	State Program Improvement Grants	64,403
	84.224	State Grants for Technology/Assist.- Disabled	569,898
	84.243	Tech-Prep Education	505,979
	84.249	Foreign Language Assistance	25,142
	84.253	Supp. State Grants for Fac.,Eq.,& Other Prog. Imp. Act	37,926
U.S. Department of Health and Human Services	93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	223,727
	93.xxx	Veterans Education	137,375
	93.xxx	Center for Education Statistics	12,028
Commission on National & Community Service	94.001	Serve-America	72,006
		Total Education	**25,451,562**
Department of Environmental Protection			
Department of Defense	12.xxx	State Memorandum of Agreement	293,885
U.S. Environmental Protection Agency	66.001	Air Pollution Control Program Support	1,602,405
	66.419	Water Pollution Control - State/Interstate Program Support	1,109,844
	66.420	Small Community Outreach & Education Program	53,696
	66.433	State Underground Water Source Protection	48,374
	66.435	Water Pollution Control-Lake Restoration Coop. Agreements	199,008
	66.438	Construction Management Assistance	370,905
	66.454	Water Quality Management Planning	221,718
	66.456	National Estuary Program	45,073
	66.459	Nonpoint Source Reservation	18,246
	66.460	Nonpoint Source Implementation Grants	504,161
	66.461	Wetlands Protection - State Development Grants	32,401
	66.463	Nat'l Pollutant Disch. Elimination System Rel. St. Prog. Gt	56,941
	66.504	Solid Waste Disposal Research	52,282
	66.701	Toxic Substances Compliance Monitoring Program	150,936
	66.705	Toxic Release Inventory	61,230
	66.706	Enhancement Grants for State Asbestos Programs	24,746
	66.801	Hazardous Waste Management State Program Support	391,816
	66.802	Hazardous Substance Response Trust Fund (Superfund)	612,071
	66.804	State Underground Storage Tanks Program	199,604
	66.805	Underground Storage Tank Trust Fund Program	872,659
	66.900	Pollution Prevention Grants Program	30,493
	66.925	State /EPA Data Management Financial Assistance Prog.	32,753
		Total Environmental Protection	**6,985,247**

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1993

Schedule B (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1993
		Non-Major Federal Programs	
			$
Executive Department - State Planning Office			
U.S. Department of Commerce	11.307	Spec. Econ. Devlp. & Adj. Assist. Prog.	93,800
	11.419	Coastal Zone Management Administration Awards	1,947,861
	11.420	Coastal Zone Management Estuarine Research Reserves	-1,122
U.S. Department of the Interior	15.612	Endangered Species Conservation	11,167
U.S. Environmental Protection Agency	66.006	Air Pollution Control - Technical Training	27,757
	66.464	Near Coastal Waters	11,075
U.S. Department of Energy	81.090	State Energy Conservation	1,163
	81.xxx	Petroleum Violation Escrow Funds	3,114,427
		Total State Planning Office	**5,206,128**
Executive Department - Science and Technology			
National Aeronautics and Space Administration	43.xxx	National Aeronautics & Space Administration	107,041
National Science Foundation	47.076	Education and Human Resources	543,651
U.S. Environmental Protection Agency	66.500	Environmental Protection - Consolidated Research	27,884
U.S. Department of Energy	81.049	Basic Energy Sciences - University and Science Education	24,979
		Total Science and Technology	**703,555**
Executive Department - Substance Abuse			
U.S. Department of Health and Human Services	93.170	Community Youth Activity Demonstration Grants	224,595
	93.902	Model Comp. Drug Abuse Treatment Prog. for Critical Pop.	845,754
	93.950	Capacity Expansion Program	223,230
	93.959	Blk Gts for Prevent. & Treat. of Substance Abuse (Note G)	3,577,315
	93.xxx	Alcohol & Drug Abuse - Data Collection	84,354
		Total Substance Abuse	**4,955,248**
Executive Department - Waste Management Agency			
U.S. Environmental Protection Agency	66.808	Solid Waste Management Assistance	3,378
		Total Waste Management Agency	**3,378**
Maine Historic Preservation Commission			
U.S. Department of the Interior	15.904	Historic Preservation Fund Grants In Aid	444,503
		Total Historic Preservation Commission	**444,503**
Maine Historical Records Advisory Council			
National Historical Publications Records Commission	89.003	National Historical Publications and Records Grants	2,757
		Total Historical Records Advisory Council	**2,757**
Maine Human Rights Commission			
U.S. Department of Housing and Urban Development	14.401	Fair Housing Assistance Program-State and Local	6,400
	14.409	Fair Housing Initiatives Program Ed. & Outreach Initiatives	34,115
	14.856	Lower Income Housing Assistance Program - Moderate Rehab	4,000
Equal Employment Opportunity Commission	30.002	Employment Discrimination - State/Local Fair Employ. Pract.	129,052
		Total Human Rights Commission	**173,567**
Department of Human Services			
U.S. Department of Agriculture	10.570	Nutrition Program for the Elderly (Commodities) (Note C)	680,513
U.S. Department of Justice	16.575	Crime Victim Assistance	4,176

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1993

Schedule B (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1993
		Non-Major Federal Programs	
			$
Department of Human Services - continued			
U.S. Department of Labor	17.235	Senior Community Service Employment Program	445,009
U.S. Environmental Protection Agency	66.032	State Indoor Radon Grants	91,217
	66.419	Water Pollution Control - State/Interstate Program Support	58,603
	66.432	State Public Water System Supervision	235,043
Nuclear Regulatory Commission	77.001	Radiation Control-Training Assistance & Advisory Counsel'g.	11,942
U.S. Department of Education	84.128	Rehabilitation Services - Service Projects	459,290
	84.129	Rehabilitation Training	21,588
	84.132	Centers for Independent Living	70,571
	84.161	Rehabilitation Services - Client Assistance Program	150,532
	84.169	Independent Living Services	261,185
	84.177	Rehabilitation Services - Indep. Living for Older Blind Ind.	195,904
	84.181	Grants for Infants and Toddlers with Disabilities	28,820
	84.187	Supported Employ. Svs. for Individuals w/Severe Disabilities	409,606
U.S. Department of Health and Human Services	93.041	Special Programs for the Aging - Title III, Part G	25,263
	93.042	Special Programs for the Aging - Title III, Part A	23,783
	93.043	Special Program for Aging - Title III, PartF	89,567
	93.044	Special Programs for the Aging - Title III, Part B	1,970,578
	93.045	Special Programs for the Aging - Title III, Part C	2,104,428
	93.046	Special Programs for the Aging - Title III, Part D	37,328
	93.048	Special Programs for the Aging-Title IV	195,000
	93.110	Maternal & Child Health Federal Consolidated Programs	1,013
	93.116	Project Grants & Agreements for TB Control Programs	71,858
	93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	582,692
	93.130	Primary Care Services - Rescourse Coordination & Dev'l	166,422
	93.146	AIDS Drug Reimbursement Program	16,774
	93.161	Health Program for Toxic Substances and Disease Registry	26,567
	93.165	Grants for State Loan Repayment	22,200
	93.197	Childhood Lead Poisoning Prevention Projects	206,756
	93.268	Childhood Immunization Grants	357,645
	93.283	Centers for Disease Control-Investigations and Tech. Assist.	365,063
	93.393	Cancer Cause and Prevention Research	219,048
	93.399	Cancer Control	130,671
	93.561	Job Opportunities and Basic Skills Training	3,704,979
	93.566	Refugee and Entrant Assist. - State Administration	651,530
	93.569	Comm. Svs. B/G - Discret. Awards - Food & Nutrition	1,588,923
	93.575	Payments to States for Child Care Assistance	2,847,277
	93.600	Head Start	82,743
	93.614	Child Development Associate Scholarships	5,886
	93.643	Children's Justice Grants to States	50,753
	93.645	Child Welfare Services - State Grants	1,476,705
	93.652	Adoption Opportunities	3,161
	93.659	Adoption Assistance	2,695,567
	93.669	Child Abuse and Neglect State Grants	80,526
	93.671	Family Violence Prevention and Services	79,982
	93.673	Grts. to States for Plan. and Develop. of Depend. Care Prog.	958
	93.674	Independent Living	532,657
	93.777	State Survey & Certification of Health Care Providers	1,805,450

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1993

Schedule B (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1993
		Non-Major Federal Programs	
			$
Department of Human Services - continued			
	93.779	Health Care Financing Research ,Demo. And Evaluations	119,169
	93.913	Grants to States for Operation of Offices of Rural Health	58,008
	93.917	HIV Care Formula Grants	170,627
	93.951	Demonstration Grant to States with Respect to Alzheimers	76,688
	93.977	Preventive Health Services - Sexually Transmitted Diseases	187,709
	93.987	Health Programs for Refugees	7,826
	93.988	Coop. Agreements for State Based Diabetes Control Programs	180,340
	93.991	Preventive Health and Health Services Block Grant	522,249
	93.994	Maternal & Child Health Services Block Grant to States	3,264,737
	93.xxx	New Vocational Education Rehabilitation	241,231
Unknown	xx.xxx	Vital Statistics Cooperative Program	257,164
		Total Human Services	**30,429,500**
Department of Inland Fisheries and Wildlife			
U.S. Department of the Interior	15.605	Sport Fish Restoration	1,770,265
	15.611	Wildlife Restoration	1,535,923
	15.612	Endangered Species Conservation	58,699
	15.614	Coastal Wetland Planning,Protection & Restoration Act	526,147
U.S. Department of Transporation	20.005	Boating Safety Financial Assistance	281,458
U.S. Environmental Protection Agency	66.461	Wetlands Protection - State Development Grants	54,292
	66.951	Environmental Education Grants	2,531
		Total Inland Fisheries and Wildlife	**4,229,315**
Department of Labor			
U.S. Department of Labor	17.002	Labor Force Statistics	725,374
	17.202	Certification of Foreign Workers for Temp. Employment	601,052
	17.245	Trade Adjustment Assistance - Workers	2,070,801
	17.246	Employment & Training Assistance - Dislocated Workers	3,714,642
	17.249	Employment Services & Job Training - Pilot Programs	30,000
	17.500	Occupational Safety and Health	304,804
	17.600	Mine Health and Safety Grants	23,639
	17.801	Disabled Veterans Outreach Program	952,961
	17.802	Veterans Employment Program	15,000
	17.xxx	Me. Occupational Information Coordination Committee	196,281
		Total Labor	**8,634,554**
Department of Mental Health and Mental Retardation			
U.S. Department of Housing and Urban Development	14.179	Nehemiah Housing Opportunity Grant Program	223,394
U.S. Department of Education	84.024	Early Education for Children with Disabilities	96,221
	84.181	Grants for Infants & Toddlers with Disabilities	218,053
U.S. Department of Health and Human Services	93.125	Mental Health Planning and Demonstration Projects	148,677
	93.150	Projects for Assistance in Transition from Homelessness	305,749
	93.158	Adolescent Health Ctrs. for American Indians/Alaska Natives	2,132
	93.242	Mental Health Research Grants	121,779
	93.244	Mental Health Clinical /Service Related Training Grants	82,891
	93.630	Development Disabilities BasicSupp.& Advocacy Grants	476,765
	93.667	Social Services Block Grant	1,192,438

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1993
		Non-Major Federal Programs	
			$
Department of Mental Health and Mental Retardation - continued			
	93.958	Blk Gts for Community Mental Health Services (Note G)	1,500,655
	93.xxx	Substance Abuse	3,339
		Total Mental Health and Mental Retardation	**4,372,093**
Department of Marine Resources			
U.S. Department of Commerce	11.405	Anadromous Fish Conservation Act Program	72,680
	11.407	Interjurisdictional Fisheries Act of 1986	232,360
	11.427	Fisheries Development & Research & Develop./Coop. Agree	70,343
U.S. Department of the Interior	15.600	Anadromous Fish Conservation	40,164
U.S. Department of Health and Human Services	93.103	Food and Drug Administration - Research	10,090
	93.xxx	Bio Sample - Gulf of Maine	112,478
		Total Marine Resources	**538,115**
Department of Public Safety			
U.S. Department of Justice	16.005	Public Education on Drug Abuse - Information	105,217
	16.550	Criminal Justice Statistics Development	238,511
	16.579	Drug Control and System Improvement - Formula Grant	2,182,049
	16.580	Drug Control and System Improvement - Discretionary Grant	80,486
U.S. Department of Transportation	20.218	Motor Carrier Safety Assistance Program	374,899
	20.600	State and Community Highway Safety	752,938
Federal Emergency Management Agency	83.xxx	Presidential Detail	28,651
U.S. Department of Health and Human Services	93.991	Preventive Health and Health Services Block Grant	276,539
		Total Public Safety	**4,039,290**
Public Utilities Commission			
U.S. Department of Transportation	20.700	Pipeline Safety	12,000
		Total Public Utilities Commission	**12,000**
Maine State Archives			
National Foundation on the Arts and the Humanities	45.149	Promotion of the Humanities - Div of Preservation and Acces	13,015
		Total State Archives	**13,015**
Maine State Library			
U.S. Department of Education	84.034	Public Library Services	620,982
	84.035	Interlibrary Cooperation and Resource Sharing	94,312
	84.154	Public Library Construction & Technology Enhancement	67,601
		Total State Library	**782,895**
Department of State			
U.S. Department of Transportation	20.218	Motor Carrier Safety Assistance Program	87,331
		Total State Department	**87,331**
Department of Transportation			
U.S. Department of Transportation	20.106	Airport Improvement Program	2,191,803
	20.308	Local Rail Service Assistance	396,701
	20.500	Federal Transit Capital Improvement Grants	2,826,441
	20.505	Federal Transit Technical Studies Grants	138,216

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1993

Schedule B (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1993
		Non-Major Federal Programs	
			$
Department of Transportation - continued			
	20.507	Federal Transit Capital and Operating Assistance Formula Gt	1,027,281
	20.509	Public Transportation for Nonurbanized Areas	1,027,965
	20.514	Transit Planning and Research	603,789
Federal Emergency Management Agency	83.516	Disaster Assistance	818,570
		Total Transportation	**9,030,766**
Total Federal Assistance - Nonmajor Programs:			**117,917,663**
Total Federal Assistance - Major Programs:			**1,082,402,039**
Total Federal Financial Assistance:			**$ 1,200,319,702**

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, 1993

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, 1993. 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, 1993.

   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, 1993 was $310,000.

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, 1993 was $22,902,981.

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, 1993 was $349,246.

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, 1993 was $18,919.

E. Department of Administration - Bureau of Purchases - Federal Surplus Property (CFDA 39.003): Distributions are reported at fair market value. The value of inventory at June 30, 1993 was $254,722.

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

U.I. Administrative Grant	$17,216,258
Trade Readjustment Act (FUBA)	1,203,758
Unemployment Compensation for Federal Employees	2,272,825
Unemployment Compensation for Ex-service Personnel	3,020,355
Unemployment Compensation for Ex-postal Workers	284,851
Emergency Unemployment Compensation	93,202,568
Disaster Unemployment Assistance	(2,609)
Extended Benefits	(27,637)
Total	$117,170,369

G. Executive Department - Office of Substance Abuse / Department of Mental Health and Mental Retardation: Effective July 1, 1992 the Alcohol and Drug Abuse and Mental Health Services Block Grant (CFDA 93.992) was eliminated. It was replaced with Block Grants for Prevention and Treatment of Substance Abuse (CFDA 93.959) and Block Grants for Community Mental Health Services (CFDA 93.950). Together, these programs would have exceeded the threshold for major programs for fiscal year 1993.

Reports on Internal Control

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

Independent Auditor's Report on Internal Control Structure 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, 1993, and have issued our report thereon dated December 21, 1994.

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, 1993, 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

- Budget
- Cash/cash receipts
- Investments
- Revenue and receivables - governmental funds
- Service revenue and receivables - proprietary fund types
- 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
- Self-insurance
- Single Audit and similar grant programs

For all of the internal control structure 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 conditions that we believe to be material weaknesses.

(A) Department of Administrative and Financial Services

Finding: Accounting System Does Not Comply With GASB Principles (Prior Year Finding)

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 $75.1 million. For additional information see finding (B) immediately following.

2. At June 30, 1993 certain trust and agency funds are not recorded on official state accounting records. These include: (1) the representative payee accounts administered by the departments of Mental Health and Mental Retardation, Human Services and Corrections; and (2) the Percival P. Baxter Trust Fund which is held in trust with the Boston Safe Deposit and Trust Company. As of June 30, 1993 the representative payee aggregate cash balances for these agencies totaled approximately $3.5 million. Other assets belonging to persons under the guardianship or conservatorship of the Department of Human Services totaled approximately $2 million. In addition, Baxter Trust Fund investments totaled $24 million. During the 1994 fiscal year, the Department of Mental Health and Mental Retardation and the Department of Corrections recorded their representative payee accounts on the state accounting records.

3. 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.

4. 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.

5. 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 $133.6 million to reflect the cumulative effect of these GAAP adjustments in the audited financial statements.

6. 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 also again recommend that the Bureau of Human Resources (1) carefully review all accounting experience claimed by candidates for all accounting positions; and (2) limit promotional opportunities on registers for accountant and financial management positions to those individuals who thoroughly understand GASB principles, GAAP requirements, and fund accounting for large governments.

Auditee Response:

1. We are aware there was a problem in the presentation of taxes receivable in FY 1993. We cannot comment on the amount of $75.1 million suggested by the Audit Department as we have not been given any information on the calculation. The Bureau of Accounts and Control, in cooperation with the Bureau of Taxation who provided us with financial information, made adjustments to taxes receivable in FY 1994. Accurate presentation of financial statements for Maine will be a continuing effort of the Controller to the best of available resources. We would be interested in other examples known to the Audit Department concerning agencies not recognizing revenue properly.

2. Representative accounts: Thanks for bringing this to our attention, the Bureau of Accounts and Control is doing further research on this.

Percival P. Baxter Trust: The Department of Administrative and Financial Services is attempting to obtain a copy of the will and trust document of Percival P. Baxter. At the present time, neither the State Controller nor the State Treasurer agree that this is an asset of the State.

3. We agree that better lease information collection procedures are needed. We will actively pursue this if more resources are allocated to us. We would like to note that procedures to obtain capital equipment lease information from records maintained by the State Purchasing Agent have been established and those leases were recorded in FY 1994. New capital building leases were also recorded in FY 1994. Procedures for obtaining lease information pursuant to Certificates of Participation were established in 1993 and those leases were recorded. We cannot comment on other insufficient centralized information unknown to us.

4. We agree.

5. Identifying information has not been furnished to us and we are unable to comment.

6. All accounting personnel meet the minimum qualifications as determined by standardized testing. We would appreciate more information about the nonroutine accounting entries done incorrectly.

Accounts and Control would like to establish procedures 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. We are fully in agreement with the recommendation. However, it is not within the control of the Commissioner of Administrative and Financial Services to commit sufficient resources. This is part of the budget process which must be approved to the legislature.

We do not know anyone who thoroughly understands GASB requirements, governmental generally accepted accounting principles and fund accounting for large governments. We think this recommendation is unrealistic.

(B) Department of Administrative and Financial Services

Finding: Inadequate tax revenue recognition procedures overstate General Fund fund balance (Prior Year Finding)

The Bureau of Taxation records individual income, corporate income, sales and withholding taxes receivable as revenue at the time tax returns and assessments are filed. This is not satisfactory since it significantly mismatches revenue and expenditures. The Governmental Accounting and Financial Reporting Standards 1600.106 states that revenue should be recognized when measurable and available to finance expenditures of the current fiscal period. Improperly recorded revenue affects cash flow, debt ceilings, program funding and financial reporting in the following ways.

Cash Flow

The Bureau of Taxation does not analyze collection patterns so that it can accurately estimate and report as revenue taxes that will be received in time to finance current expenditures. Because legislative appropriations are based on estimated revenue rather than actual collections, a cash flow problem results when revenue is recorded but not received. Through the period ended June 30, 1993 the state recorded $75.1 million more revenue than it received. This has contributed to the state's need to obtain cash for current expenditures by issuing tax anticipation notes: $150 million in fiscal year 1992, $170 million in fiscal years 1993 and 1994. In fiscal year 1995 authorized borrowing increased to $175 million. If the state does not change its revenue recognition practices, its cash flow will continue to deteriorate.

Debt Ceiling

Article 9, Section 14 of the Maine Constitution limits the amount the state may borrow from short term loans to the lesser of: 10 percent of all moneys appropriated and allocated from revenue to the General Fund and Highway Fund for that fiscal year, or 1 percent of the total valuation of the State of Maine. In fiscal year 1993 the debt ceiling was approximately $178 million. In fiscal year 1993 the state recorded $16.5 million more revenue than it received which inflated the constitutional ceiling for temporary loans by 1 percent or $1.65 million.

Program Funding

Overstated revenue that is not expended inflates the amount recorded as unappropriated surplus. State laws require distribution of recorded surplus balances for specific programs regardless of the amount actually collected. Consequently, overstated revenue affects both the timing and amount of funding for all programs.

Financial Reporting

Improperly recorded tax revenue overstated General Fund revenue by as much as $16.5 million and fund balance by as much as $75.1 million in the financial report of the State of Maine for the fiscal year ended June 30, 1993. Consequently, the state did not present fairly and with full disclosure the financial position and results of financial operations of the General Fund in conformity with generally accepted accounting principles.

Recommendation:

We recommend that the Bureau of Taxation accumulate complete and accurate data for reporting the history of collections in order to recognize taxes receivable as revenue when the availability criterion is met. We further recommend that the Department of Administrative and Financial Services record revenue according to generally accepted accounting principles to provide the legislature with accurate estimates of funds available for appropriation; and to present fairly and with full disclosure the financial position and results of financial operations of the funds of the State of Maine.

Auditee Response:

The Bureau of Taxation will provide whatever data is required of it to comply with revenue recording procedures as established by the Department of Administrative and Financial Services.

The bureau is part of a new Process Action Team (PAT) that will address the issues stated in this audit finding.

(C) Department of Administrative and Financial Services

Finding: Inadequate tax reconciliation procedures (Prior Year Finding)

The Bureau of Taxation has inadequate procedures to reconcile revenue and taxes receivable for telecommunications personal property tax, cigarette excise tax, estate tax, special fuel tax, gas tax, hospital excise tax, insurance premium tax, commercial forestry excise tax, and unorganized territory tax. The bureau's procedures did not allow for complete reconciliation and thus would not detect all recording errors or deter misuse of funds. Revenues and receipts for these taxes represent 9 percent of General Fund and 80 percent of Special Revenue Fund tax revenues.

Recommendation:

We recommend that the Bureau of Taxation develop and implement reconciliation procedures for taxes receivable and revenue to ensure proper recording of receipts and delinquent taxpayer balances; to properly safeguard tax receipts; and to facilitate collection of delinquent taxpayer balances.

Auditee Response:

The bureau has been reconciling sales tax, withholding tax, corporate tax and individual income tax receivables since fiscal year 1993. Telecommunications and hospital tax receivables have been reconciled since the beginning of calendar year 1994. The total receivable amount of these six taxes accounts for 94 percent of all taxes receivable balances.

During fiscal year 1994 the bureau attempted to revamp the reconciliation process with the personnel directly responsible for the various taxes mentioned above. However, this proved to be ineffective and the bureau has reassigned the reconciliation of taxes to the Revenue Accounting Section of the Bureau of Taxation. This transfer took effect July 1, 1994. The development and implementation of reconciliation procedures should be complete by December 31, 1994.

(D) Department of Transportation

Finding: Assets not capitalized

In response to prior year audit findings, the Department of Transportation (DOT) hired a consultant to develop written procedures to account for acquired and donated fixed assets of the enterprise funds. The consultant was also requested to identify any expenses that had not previously been capitalized as assets of the DOT enterprise funds. As a result of the consultant's work, several million dollars of construction related expenses were identified.

The Department of Audit staff reviewed the consultant's methodology used to identify these expenses. As a result of our review of the consultant's report and in conjunction with the performance of additional audit tests, we determined that the following amounts should be recorded in the state's financial records as additions to fixed assets.

Fund	Amount
Island Ferry Service	$3,559,400
Augusta State Airport	1,109,335
Marine Ports	3,616,200
Total	$8,284,935

Recommendation:

The Department of Transportation has taken steps to improve its policies and procedures over the capitalization of expenses and recording of fixed assets. We recommend that the DOT work with the State Controller's office to implement additional procedures that will ensure all assets are recorded in the state's financial statements in a timely manner.

Auditee Response:

Preliminary procedures have been published. After review and analysis by management officials and the State Controller's office, the Department will adopt and implement the new procedures. This process will satisfy this finding and recommendation along with others in this report. Implementation will occur this fiscal year.

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 December 21, 1994.

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

December 21, 1994

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's 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, 1993, and have issued our report thereon dated December 21, 1994. 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 December 21, 1994.

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, 1993, 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 component unit financial statements of the State of Maine, and on the compliance of the State of Maine with requirements applicable to major programs and to report on the internal control structure in accordance with OMB Circular A-128. 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 internal control structure policies and procedures relevant to our audit of the component unit financial statements in a separate report dated December 21, 1994.

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 imitations 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:

Accounting Controls

- Budget
- Cash/cash receipts
- Investments
- Revenue and receivables - governmental funds
- Service revenue and receivables - proprietary funds
- Expenditures for goods and services and accounts payable
- Payroll and related liabilities
- Inventories
- Property, equipment, and capital expenditures
- Debt and debt service expenditures/expenses
- Self-insurance

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

Amounts claimed or used for matching

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 25 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, 1993, the State of Maine expended 90 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 policies and procedures used in administering federal financial assistance 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 believe none of the reportable conditions described above is a material weakness.

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 December 21, 1994.

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

December 21, 1994

Reports on Compliance

State of Maine
Schedule of Reportable Conditions
For the Year Ended June 30, 1993

Department of Administrative and Financial Services

(1) CFDA#: Various Federal Programs   Questioned Costs: $3.6 million

Finding: Federal programs overcharged for retirement contributions

Chapter 591 Public Laws of 1991, and Chapter 66 Private and Special Laws of 1991 deappropriated $9,370,000 from the General Fund and $1,674,100 from the Highway Fund for employer contributions to the Maine State Retirement System (MSRS) for employees whose salaries are paid from those funds. Chapter 591 also deappropriated $16,180,000 from the General Fund for employer contributions for teachers. The MSRS recognized receipt of the contributions for the state funded employees and then returned the deappropriated portion of contributions to the respective funds by journal entries. The employer contributions for teachers were net of the deappropriation when received by the MSRS. The federally funded programs did not receive an equivalent reimbursement of contributions. Therefore, federally funded programs paid an employer contribution rate that was higher than the effective rate for the General and Highway Funds.

This resulted in an increase in the pension system's unfunded liability which will result in higher future contribution rates. The resulting overpayment for federally funded employer contributions is approximately $3.6 million. This overpayment was calculated using a ratio of deappropriated General Fund contributions to total General Fund contributions and applying the same ratio to total federal contributions for state employees and teachers.

We note that a similar finding with a questioned cost of $5.8 million was developed in the 1992 audit.

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 other activities. According to Circular A-87 Attachment A, Part B, Paragraph 1g the total cost should be net of credits.

Recommendation:

We recommend that the state comply with Circular A-87 and equitably distribute expenses incurred for employer contributions to pension plans. We also recommend that the state appropriately credit federally funded programs.

Auditee Response:

Agency did not respond.

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(2) Bureau of Accounts & Control

Finding: Inadequate automated payroll system (Prior Year Finding)

The Department of Administrative and Financial Services uses the MFASIS Human Resource System to process employee payrolls. However, sick leave and vacation earned and accumulated cannot be computed or reported by the system. These are available only after state agencies individually calculate them for their employees.

Fragmentation of the payroll system results in the following:

1. Increased possibility of errors occurring when leave data is maintained manually;

2. When employees leave state service any money due to them for accrued, unused vacation time must be manually calculated by each agency. This increases the probability of error; and

3. The state cannot accurately determine its total liability for compensated absences.

Recommendation:

We recommend that the state modify the MFASIS Human Resource System to accurately calculate and maintain complete payroll data.

Auditee Response:

For fiscal year 1994, the computer programmers in the Bureau of Accounts and Control have created a program and a data input screen that will allow agencies to enter their payroll information. The data entry of this information will take place during July of 1994. After the information has been entered, the system will make the necessary calculations to provide the information required.

(3) Bureau of Accounts and Control

Finding: Incorrect posting results in interfund payables understated by $1.4 million (Prior Year Finding)

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. During fiscal year 1993 the bureau posted $1.4 million of interfund payables to the incorrect fund because of the method it used to offset estimated sales. Although the bureau attempted to correct the fiscal 1993 Annual Financial Report - GAAP Statements by reducing the payables in the same fund, payables were not set up in other funds, thereby understating interfund payables by $1.4 million. The interfund payables therefore, did not balance to interfund receivables and fund balance in the affected funds were overstated by $1.4 million.

Recommendation:

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

Auditee Response:

Accounts and Control is developing new procedures for allocating the estimated sales of certain internal service funds and balancing "Due to Other Funds" and "Due from Other Funds".

Department of Administrative and Financial Services (cont.)

(4) Bureau of Accounts and Control

Finding: Controller's Annual Financial Report inaccurate

In the Annual Financial Report the Controller states that the financial condition of the state is reported in accordance with Generally Accepted Accounting Principles (GAAP). However, during our audit we noted the following incorrect GAAP adjustments that materially misstated various accounts:

1. The bureau posted one adjustment twice thereby overstating by $6,271,074 the prepaid expense and fund balance in Other Special Revenue Funds ;
2. The bureau omitted an expenditure accrual thereby understating accounts payable and over-stating fund balance in Capital Projects Funds by $1,551,485; and
3. The bureau reversed the Proprietary Funds interfund receivable and payable balancing journal resulting in a difference of $4,275,039 between total receivables of $26,425,224 and payables of $22,150,185; in addition, the note to the statements disclosed a receivable/ payable amount of $22,113,000.

Recommendation:

We recommend that the Controller take care to ensure the Annual Financial Report is accurate and in accordance with GAAP.

Auditee Response:

The Controller is in the process of updating procedures so that the Annual Financial Report will accurately reflect the financial position of the State of Maine.

(5) Bureau of Accounts and Control

Finding: Inadequate access controls for the state's accounting system production libraries

The Maine Financial and Administrative Statewide Information System (MFASIS) is the state's accounting and human resource information system and is used to record most of the data for generating the state's financial reports. Access to the production libraries where the program modules reside is not controlled by access control software. Although these libraries are not easily accessible, we believe the access to the production libraries should be monitored and restricted through the use of access control software.

Recommendation:

We recommend that the Bureau of Accounts and Control restrict and monitor access to MFASIS production libraries through the use of access control software.

Auditee Response:

I agree that even though our production libraries are not easily accessible, they should be monitored and restricted through the use of access control software. Two months ago we began an effort to accomplish just this on the MFASIS human resource system libraries. As a test we have put our test libraries under IBM's Resource Access Control Facility (RACF) and have been monitoring the results. Within the next three months we will place the human resource system's production files under RACF security. Following the successful implementation of RACF on the human resource system we will then take steps to secure the accounting system's production libraries.

(6) Bureau of the Budget

Finding: Transfer of Highway Fund investment earnings to the General Fund violates the Maine Constitution (Prior Year Finding)

Chapter 622, Part K-1, Public Laws of 1991 revised 5 MRSA §135 to require that investment earnings of the Highway Fund be credited to the General Fund effective November 1991. However, the Maine Constitution, Article 9 §19 restricts use of funds derived from Motor Vehicle and Motor Vehicle Fuel (Highway Fund) revenues to various costs of road maintenance, construction, and traffic safety enforcement.

In fiscal year 1993, Highway Fund investments produced $277,833 in interest earnings which were transferred to the General Fund and not used as required by the Constitution. In fiscal year 1992, Highway Fund earnings of $398,806 were also transferred to the General Fund. We believe the use of the Highway Fund investment earnings must be consistent with the Maine Constitution and, in our opinion, these transfers violate the Constitutional intent.

Recommendation:

In the 1992 audit report we recommended revision to Title 5, MRSA §135 so that it would be consistent with the Maine Constitution. We also recommended that any investment earnings of the Highway Fund transferred to the General Fund be returned to the Highway Fund. The administration responded, in part:

> *. . . 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.*

We recommend that the Commissioner request a formal opinion from the Attorney General regarding the legal status of the statutory amendment. If the amendment is ruled unconstitutional, we also recommend that the Commissioner initiate transfer of interest earnings back to the Highway Fund.

Auditee Response:

We sent this finding to the Attorney General's Office for an opinion as it involves a constitutional issue.

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(7) Bureau of the Budget

Finding: State Police funding not consistent with Maine Constitution (Prior Year Finding)

Since fiscal year 1991, the Maine Legislature has decreased funding from the General Fund and increased the portion of Bureau of State Police funding from the Highway Fund without evidence to document or support the increased expenses charged to the Highway Fund.

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 expenses charged to the Highway Fund exceed those attributable to state enforcement of traffic laws. The Constitution does not limit the portion of such expenses that may be paid from the General Fund.

Although the portion of state police expenses attributable to traffic law enforcement is not known, the legislature has adjusted the funding ratio as follows:

Department of Administrative and Financial Services (cont.)

- Fiscal year 1991 funding was 50 percent from the General Fund and 50 percent from the Highway Fund;
- Fiscal year 1993 funding was initially authorized at 22 percent General Fund and 78 percent Highway Fund;
- Following other budgetary actions approved by the legislature, the 1993 actual expenditures of $22,801,555 were paid by 13 percent from the General Fund and 87 percent from the Highway Fund; and
- The legislature authorized the same funding ratio, 13: 87, for fiscal year 1994.

Recommendation:

We again recommend that state police expenses charged to the Highway Fund not exceed those allowed by the Maine Constitution. We also recommend that the Commissioner require the Bureau of the Budget to require the Department of Public Safety to (1) determine what the funding should be based on an analysis of its operations; and (2) retain documentation supporting its analysis.

Auditee Response:

The Department of Administrative & Financial Services' answer:

As the results of your audit of the State of Maine for the fiscal year 1993 indicate, the Legislature approved a funding ratio for the State Police of 13 percent from the General Fund and 87 percent from the Highway Fund.

In regard to the recommendation that the Bureau of the Budget require the Department of Public Safety to conduct an analysis of its operations to determine the proper funding ratio, the Legislature ultimately determines what the funding split should be. Consequently, any requirement to conduct such a study should be issued by that body.

The Department of Public Safety has, in the past, conducted studies to determine the portion of the State Police budget used for traffic law enforcement. Although the individual studies are well documented, they are only a "snapshot in time". Any restructuring of the deployment of State Police resources in the course of budget development would necessitate revising the funding ratio by the Legislature.

In summary, I agree that the funding ratio over the last few years has been somewhat inconsistent. However, the Legislature has the final decision on what the ratio will be based on current constitutional and operational considerations.

The Attorney General's comments:

"It is worth noting that any determination about the allocation of costs to the Highway Fund is, of course, fact dependent. The draft audit finding states that the portion of state police expenses attributable to traffic law enforcement is not known. Thus, aside from those inferences which may arise from a change in State Police funding ratio, there is no factual basis for determining that the present ration is improper. It is incumbent upon the Legislature to determine whether the circumstances require some further inquiry in accordance with the Legislature's constitutional obligation. . . ."

(8) Bureau of Information Services - Telecommunications Division

Finding: Inadequate cost accounting system

The Telecommunications Division does not have an adequate cost accounting system and consequently cannot compare the cost of providing services to the amount billed for those services. In addition, the division does not have the necessary information to set rates or know whether the rates will cover indirect as well as direct costs.

Recommendation:

We recommend the division implement a cost accounting system capable of capturing the data necessary for setting rates and comparing costs to billings.

Auditee Response:

A task force, composed of three senior staff members, conducted a system wide inventory of both services and equipment during FY 93 and 94. Their purpose was to verify all items billed, and took nine months to complete. In FY 94 and 95 the Division is undertaking a complete verification of services invoiced to the Division against services billed out to customers by the Division. This will include toll verification, credit card, circuits, and so forth. This effort will be completed in January of 1995.

During the summer of 1994, an independent consulting firm reviewed current direct and indirect rates. They made recommendations for interim rates which were approved by the Information Services Policy Board in October, 1994 for implementation starting with the September, 1994 billing.

The Division has systematically and with enormous effort, worked to improve all areas of accounting, invoicing and billing. They no longer do key punching, all toll and circuit billings can be verified. Cost centers have been developed and the costs of all services are known.

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(9) Bureau of Human Resources - Employee Health Insurance Program

CFDA #: Various Federal Programs **Questioned Costs**: $204,983

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

In July 1993 the State of Maine received refunds of $1,563,072 accrued in fiscal year 1993 because of excess premiums paid to Blue Cross and Blue Shield. As required by Chapter 6 Public Laws of 1993, amounts refunded were deposited as undedicated revenue to the General Fund.

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 from excess premiums. Therefore, the Federal Expenditure Fund should have received $204,983 from the refunds based on the federal proportional share, including Medicaid, of 20.2 percent of employer paid premiums.

Recommendation:

We recommend that the department credit federal programs with their share of refunds.

Auditee Response:

The department is currently working with the federal division of cost allocation on the resolution of this finding.

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(10) Bureau of Taxation

Finding: Hospital excise tax revenue recognition overstates Special Revenue Fund fund balance by $7.7 million (Prior Year Finding)

During June 1993 the bureau received and recorded as revenue $3.7 million of payments on assessments due in July 1993. The Governmental Accounting and Financial Reporting Standards 1600.116 states that material revenues received prior to the normal time of receipt should be recorded as deferred revenue, and recognized as revenue in the period to which they apply. The bureau also recorded as receivables and revenue additional assessments of $4 million which were not due until July 1993. As a result, deferred revenue was understated by $3.7 million; taxes receivable was overstated by $4 million; and revenue was overstated by $7.7 million in the Special Revenue Fund.

Recommendation:

We recommend that the Bureau of Taxation, in conjunction with the Controller, take the steps necessary to properly record hospital excise taxes in accordance with generally accepted accounting principles.

Auditee Response:

The Bureau of Medical Services has requested the Bureau of Taxation to record these revenues in June. The Controller has been notified of this arrangement. If, at a future date, the Controller and the Bureau of Medical Services change the way the revenues are recorded, the Bureau of Taxation will comply.

(11) Bureau of Taxation

Finding: Corporate tax receivable of $9.8 million not on state's records

Large corporate tax assessments that result from audits are recorded on the Controller's records after the final reconsideration phase of the audit process. Corporate taxes receivable resulting from bureau tax audits are posted on internal bureau records but not always on the Controller's records. The Controller's records therefore do not contain complete information. One corporate tax receivable account that was not reflected in the General Fund on the Controller's records at June 30, 1993 totaled $9.8 million.

Recommendation:

We recommend that the Bureau of Taxation record all audit assessments as receivables at the time of assessment, offset to revenue or deferred revenue as appropriate.

Auditee Response:

In all but the most uncertain situations involving corporate income tax liabilities our accounting system now accrues as revenue any assessment. In an exceptional situation, such as cited in this finding, our uncertainty relative to the assessment caused a delay in recording revenue. Had we accrued revenue earlier but established an offsetting reserve for bad debt, the bottom line would have been the same.

(12) Bureau of Taxation

Finding: Taxes receivable credit balances recorded incorrectly resulting in General Fund taxes receivable understated by $6.2 million

The Bureau of Taxation recorded approximately 4,800 accounts with credit balances in sales and withholding taxes receivable as reductions to taxes receivable rather than as deferred revenue. The Governmental Accounting and Financial Reporting Standards 1600.116 states that revenue received in advance of the period to which it applies should be recorded as deferred revenue, and recognized as revenue in the period to which it applies. As a result of incorrect recording, General Fund taxes receivable and deferred revenues were understated by $6.2 million as of June 30, 1993.

Recommendation:

We recommend that the Bureau of Taxation record credit taxes receivable balances in accordance with generally accepted accounting principles.

Auditee Response:

The bureau will generate a credit balance report at June 30, 1995 and make available to the

Controller a journal entry that reclasses the balance sheet account. This adjustment has no effect on revenue.

(13) Bureau of Taxation

Finding: Withholding taxes receivable not reconciled resulting in General Fund taxes receivable and fund balance overstated by $2.6 million

The Bureau of Taxation failed to reconcile withholding taxes receivable at June 30, 1993. As a result, a prior period error of $2.6 million was not corrected. Therefore, General Fund taxes receivable and fund balance were overstated by $2.6 million at June 30, 1993.

Recommendation:

We recommend that the Bureau of Taxation reconcile withholding taxes receivable and make necessary adjustments to reflect the correct balance on the Controller's records.

Auditee Response:

The bureau has reconciled the withholding account as of June 1994.

(14) Bureau of Taxation
Office of Fiscal and Program Review

Finding: Legislative actions result in inconsistent state funding to municipalities

State funding to municipalities through the General Purpose Aid to Education and State-Municipal Revenue Sharing programs is calculated based on state valuations determined by the Bureau of Taxation and certified to the Secretary of State. The state valuations are based on municipal valuations as of April 1, two years prior (*two-year rule*). Any changes in the values of individual properties in a municipality after April 1 are reflected in the next state valuation. There is an inverse relationship between a municipality's state valuation and the state funds allocated to the municipality. State valuations increase with increased municipal property tax assessments; decreased state valuations result in increased state aid.

There are well-established laws and procedures governing tax assessment, taxpayer and municipality appeals, determination of state valuations, and allocation of state funds. However, should a municipality overassess a local property owner, the state valuation will generally reflect the overassessment. If the property owner then wins an appeal of the overassessment, the municipality will not be able to collect or will have to refund the excess taxes assessed. It will also not receive as much state funding as it otherwise would have had the original valuation been based on the lower and more accurate assessment. The municipality may safeguard itself against this eventuality if it files an appeal of the state valuation in the forty-five-day period allowed. It may choose not to do so for fear of compromising its case defending against the property owner's appeal.

In the past legislative session, some municipalities elected instead to seek legislative relief. Others succeeded in having legislation passed that exempted them from the *two-year rule*. Legislative intervention raises fairness questions: it results in inconsistent bases for state-aid formulas; it can benefit selected municipalities at the expense of others; it overrides existing state procedures; it can result in windfall benefits to municipalities; it gives no consideration to offsetting increases in taxable property values in the affected municipalities; and it may be unconstitutional if tax assessments are set at other than *just value*. It may also result in litigation expense to the state if disadvantaged parties sue. Also, legislative action may remove any disincentive a municipality may have from overassessing major property owners.

Mandating that determinations of the State Board of Property Tax Review be used as final also eliminates the option, otherwise available to the Bureau of Taxation, of appealing unfavorable state valuation determinations to the state court system. Additionally, special exceptions create more work for those administering the affected state-aid programs. They must become familiar with the specific requirements of each exception, recalculate the formulas, and be able to respond to questions from others affected by the revised procedures.

We noted legislative action that benefitted four municipalities. All other municipalities remained subject to and received their share of state funding through the usual process and as reduced by any additional amounts received by the four exceptions.

Chapter 55, P&S Laws of 1993 - Town of Portage Lake:

This legislation required the following: ". . . the 1993 valuation . . . for the purposes of calculating county taxes, school appropriations and any other decision regarding allocation of funds or assessment of taxes must be based on a valuation that values the property . . . at $2,119,869." At April 1, 1991 the town assessed and collected taxes on the property in question based on a municipal valuation of $8,205,209. Pursuant to the *two-year rule*, the Bureau of Taxation appropriately used this amount for the 1993 state valuation. Chapter 55 superseded the *two-year rule* with the result that the municipality received local property tax revenue based on the higher valuation and state aid based on the lower. Estimates of the additional state-aid are: State-Municipal Revenue Sharing - $4,100, and General Purpose Aid to Education - $40,406, or a total of $44,506 above that which the municipality would ordinarily receive.

Also, Chapter 55 may be unconstitutional if, for tax assessment purposes, $2,119,869 was not the *just value* of the property. Article 9, § 8 of the Maine Constitution states, "All taxes upon real and personal property assessed by authority of this State, shall be apportioned and assessed equally according to the just value thereof."

Chapter 56, P&S Laws of 1993 - Town of Mexico:

This legislation included similar language to that quoted above from Chapter 55 but said, ". . . that values the property . . . at $2,660,000." The Town of Mexico had overassessed the property at $12,221,150. Prior to Chapter 56, the state valuation also included the property at $12,221,150 so that, without legislative intervention, state-aid to the Town of Mexico would have been commensurately reduced. Although the Town of Mexico did not appeal the state valuation as it could have, the legislative action remedied the situation. Without the legislative action, the town would have experienced a shortfall due to losing the taxpayer assessment appeal and simultaneously receiving reduced state aid due to overassessing the property. Estimates of additional state-aid to Mexico due to Chapter 56 are: State-Municipal Revenue Sharing - $31,600, and General Purpose Aid to Education - $24,425, or a total of $56,025.

Chapter 94, P&S Laws of 1993 - Sears Island/Searsport:

This legislation modified the 1994 state valuation. It stated, ". . . for the purposes of school appropriations and municipal revenue sharing, funds must be based on a valuation that values the property of the Department of Transportation in Sears Island at $0."

The 1994 state valuation is based on the municipal valuation at April 1, 1992. At April 1, 1992 the property was not owned by the Department of Transportation. In 1992 the Town of Searsport assessed and collected taxes from the property owner based on a municipal valuation of $15,000,000. It also assessed and collected taxes on the same property in 1993 based on a valuation of $8,096,000. Therefore, the Bureau of Taxation appropriately determined the 1994 state valuation based on the $15,000,000 municipal valuation.

Chapter 94 effectively overrode the *two-year rule* so that, for the 1992 period, the Town of Searsport received both the benefits of local property tax receipts and state-aid based on a zero value state valuation. Estimates of the additional state-aid resulting from Chapter 94 are: State-Municipal Revenue Sharing - $22,800, and General Purpose Aid to Education - $45,003, or a total of $67,803.

Chapter 707, Public Laws of 1993 - BIW/City of Bath:

This legislation modified the 1994 state valuation. It stated, ". . . for the purposes of school appropriations and municipal revenue sharing, funds must be based on a valuation that values the property . . . at $120,050,000."

This legislation provided relief to the City of Bath for the negative effect on the state-aid formulas resulting from having overassessed a major property owner. The municipality had assessed taxes based on a municipal valuation of $219,753,529. The $120,050,000 revision was based on the determination of the State Board of Property Tax Review on the taxpayer's appeal of the 1991 assessment and as adjusted to April 1, 1992. Estimates of additional state aid due to Chapter 707 are: State-Municipal Revenue Sharing - $31,000, and General Purpose Aid to Education - $104,953, or a total of $135,953.

Recommendation:

We recommend that the Bureau of Taxation, in conjunction with the Office of Fiscal and Program Review and members of the legislature's Joint Standing Committee on Taxation, consider the need for changes to the state-aid and/or tax laws to allow for uniform and timely consideration of significant fluctuations in property tax assessments and /or incorporation of better data in state funding formulas. This should ensure that, in the future, all municipalities receive fair, consistent, and timely treatment; and it will avoid the need for case-specific legislation.

Auditee Response:

Bureau of Taxation:

We agree that a clear legislative policy should be set and followed with regard to setting sate valuations. Several legislative exceptions to the standard procedure occurred recently over the objections of the Bureau of Taxation. Some exceptions were made to accommodate municipalities where a taxpayer was clearly and inappropriately assessed by local officials. Another came about due to the state taking significant property off the local tax rolls. At the same time, there were municipalities enjoying short-term windfalls because property values grew rapidly. Understandably perhaps, no state valuation changes were proposed in these cases.

At the present time, the increasingly frequent practice of the legislature in making ad hoc exceptions to state valuation threatens the viability of this vital element in distributing state aid to schools. The Bureau will cooperate with the legislature and its staff in examining ways to avoid this practice in the future.

Office of Fiscal and Program Review:

Agency did not respond.

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(15) Bureau of Taxation

Finding: Telecommunications personal property tax recognition overstates General Fund fund balance by $35.3 million

In accordance with 36 M.R.S.A. § 457 the Bureau of Taxation records telecommunications personal property taxes as revenue when assessments are made. According to statute, the entry booked in fiscal year 1993 represented the 1993 gross tax assessment levied for the 1994 tax year, and one half of the 1994 estimated assessment levied for the 1995 tax year. The assessment totaled $35.3 million.

The Governmental Accounting and Financial Reporting Standards P70.108 states when property taxes receivable are recognized or collected in advance of the year for which they are levied, they should be recorded as deferred revenue and recognized as revenue in the year for which they are levied. As a result, General Fund fund balance was overstated by $35.3 million at June 30, 1993.

Recommendation:

We recommend that the Bureau of Taxation, in conjunction with the Controller, take the steps necessary to properly record telecommunications personal property taxes in accordance with generally accepted accounting principles.

Auditee Response:

The bureau is currently in compliance with state Law. The bureau will continue to maintain the *assessment detail records and make them available to the Controller.*

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(16) Division of Financial and Personnel Services

Finding: Revenue understated and contributed capital overstated by $654,000

Title 5 M.R.S.A. § 1181 requires the transfer of vehicles to the Central Fleet Management. Furthermore, the statute also requires that "Central Motor Pool . . . develop a method of assigning appropriate credits to be used to reduce charges for those agencies . . .."

The necessary accounting entries to record the acquisition of the vehicles and the related available "*credits*" were not made at the time the transactions were consummated. As a result of the untimely recording of these financial transactions, Central Fleet Management's revenue was understated by $654,000, and contributed capital was overstated by the same amount.

Recommendation:

To prevent future errors in financial reporting we recommend that the division promptly record all financial transactions.

Auditee Response:

Entries were made in a timely manner; however, they were not correct. The acquired vehicles were recorded as contributed capital at the full assessed value rather than just the salvage value being recorded as contributed capital, and credit given to the various contributing agencies for the difference. An adjustment was made as soon as the division discovered the error.

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(17) Division of Financial and Personnel Services

Finding: Inadequate internal control over equipment account

The Division of Financial and Personnel Services did not reconcile its equipment account to Central Fleet Management's (CFM) vehicle inventory/billing system as of and for the year ended June 30, 1993. As a result, the equipment account was overstated by $830,900. Of this amount, $752,715 was for vehicles still owned by other agencies; the remaining $78,185 was for vehicles sent to auction but not removed from the Controller's records.

Recommendation:

We recommend that the Division of Financial and Personnel Services reconcile its vehicle inventory to CFM's inventory records, and make adjustments where necessary.

Auditee Response:

The Division of Financial and Personnel Services did reconcile the state accounting system (MFASIS) to the vehicle inventory/billing system. By doing so, Central Fleet Management noticed that it had recorded several fleets that were subsequently not purchased as planned. Records were adjusted accordingly.

We agree with the problem concerning vehicles that had been auctioned but not removed from the Controller's records. The Division of Financial and Personnel Services and CFM have agreed that CFM will do a monthly report on all additions and deletions to the vehicle inventory. The Division of Financial Services compares the information to records supplied by State Surplus and reconciles to the Controller's records.

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(18) Division of Financial and Personnel Services

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

Title 5 M.R.S.A., Chapter 148-B established Maine Uniform Accounting and Auditing Practices (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 M.R.S.A., 1654(A) defines the responsibilities of the commissioner of Administrative and Financial Services. These 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.

In fiscal year 1993 the Department of Administrative and Financial Services had no mechanism for monitoring MAAP responsibilities of state agencies; 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.

Recommendation:

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

Auditee Response:

The "Maine Uniform Accounting and Auditing Practices Act" (MAAP), promulgated in Chapter 148-B of MRSA, and referenced by the State Audit Department, was enacted by the legislature to provide relief to non-profit community service agencies by standardizing certain accounting and auditing requirements. A community service agency funded by more than one department had previously been required to maintain accounting records and file reports in an uncoordinated and inefficient manner. They were also subject to routine audits by different departments who audited their own grants and programs with no effort to coordinate with each other. As a result, the State *attempted to adopt standard accounting and auditing practices which would require only one state financial audit for each fiscal year the agency received funding.*

MAAP was to be implemented by designating a "lead agency" to be responsible for coordinating, directing or conducting a single audit, which could be performed by a licensed independent public accountant (IPA) or by a state auditor.

The Commissioner of the Department of Administrative and Financial Services had certain responsibilities including the maintenance of the register of all grants or contracts administered by the State to community agencies, ensure that annual training be available for community agencies on accounting practices, and be the person ultimately responsible for administration and implementation of MAAP.

This act has never been able to be fully implemented for some of the following reasons:

1. *Community service agencies were given several audit options from which to choose. These varied from having the state do the entire audit, having an IPA do the entire audit, or a combination of state and IPA. If the audit was a combination, the IPA audited federal funds and the departmental auditor audited state funds. However, all departments funding non-profit agencies did not have an audit staff, making them immediately out of compliance. The only departments with audit capability are the Department of Human Services, the Department of Mental Health and Mental Retardation, and the Department of Transportation. Some agencies with no audit staff attempted to satisfy their audit obligation by requiring the community service agency engage an IPA to do the entire audit.*

   We do not agree that state departments "elect" not to participate in an audit, but that they are not able to due to staff limitations. We do not feel programs should be cancelled due to lack of a "MAAP" audit. In this regard, we have noted that state departments providing funds to nonprofit agencies have monitored those funds, although a "MAAP" audit may have not been performed.

2. *The preponderance of federal funds are passed through to non-profit community agencies by the Department of Human Services (DHS) who have established their own grants register and designated a staff person with computer programming skills to maintain the data base. Information for the data base is received directly from their Bureaus when funds are granted. In contrast, the Department of Administrative and Financial Services (DAFS) does not have the resources to duplicate this register.*

   An attempt was made to establish a grants register by accessing the data base maintained by the Division of Purchases, but since no request has ever been made to this department for grants information, the priority of having a register here has been *questioned. Information is available by direct communication with various departments which have always complied with requests for information and regularly provide this department with a list of their contracts awarded. We have reviewed existing contract listings and believe this fulfills the intent of the law.*

3. *The audit staffs of state departments having an audit staff are knowledgeable of grants from their own Bureaus but not of the grants from other Bureaus. This led to the "Single Audit" concept being interpreted as a "coordinated" audit effort. The departments did coordinate with each other so the community agency was only audited at one time. We do not agree that commitment to MAAP is lacking.*

4. *The number of community agencies and the funding to them has increased but departmental audit staff has not. DHS, with most of the federal funds and resultant federal requirements has not been able to keep up with their workload. In FY 1992 they received notice from the federal cognizant agency (DHHS) that they must present a corrective action plan detailing when they would be in compliance with federal regulations. They were able to accomplish this, but to keep current, state funds are not being audited. In 1993, the amount of state funds not being audited was in excess of $20 million.*

   We feel the solution to the problem requires more than oversight. We feel it means a change in the MAAP regulations so that departments are able to satisfy federal requirements as well as meet the needs of the program administrators in their departments for oversight of state funds.

5. *Because DHS is concentrating on federal funds, fearful that funding will be impeded if they do not, they are frequently not able to coordinate audits with the Department of Mental Health and Mental Retardation (MHMR). This has impeded work flow in MHMR seriously, leaving them with the choice of not conducting audits timely, or not being in compliance with MAAP. DHS expects to catch up with federal audits within two years but not to be able to audit state funds. This leaves state funds vulnerable in both departments.*

It seems clear that the problems with MAAP are substantial and will not be resolved within the existing structure. At present, the existing structure encompasses eleven state agencies or departments, all with different goals and needs. We feel there are two broad alternatives that can be taken:

ALTERNATIVES

1a. *The nine member staff of the MHMR Audit Department be merged with the twenty-nine member audit staff of DHS and audit responsibility be broadened to include all funding* *to non-profit community service agencies.*

1b. The grants register be expanded to include all grants to non-profit community service agencies for health and social services, regardless of funding agency. It is expected that the major state agencies will be DHS and MHMR, with some grants, for example, those awarded by OSA, Corrections, and the Department of Transportation, also in need of auditing.

1c. The MAAP rules, now known as the "tan book" should be rewritten and necessary changes made to the statutes to reflect a workload the new department can realistically expect to accomplish without sacrificing federal compliance and the responsibility for auditing state funds.

2. MAAP be expunged. However, a Single Audit of agencies receiving funding over a federally specified level is still required, and auditing funds on a grant by grant basis will not be sufficient.

(19) Bureau of General Services - Division of Purchases

Finding: Inadequate system to monitor contract prices

The Division of Purchases maintains a competitive bid system to contract for supplies that the state needs. We surveyed eleven agencies and examined twelve commodities contracts and their related contract releases to determine if the control procedures for competitive bidding were adequate and functioning as designed. We found that the control system in place does not provide adequate monitoring to ensure that prices paid agree with the contracted amounts.

The Division of Purchases' formal policy is to monitor prices by ". . . testing one in twenty-five releases against any contract or vendor." The division also relies on the state agency receiving goods to review the purchasing contract and to pay the contracted amount.

Of the eleven agencies surveyed:

1. None had received copies of all contracts;

2. Three relied on their own reviews because the Division of Purchases had not detected overcharges; and

3. One relied exclusively on the division's reviews.

Of the twelve contracts examined:

1. Seven, with recorded fiscal year 1993 releases of $198,911, were not monitored by the division; and

2. One, for $46,800, had no recorded releases although our examination showed that payments had been made.

Through discussions with the division's staff we learned that buyers are responsible for distributing copies of contracts to personnel of the various state agencies. However, they send copies to agencies' station numbers not to individuals. Buyers do not know if the appropriate personnel actually receive the contracts. We also learned that one buyer monitors contract releases only for encumbered purchases. Buyers do not monitor other contracts because item descriptions are either too vague or the pricing too complex.

Recommendation:

We recommend that the Division of Purchases:

1. Clarify responsibilities for monitoring contract prices;

2. Distribute contract copies to responsible agency personnel rather than to station numbers; and

3. Require sufficient information to allow monitoring of contract release payments.

Auditee Response:

The current system used to monitor contract purchases is inadequate but the recommendations are not the best solutions. An automated purchasing system integrated with MFASIS is needed which would "lock" contract prices and vendors electronically to a Purchase Order. Agency personnel could have up-to-the-minute pricing of all contracts. This pricing would be correct and verifiable through the payment voucher screen. In lieu of the automated system, a list of agency contacts has been created to receive contract notifications. Sufficient information is available on contracts. Vendors are being notified to itemize pricing for ease in verification.

Department of Administrative and Financial Services (cont.)

(20) Bureau of General Services - Division of Risk Management

Finding: Inadequate segregation of duties for claim payments

The division should improve internal controls for claim payments less than $10,000. Currently, the director of the Risk Management Division can process and approve payment for claims less than $10,000. Claims for more than $10,000 must be approved by someone outside of the division.

Although someone other than the director enters the claims into MFASIS for payment, no one other than the director would normally review the files from which the claims were made. The director is also the Local Area Network (LAN) administrator for the division's LAN where the database for claims is maintained. As the administrator, the director is responsible for adjusting the database and creating reports from it.

Recommendation:

We recommend that someone other than the director of Risk Management approve payments for claims that the director has processed.

Auditee Response:

Agency did not respond.

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(21) Office of the Commissioner

Finding: General Fund balance overstated $1.9 million

According to PL 1991, Chapter 780 Section AA-1, the Maine Department of Transportation (MDOT) shall transfer $5 million of the excess revenues received from the Maine Turnpike Authority (MTA) to the General Fund by June 30, 1993. During fiscal year 1993, MDOT received and transferred only $3.1 million of the excess revenues from MTA. It recorded the remaining $1.9 million as a receivable in the General Fund. MDOT did not expect to receive additional revenues from MTA but felt the Highway Fund could be liable for the remaining $1.9 million. A transfer of highway funds to the General Fund would violate the Maine Constitution.

Department of Administrative and Financial Services (cont.)

Article 9 § 19 restricts use of motor vehicle and motor vehicle fuel (Highway Fund) revenues. All revenues derived from these fees and taxes must 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 and bridges, and 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.

Because MTA surplus funds were insufficient to support the $5 million transfer and because using Highway Fund monies would violate the Maine Constitution, the receivable in the General Fund is invalid. Consequently, at June 30, 1993 the fund balance in the General Fund is overstated by $1.9 million. MDOT and the Department of Administrative and Financial Services subsequently decided that the liability to the General Fund did not exist and reversed the entry.

Recommendation:

We recommend that the Department of Administrative and Financial Services ensure that all adjustments affecting fund balances and consequently the state's financial statements have appropriate support.

Auditee Response:

We agree.

For additional Department of Administrative and Financial Services' findings see #34 and #35.

Department Of Human Services

(22) Bureau of Medical Services

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Manufacturers' drug rebate due of $2.5 million not processed on time (Prior Year Finding)

The State of Maine receives rebates from drug manufacturers for Medicaid payments of outpatient prescription drugs. The Bureau of Medical Services (BMS) is attempting to resolve disputed rebates dating back to September 1991. According to BMS records, as of June 30, 1993 drug manufacturers owed the state $2.5 million. However, BMS personnel stated that this amount could be inflated due to manufacturers making subsequent price and quantity rate structure adjustments. 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 on the federal medical assistance rate.

Recommendation:

We recommend that BMS resolve the backlog of manufacturers' drug rebates so that amounts due the State of Maine from drug manufacturers can be realized as cost savings to the Medicaid program.

Auditee Response:

We have assigned three people to review these accounts. It will take several months to complete. The findings so far indicate that the amount is much smaller than the $2.5 million found in the audit. One indication is that we asked a vendor to review and assist us to catch up for a fee equal to 5 percent of total recoupment. After a review they declined and offered to assist for $16 per hour.

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(23) Office of Management and Budget - Division of Audit

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

Finding: Federal and state audit requirements not satisfied

The Department of Human Services (DHS) - Division of Audit is responsible for ensuring that audits of subrecipient nonprofit organizations satisfy federal and state audit requirements. DHS has not fulfilled this responsibility. The Division of Audit reviews audits prepared by independent public accountants. It also issues audit reports based on work performed by DHS auditors. The audits prepared by DHS do not satisfy either federal or state audit requirements.

Department of Human Services (cont.)

There are three levels of audit requirements, all of which require the auditor to comply with *Government Auditing Standards*.

1. <u>OMB Circular A-128, *Audits of State and Local Governments*</u>:

   This circular requires the recipient organization (the state) to ensure that subrecipients to which it provides $25,000 or more in federal funds expend those funds in accordance with applicable federal laws and regulations. This includes ensuring that subrecipients have appropriate audits in accordance with the applicable federal guidance. For nonprofit subrecipients this guidance includes OMB Circular A-133.

2. <u>OMB Circular A-133, *Audits of Institutions of Higher Education and Other Nonprofit Organizations*</u>:

   This circular establishes audit requirements for subrecipient nonprofit organizations. These requirements are based on the amount of federal assistance received: $100,000 or more requires an organization-wide audit; $25,000 to $100,000 requires either an organization-wide audit or a program-specific audit; and less than $25,000 requires no audit.

3. <u>MAAP, *Maine Uniform Accounting and Auditing Practices for Community Agencies*</u>:

   This manual establishes rules pursuant to Title 5 M.R.S.A., Chapter 148-B governing accounting and auditing practices for community agencies. Its provisions require state agencies to coordinate their audits of nonprofit agencies and to make various audit options available to the community agencies. If the federal and state funds provided are between $25,000 and $100,000, DHS auditors may conduct a "*single audit*" of the agency. MAAP defines a single audit as " . . . one financial and compliance audit of all funds contracted for between the State and community agency, excluding Medicaid . . . . ."

DHS has not satisfied its audit responsibilities.

1. Audits are not conducted in accordance with *Government Auditing Standards*. Audit reports do not comply with generally accepted governmental auditing standards. The reports do not refer to authoritative guidance, do not use consistent and correct terminology, and do not clearly identify the work performed or the subject on which an opinion is expressed. DHS issues a Report on Supplementary Schedule of Federal/State Financial Assistance. This report by itself does not meet requirements; however, it may be included. We note that the reporting standards to be followed vary

depending on the requirements to be satisfied. At DHS's request we offer the following comments on deficiencies in the content of this report.

1. The title should include "*Independent Auditors.*"

2. The report should be addressed the same as the report on the basic financial statements; however, there is no such report.

3. The first sentence should refer to the auditor's separate report on basic financial statements.

4. The report should refer to the schedule as additional information and not as a required part of the basic financial statements.

5. The report should state the information in the schedule was subjected to the procedures applied in the audit of the basic financial statements.

6. An opinion should be expressed that the information in the schedule is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

7. The report should be dated the same as the report on the basic financial statements; however, there is no such report.

8. The DHS's report reviewed stated that minor adjustments were required. This statement is not allowable. The financial statements are the responsibility of management. An opinion is expressed as they are presented. It is not acceptable to say the information is presented fairly as long as we make certain adjustments.

Additionally, auditors have not satisfied the qualifications standards. Some have not met continuing education requirements; DHS has not participated in an external quality control review program; and has not used due professional care to ensure that applicable reporting standards are followed.

2. Audits done by state agencies address only the funds provided by those state agencies. They do not address funds provided by other state agencies or other funds available to the subrecipient. The audits are not organization-wide. They do not include financial opinions on the organizations' financial statements. Therefore they do not satisfy OMB Circulars A-128 and A-133 and they do not satisfy the single audit requirement of MAAP.

Department of Human Services (cont.)

3. Audit requirements of federal funds less than $100,000 may be satisfied by program specific audits. If this option is selected, auditors must issue three reports for **each** federal program: an opinion on a program's financial statements, a report on a program's internal controls, and a report on a program's compliance with laws and regulations. This option is generally cost effective if an agency has only a single program. DHS prepared audit reports also do not comply with this option. Audit reports prepared by DHS do not comply with any standard reporting requirements.

We note that DHS has taken corrective action in other areas that were cited in past audits. DHS's system for desk reviews of audits prepared by independent public accountants appears to be functioning well. We also note that DHS cannot, by itself, correct all problems associated with MAAP. Legislative action may be necessary.

<u>Recommendation</u>:

We recommend that DHS reconsider its audit responsibilities. It will require extensive effort to bring DHS into compliance with *Government Auditing Standards*. A policy decision is needed on whether DHS should continue being required to follow these standards. Because DHS now audits less than ten subrecipients using federal funds, we recommend that DHS seek to revise or repeal MAAP so that all subrecipient federal funds will be audited by independent public accountants.

Because state agencies have been unable to comply with the MAAP audit coordination provisions, we recommend that these policies be amended or repealed.

<u>Auditee Response</u>:

We are responding to the three findings in the manner . . . it was developed.

1. *We find that MAAP audit requirements issued 7/1/80 conflict with Federal audit Circular A-133 issued 3/18/90 and effective 12/31/90.*

   MAAP requires state departmental auditors to conduct their audit based on the agreement financial claims submitted to the state. The MAAP financial claims were in the form of the Schedules of Federal and State Assistance and the Schedule of Agreement Operations. MAAP provided three sample reports to be used for meeting these MAAP audit responsibilities. (Reference MAAP pages 101 and 106 for sample scopes and reports to be used).

Department of Human Services (cont.)

Federal Circular A-133 was issued after MAAP. Federal Circular A-133 paragraph 12 and 15 address the subject of audit scope and audit reports. We have been audited by the State Audit Department for state fiscal year ending 6/30/91 and 6/30/92, a period of time under which Federal Circular A-133 had been in place without any indication that federal program specific audits must go beyond the financial claims or the awards, in that an audit report of the basic financial statements must be issued. It was only during the State of Maine federal single audit for 6/30/93, that the state auditor's uncovered via Federal Circular A-133's Q & A #21 & 22 (issued in June 1992) that a requirement existed that . . .the federal program specific audit must be extended to the basic financial statements for each CFDA.

In summary, MAAP requires a scope and a report at the agreement financial claims and awards level, while the federal government additionally requires scope and report at the basic financial statements level. The federal A-133 Q & A issuance of June 1992 and the state auditors report finding #172 as of 12/9/94 represent the first notification of this dilemma. We concur that MAAP needs to be amended or repealed to rectify this problem.

Regarding auditor's qualification, we have had several training sessions for audit personnel and several individuals have the met the GAS requirements.

We have contracted with a consulting firm to give us guidance in meeting our Peer Review requirements.

2. *Per MAAP the Lead state agency has responsibility to coordinate and publish the State's single audit report. Non Lead agency auditor's must participate, if requested in single audits (MAAP pages 23-26, and 99).*

   DHS is but one of ten state organizations falling within the MAAP definition of Department as contained on MAAP page 4 paragraph "Q". We have attempted several times to coordinate audits with these other state departments but to no avail. Seven departments either have no auditors or have auditors but they do not participate in MAAP audits.

   Additionally, DHS has been very active in the MAAP process having attended the initial training sessions initiated by the Department of Finance in the mid 1980's and having been integrally involved ever since its inception. We also have been active in the Commissioner of Finance's Advisory Committees over the ten year period of MAAP. It is a very well known fact that there are seven state departments who do not participate in MAAP audits. We concur with the state auditor that MAAP single audits do not include the funds of the other seven state Departments. We have aggressively tried to involve them and therefore wo do not concur that this finding should be *included in the DHS portion of the audit as we have met DHS responsibilities in as far as we could. This finding should be on those Department who refuse to participate in MAAP audits.*

Also, we have never been advised in the ten year history of MAAP to conduct audits for the non participating departments. Over the years, the Commissioner of Finance's office also has frequently tried to involve the other state departments to meeting its MAAP responsibilities, also to no avail.

3. *We have not prepared three reports for each federal program and we do not have an opinion on each program's financial statements. MAAP has not been updated to address this new revelation addressed in the June 1992 Federal Q & A issuance. Once again, Circular A-133 has been in existence since 12/31/90 and thereafter and, we have undergone audits by the state auditor for 6/30/91 and 6/30/92 with this being the first such notification in December of 1994.*

In closing, we would like to say that we strongly disagree to many of the phrases utilized in the State Auditor's development of this finding such as the references to . . .audits not conducted in accordance with GAS, not using due professional care, and reports not complying with any standard reporting requirement. . .etc. Because a standard is not adhered to is no reason to make a subjective judgement on our performance in relation to all standards. We believe we have acted in a professional manner and we have adhered to as many GAS standards and MAAP requirements as were within our control. Our Audit Division provides a very valuable and necessary service to both the State and Federal Government (taxpayers), but we have been caught in the logistical and structural web of MAAP. We do agree with the state auditor's recommendation for corrective action which is to repeal or amend MAAP.

Department of Mental Health and Mental Retardation

(24) Division of Accounting

Finding: An accounts receivable not established / No collection procedures for surplus balances due the state

An objective of internal control is accountability for assets. The Department of Mental Health and Mental Retardation (MHMR) - Division of Audit is responsible for auditing or coordinating audits of MHMR subcontracts that require audits. Besides showing questioned costs, these financial and compliance audits often reveal excess of revenue over expenditures (surplus). MHMR's administrative procedures allow the department to negotiate a subgrantee's future use of surplus balances. MHMR is currently developing a policy to require negotiations within sixty days of receiving the audit report. If there is no resolution within sixty days, surplus balances immediately become due and payable to the state.

As of September 1, 1994 MHMR identified over $53,000 of disallowed costs and surplus balances due the state. In addition, the department identified over $2 million in surplus balances that have not been negotiated. The department has not recorded $53,000 in disallowed costs and surplus balances on the Controller's records; and there are no procedures to ensure collection of receivable balances.

Recommendation:

In order to strengthen collection procedures for amounts due the state, we recommend that MHMR:

1. Establish accounts receivable on the Controller's records once the department determines the amounts due to the state;

2. Implement the proposed policy of negotiating surplus funds within a specific period;

3. Document the basis for allowing subrecipients to retain surplus balances;

4. Establish collection procedures to ensure prompt receipt of all monies due to the state; and,

5. Reduce grant payments to those subrecipients that do not comply with the resolution requirements.

Auditee Response:

We concur with the above recommendations and expect to achieve full implementation by April 1, 1995.

Department of Mental Health and Mental Retardation (cont.)

(25) Division of Audit

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

Finding: Federal and state audit requirements not satisfied

The Department of Mental Health and Mental Retardation (MHMR) - Division of Audit is responsible for ensuring that audits of subrecipient nonprofit organizations satisfy federal and state audit requirements. MHMR has not fulfilled this responsibility. The Division of Audit reviews audits prepared by independent public accountants. It also issues audit reports based on work performed by MHMR auditors. The audits prepared by MHMR do not satisfy either federal or state audit requirements.

There are three levels of audit requirements, all of which require the auditor to comply with *Government Auditing Standards*.

1. **OMB Circular A-128**, *Audits of State and Local Governments*:

   This circular requires the recipient organization (the state) to ensure that subrecipients to which it provides $25,000 or more in federal funds expend those funds in accordance with applicable federal laws and regulations. This includes ensuring that subrecipients have appropriate audits in accordance with the applicable federal guidance. For nonprofit subrecipients this guidance includes OMB Circular A-133.

2. **OMB Circular A-133**, *Audits of Institutions of Higher Education and Other Nonprofit Organizations*:

   This circular establishes audit requirements for subrecipient nonprofit organizations. These requirements are based on the amount of federal assistance received: $100,000 or more requires an organization-wide audit; $25,000 to $100,000 requires either an organization-wide audit or a program-specific audit; and less than $25,000 requires no audit.

3. **MAAP**, *Maine Uniform Accounting and Auditing Practices for Community Agencies*:

   This manual establishes rules pursuant to Title 5 M.R.S.A. Chapter 148-B governing accounting and auditing practices for community agencies. Its provisions require state agencies to coordinate their audits of nonprofit agencies and to make various audit options available to the community agencies. If the federal and state funds provided are between $25,000 and $100,000 MHMR auditors may conduct a "single audit" of the agency. MAAP defines a single audit as " . . . one financial and compliance audit of all funds contracted for between the State and community agency, excluding Medicaid . . . ."

MHMR has not satisfied its audit responsibilities.

1. Audits are not conducted in accordance with *Government Auditing Standards*. Audit reports do not comply with generally accepted governmental auditing standards. The reports do not refer to authoritative guidance, do not use consistent and correct terminology, and do not clearly identify the work performed or the subject on which an opinion is expressed. Additionally, auditors have not satisfied the qualifications standards. Some have not met continuing education requirements; MHMR has not participated in an external quality control review program; and has not used due professional care to ensure that all applicable standards are followed.

2. Audits done by state agencies address only the funds provided by those state agencies. They do not address funds provided by other state agencies or other funds available to the subrecipient. The audits are not organization-wide. They do not include financial opinions on the organizations' financial statements. Therefore they do not satisfy OMB Circulars A-128 and A-133 and they do not satisfy the single audit requirement of MAAP.

3. Audit requirements of federal funds less than $100,000 may be satisfied by program specific audits. If this option is selected, auditors must issue three reports for **each** federal program: an opinion on a program's financial statements, a report on a program's internal controls, and a report on a program's compliance with laws and regulations. This option is generally cost effective if an agency has only a single program. MHMR prepared audit reports also do not comply with this option. Audit reports prepared by MHMR do not comply with any standard reporting requirements.

We note that MHMR has taken corrective action in other areas that were cited in past audits. MHMR's system for desk reviews of audits prepared by independent public accountants appears to be functioning well. We also note that MHMR cannot, by itself, correct all problems associated with MAAP. Legislative action may be necessary.

Recommendation:

We recommend that MHMR reconsider its audit responsibilities. It will require extensive effort to bring MHMR into compliance with *Government Auditing Standards*. A policy decision is needed on whether MHMR should continue being required to follow these standards. Because

Department of Mental Health and Mental Retardation (cont.)

MHMR now audits less than ten subrecipients using federal funds, we recommend that MHMR seek to revise or repeal MAAP so that all subrecipient federal funds will be audited by independent public accountants.

Because state agencies have been unable to comply with the MAAP audit coordination provisions, we recommend that these policies be amended or repealed.

Auditee Response:

1. *We recognize that the audit report language is in need of revision and that will be accomplished in the near future.*

2. *We will continue to strive to achieve the 80 hour CPE requirement for all audit staff.*

3. *The department will explore further the requirement to participate in an external quality control review.*

4. *We do believe that we have used due professional care when conducting our audits.*

5. *MAAP rules are vague and do not specifically state that any particular audit unit will be responsible for all state and federal funds from all state departments issuing agreements to a particular subrecipient. Our jurisdiction is within our own department as MAAP required all department to be responsible individually.*

6. *State audit units do not conduct organizational-wide audits. Those statements are the primary responsibility of the public accountant. Likewise, major federal programs are also covered by the IPA in accordance with A-133 and MAAP.*

7. *Most, if not all, our agreements do not contain more than one federal CFDA under $100,000. Thus, we do issue the required reports as indicated in the finding. However, our reports do not specifically indicate the particular federal program audited. There are a few agencies receiving federal funds under $100,000 and we have audited them in accordance with applicable rules and regulations. Our work papers would attest to this fact. If MAAP rules are repealed the IPA could be responsible for the few remaining agreements we have requiring a program specific audit.*

Maine State Retirement System

(26) <u>Finding</u>: Contributions not accrued to reflect contributions receivable at year-end

The Maine State Retirement System (MSRS) does not accrue contributions to reflect receivables at year-end. The employee and the employer contributions are based on a percentage of earnable compensation. Contributions on June earnings are generally not received until July but no attempt is made to accrue this revenue. According to the Codification of Governmental Accounting and Financial Reporting Standards, Section 1600.106, "Revenues and other governmental fund financial resources . . . are recognized when they become susceptible to accrual--that is when they become both measurable and available to finance expenditures of the fiscal period."

We estimate contributions receivable at June 30, 1993 to be $21,059,665 with a net increase in revenue of $4,521,459.

<u>Recommendation</u>:

We recommend that MSRS implement a process to accrue contributions for financial reporting purposes.

<u>Auditee Response</u>:

The MSRS agrees with this finding and is currently in the process of developing an accounting system to maintain the System's records on the accrual basis. As of July 1, 1993, when the System became an independent agency, management decided to move to the accrual system but required time to develop its own accounting system before changing past accounting practices.

In the past, employer contributions were not accrued at year-end and no audit findings concerning this issue were reported. The System assumed that since the State maintained its records on the cash basis, accruals would be unnecessary and could in fact overstate certain accounts if the State did not make corresponding entries.

Finally, although the trust fund balances will increase by the stated amount, revenue accounts for the year will be affected by net of the $21 million and whatever the previous year's accrual should have been. Due to time constraints for our audit response, we are unable to calculate an exact amount for the previous year, but we estimate the difference to be approximately 10% or $2-3 million between the two years.

Maine State Retirement System (cont.)

(27) Group Life Insurance Program

Finding: Life insurance premiums paid do not agree with coverage elected

The Group Life Insurance Program does not verify that insurance premiums received correspond to insurance coverages elected. There is no written policy requiring group life personnel to verify insurance premiums. Group life appears to rely solely on the payroll reports submitted by outside entities.

In some instances premiums collected do not correspond to the level of insurance coverage selected by participants. Insurance claims are paid based on group life records of elected coverage. As a result, the premiums collected may be inadequate to accumulate sufficient resources to pay claims when due.

Recommendation:

In order to accumulate sufficient resources to pay claims when due, we recommend that the Group Life Insurance Program initiate formal written policies to verify that premiums received correspond to insurance coverages elected.

Auditee Response:

The System is aware of this situation and has taken steps to address it. The insurance program has been maintained on a manual system since inception with the records now being converted to magnetic media. Upon completion, controls over the program will be much improved and differences between coverages and premiums paid will be greatly diminished. In addition, the System has recently employed an individual with insurance experience to handle the Life Insurance program, recognizing the need to improve our capacity to focus on the needs of the program. Finally, the System has received guidance from the Attorney General's office in managing the program until the automated recordkeeping systems become available.

Department of Secretary of State

(28) Bureau of Motor Vehicles

Finding: Insufficient internal control for registrations (Prior Year Finding)

Department of Secretary of State (cont.)

Control procedures are insufficient to ensure that all registrations issued by municipal agents are reported to the Bureau of Motor Vehicles (BMV). There is no reconciliation of the number of registrations assigned and distributed to agents versus the number of registrations that agents issued. Also, no audit trail exists between registrations recorded on the BMV computer system and the related reports and deposits of agents.

Recommendation:

We recommend that the bureau periodically reconcile the total number of motor vehicle registrations reported as issued by municipal agents to the total number of registrations distributed to the agents. The bureau could also verify registrations through another method.

Auditee Response:

Agency did not respond.

Department of Transportation

(29) Bureau of Finance and Administration

Finding: Unrecorded liability for construction contract retainage

According to Title 23 § 52-A, in any contract awarded by the Maine Department of Transportation for construction and maintenance of public highways, bridges and other structures, the Department may withhold up to five percent of the money due the contractor until the project under the contract has been accepted.

The Maine Department of Transportation (MDOT) does not record the expenditure and the liability for the retainage withheld. On June 30, 1993, the Highway Fund balance was overstated and liabilities understated by $1,695,080.

Recommendation:

We recommend that MDOT ensure the liability is recorded on the state's accounting records.

Auditee Response:

The Department of Transportation (MDOT) is in agreement that the retainage withheld for construction and maintenance of public highways, bridges and other structures should be recorded following GAAP. The Department of Finance and Administration, Bureau of Accounts and Control has requested the necessary information of retent being held as of June 30, 1994, so that their office staff may assume the responsibility of recording this year-end adjusting entry.

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(30) Bureau of Finance and Administration
Bureau of Project Development

Finding: Inadequate control over reimbursements due from local governments

The Maine Department of Transportation (MDOT) shares the cost of many construction projects with local governments. Accounting and administrative controls for these projects are inadequate. Amounts not promptly reimbursed to MDOT by the local governments represent unauthorized loans of taxpayer money. Most of the construction agreements consist of two types: cost sharing, and actual costs for any additional work requested by a local government. Control procedures differ for the two types.

Cost sharing agreements include either a specific amount that a local government commits to pay or a set percentage of the total costs. Once a contract is awarded, the MDOT Public/Municipal Coordinator prepares and mails an invoice to the local government for its portion of the project. The MDOT Bureau of Finance and Administration (Finance) receives a copy of the invoice and records the revenue and the accounts receivable on state accounting records. Because invoices are mailed and corresponding accounts receivable established within thirty days of the contract award, it is probable that construction work is not complete. A receivable does not exist for work that has not been not been performed, and any monies received represent a liability. Internal control over billing and receiving is weak because the Coordinator controls what information Finance receives. The Coordinator may fail to bill and thus not collect amounts due; or may fail to notify Finance and thus recorded receivables are understated. The Coordinator is also in a position to bill and collect receipts without others knowing.

For the second agreement type, actual costs for additional work, local governments are not billed until the project is complete. MDOT records project payments as expenditures of the Highway Fund. Entries to record the local share, i.e., reimbursement due, are not made until the project is complete, perhaps years later. MDOT relies on the Office Engineer to identify, track and notify Finance of the amounts to be billed. Finance has no way to know what is due back to the state. Finance establishes accounts receivable in the Other Special Revenue Fund and then transfers reimbursements that are received back to the Highway Fund. Therefore, Highway Fund expenditures are overstated and fund balance understated for amounts expended but not reimbursed to that Fund. Other Special Revenue Fund assets and fund balance are overstated for amounts billed and not reimbursed to the Highway Fund. Because Finance is not advised of any transactions until late in the entire process, there is an increased probability that MDOT does not receive all amounts that are due from local governments.

Other MDOT areas account for construction projects in different ways. There is no procedural consistency. At our request, MDOT Finance attempted to quantify the amount due back to the state but could not because of the disparities in procedures followed. Information recorded in MDOT computers is not cross referenced; therefore one cannot match expenditures with invoices or with reimbursements. MDOT estimates that it collects about $3 million a year in reimbursements from local governments. It does not believe that the unrecorded amounts due back to MDOT are more than that.

Recommendation:

We recommend that MDOT strengthen its accounting and administrative controls over construction projects in the following ways:

1. Provide Finance with current and complete information on all amounts disbursed that must be reimbursed to MDOT, and that it ensure that Finance properly account for this information on state accounting records;

2. Establish a coding system that will allow it to account for specific activity of each project;

3. Review and segregate duties so that no one employee, such as an engineer or coordinator, can prepare invoices, mail them, and collect payments; and

4. Advance or lend monies to other units of government only when it has authority to do so.

Auditee Response:

1. MDOT is considering this recommendation and has addressed it in future budget needs by requesting additional staff to ensure that Finance and Administration properly accounts for all amounts disbursed on state accounting records.

2. *MDOT's project accounting system, PROMIS, does maintain accountability to local funding entities and desired information is available to monitor agreements and to bill local governments.*

3. *Steps are being taken to review and segregate duties so that no one employee can prepare invoices, mail them and collect payments. The program personnel will be responsible for preparing invoices and the finance personnel will be responsible for mailing the invoices and collecting the payments.*

4. *MDOT agrees that the billing process should be made in a timely basis.*

(31) Bureau of Finance and Administration Right of Way Division

Finding: Loans made to utility companies without Legislative authorization and without sufficient accounting procedures

The Maine Department of Transportation (MDOT) made long-term loans to certain municipalities and utility districts without being authorized to do so. The department made the loans primarily for utility construction projects in northern sections of the state. Loan terms varied: interest was charged to one utility but not to others; and repayment periods ranged from five to twenty years.

MDOT not only assigned engineers to enter into the loan agreements but also assigned them, rather than accounting personnel, to manage the loans and collect the payments. Their accounting records did not reflect amounts due back to the state. The department did not establish a formal system to track the amounts loaned or repaid. Records were incomplete and all amounts loaned may not have been recovered.

Engineers researched current project files and identified amounts due as of July 21, 1994:

Loan agreements	Amount
Ashland	$220,000
Baileyville	236,000
Mars Hill	23,000
Houlton*	227,000
Other**	72,380
Total	$778,380

Department of Transportation (cont.)

Of these, Houlton* had no formal loan agreement; work was done as part of an existing contract; there was a $150,000 down payment; and the total project amount was $377,000. Not all projects represented in Other** were completed.

We note that closed project files have not been reviewed. These files could document other work for which there were no billings and no recorded receivables.

Loan agreements made before July 14, 1994 were not authorized. However, as of that date, Chapter 656, Public Laws 1993, § 1 authorized MDOT to make these types of loans.

Recommendation:

We recommend that MDOT:

1. Make only authorized loans;

2. Assure that accounting records are complete and that only accounting personnel maintain the records;

3. Segregate authority to loan, bill, and collect monies due the state; and

4. Review closed project files to ensure that all monies due have been billed and collected.

Auditee Response:

1. *This situation has been resolved as of July 14, 1994. Chapter 656, Public Laws 1993, section 1 authorizes MDOT to make loan agreements with Utility companies.*

   The Mars Hill Utilities District balance of $22,880 is not a loan authorized by MDOT. The Utility was billed for the full amount of $22,880. The Utility did not pay the debt, so MDOT's legal staff, in an attempt to collect the debt, negotiated a payment schedule for a 5 year period.

   The other amounts listed in the finding, are not loans, but are normal utility agreements that MDOT has historically entered into with Utilities through the Chief Engineer's Office. These agreements allow MDOT's contractor to perform necessary utility improvements concurrent with the highway construction and the Department has been reimbursed by the utility for the additional costs.

2. *Steps are being taken to insure that accounting records are complete and accounting personnel maintain the proper records.*

3. *Steps are being taken to review and segregate duties so that program personnel are responsible for establishing loan agreements and finance personnel are responsible for billing and collecting monies due the state.*

4. *A review of utility agreements will be addressed with the Utility Engineer.*

(32) Bureau of Transportation Services

Finding: Accounting records not in an auditable format

Detail asset records and the worksheets which support depreciation calculations for both the Island Ferry Services and Marine Ports Funds were not initially available in an auditable format. As of the balance sheet date, fixed assets net of accumulated depreciation for these two funds were $5.4 million and $20.5 million respectively. At the request of the Department of Audit, personnel from the Department of Transportation reconstructed fixed assets and accumulated depreciation schedules.

Recommendation:

We recommend that the Bureau of Transportation Services coordinate with the State Controller's office to determine what records, schedules, reconciliations, etc. are needed for audit purposes. In addition, the agency with the assistance of the Controller's office should determine the format of this information that is most suitable for audit purposes.

Auditee Response:

We will discuss this issue with the state Controller's office at our earliest convenience.

Office of Treasurer of State (cont.)

(33) Finding: Inadequate segregation of duties (Prior Year Finding)

The Treasurer's office manages certain trust funds. One person not only authorizes but also records and reconciles investment transactions for these trust funds. The absence of segregation of duties weakens the control structure so that it does not provide reasonable assurance that assets are safeguarded against loss from unauthorized use or disposition. Trust fund balances at risk exceeded $11 million at June 30, 1993.

Recommendation:

In order to strengthen internal control over trust fund activity, we recommend that the Treasurer's office segregate the duties for authorizing, recording and reconciling investment transactions.

Auditee Response:

The Treasurer's Office does not authorize investment transactions. The Trust Committee does that or gives contracted investment advisors the blanket authority. Transactions completed are then revised at the next meeting of the trustees. The Fiscal Assistant then approves the investment journals.

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(34) Finding: Unrecorded state bank accounts

Various state agencies held over $5.0 million in bank accounts that were not recorded on the Treasurer's or Controller's records as of June 30, 1993.

Title 5 M.R.S.A. § 131 states:

> Every department and agency of the state . . . collecting or receiving public money or money from any source whatsoever, belonging to or for the use of the state . . . shall pay the same immediately into the State Treasury. . . .

It also says:

> . . . any department or agency may deposit such money to the credit of the state upon communicating with the Treasurer of State and receiving from the Treasurer of State instructions as to what state depository may be used for that purpose and in every such case the depositor shall send to the Treasurer of State a statement of the deposits certified by the bank receiving it.

Title 5 M.R.S.A. § 1541.1 states:

> . . . the Department of Administrative and Financial Services, through the Bureau of Accounts and Control, has authority to maintain an official system of general accounts . . . embracing all the financial transactions of the state government."

Recommendation:

In order to control accounts and ensure that they meet statutory requirements, we recommend that the Treasurer's office maintain a current listing of all state-held bank accounts We further recommend that the Controller establish procedures to ensure that year-end financial reports include all authorized state accounts.

Auditee Response:

Office of the Treasurer

The Treasurer will send out a memo to state agencies advising them to record any and all funds with the Treasurer who will prepare an entry on the records of the Controller. . . .

Accounts and Control

The Office of the Treasurer agreed to send memos to all agencies advising them to record all such accounts in the state accounting system.

---

(35) Finding: Year-end cash variance between Controller and Treasurer (Prior Year Finding)

During fiscal year 1993 the Controller reconciled cash balances with the Treasurer; however, a $3.5 million variance existed at June 30, 1993. Most variances were identified, documented, and correctly posted in the subsequent fiscal year.

In February 1991 the Controller's office manually typed a $4.1 million check for immediate payment on a contract. The Controller's office did not advise the bank so it could record the check as outstanding. Therefore, the bank posted the disbursement on its reconciliation as "checks paid, not reconciled."

In addition, the Controller's office did not advise the Treasurer's office so it could post the warrant. The Treasurer and bank were recently notified and have recorded the disbursement.

Office of Treasurer of State (cont.)

Other adjustments included a treasury posting of $205,000 for those warrants not posted since 1987. The treasury also posted $545,000 of previously unrecorded receipts to the Department of Labor accounts. This variance was $189,000 at March 1994.

Recommendation:

We recommend that the Treasurer and Controller (1) make necessary corrections for any remaining variances; and (2) continue monthly reconciliations.

Auditee Response:

Office of the Treasurer

The Treasurer and Controller reconcile currently on a monthly basis. The $189,000 has been corrected to a 4 or 5 thousand dollar miscellaneous adjustment.

Accounts and Control

We are reconciling on a monthly basis. The amount of difference now is less than $5 thousand which is immaterial for your audit purposes. We are still working on this reconciliation.

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Compliance 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, 1993, and have issued our report thereon dated December 21, 1994.

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, the objective of our audit of the component unit financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance consist of 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 instance of noncompliance, the effects of which have been corrected in the 1993 component unit financial statements of the State of Maine.

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

During fiscal year 1993 the State of Maine issued General Obligation Tax Anticipation Notes (TANs) amounting to $170 million. The proceeds were credited to the General Fund for current expenses. In June 1993, the Treasurer's office repaid $176,357,292, the TAN principal and interest due.

Although all parties to the TAN issue knew that the interest-due payment was to be from interest earned on investment of the proceeds, there was no appropriation for that expense included in the state budget. Article 5, Part 3 §5 of the Maine Constitution 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, Article 5, Part 3, §4 of the Constitution and 5 M.R.S.A. §1543 state that no funds shall be drawn from the state treasury except as authorized by appropriations. Because of the method used to account for the TAN interest earnings and expenses, General Fund revenue was understated by $6,027,668 and expenditures by $5,406,992. In addition, General Fund cash pool earnings did not cover interest costs on the notes.

Recommendation:

Although the 1992 and 1993 fiscal year audits of the Office of the Treasurer of State revealed the noncompliance with debt payment procedures, the state legislature did appropriate funds for paying interest expense on the 1994 TANs. Accordingly, we do not recommend corrective action.

Auditee Response:

The Treasurer's office has implemented the recommended changes.

We considered this instance of noncompliance in forming our opinion on whether the State of Maine's 1993 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 December 21, 1994 on those component unit financial statements.

Except as described above, the results of our tests of compliance 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 December 21, 1994.

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

December 21, 1994

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

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, 1993, and have issued our report thereon dated December 21, 1994.

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, 1993:

- 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
State Auditor

December 21, 1994

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

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, 1993, and have issued our report thereon dated December 21, 1994.

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, 1993. 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 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, 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, 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

December 21, 1994

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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, 1993, and have issued our report thereon dated December 21, 1994.

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, 1993.

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

Rodney L. Scribner, CPA
State Auditor

December 21, 1994

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Findings and Questioned Costs

State of Maine
Schedule of Compliance Findings and Questioned Costs
For the Year Ended June 30, 1993

Department of Administrative and Financial Services

(36) Bureau of General Services

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

Finding: Federal procurement provisions not included in purchase orders and contracts

The Office of Management and Budget (OMB) Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule), § .36 Procurement, states the following: " The State will ensure that every purchase order or other contract includes any clauses required by Federal statutes and executive orders and their implementing regulations."

A grantee's and subgrantee's contract must contain the provisions of paragraph (i) in section 36 of the Common Rule. The Bureau of General Services, which administers all purchase orders and contracts, does not include the following provisions:

1. Section 306 of the Clean Air Act [42 U.S.C. 1857 (h)], section 508 of the Clean Water Act [33 U.S.C. 1368], Executive Order 11738, and Environmental Protection Agency regulations [40 CFR, Part 15];

2. Davis-Bacon Act [40 U.S.C. 276a to a-7] as supplemented by the Department of Labor regulations [29 CFR, Part 5];

3. Sections 103 and 107 of the Contract Work Hours and Safety Standards Act [40 U.S.C. 327-330];

4. Copeland "anti-kickback" Act [18 U.S.C. 874] as supplemented by the Department of Labor regulations [29 CFR, Part 3].

Recommendation:

We recommend that the Bureau of General Services include federal procurement provisions in all purchase orders and contracts that use federal monies.

Auditee Response:

We are researching some of these issues and will respond more fully as soon as possible.

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(37) Bureau of Human Resources - Employee Health Insurance Program

CFDA #: Various Federal Programs **Questioned Costs:** $204,983

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

In July 1993 the State of Maine received refunds of $1,563,072 accrued in fiscal year 1993 because of excess premiums paid to Blue Cross and Blue Shield. As required by Chapter 6 Public Laws of 1993, amounts refunded were deposited as undedicated revenue to the General Fund.

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 from excess premiums. Therefore, the Federal Expenditure Fund should have received $204,983 from the refunds based on the federal proportional share, including Medicaid, of 20.2 percent of employer paid premiums.

Recommendation:

We recommend that the department credit federal programs with their share of refunds.

Auditee Response:

The department is currently working with the federal division of cost allocation on the resolution of this finding.

Department of Administrative and Financial Services (cont.)

(38) <u>CFDA #</u>: Various Federal Programs **<u>Questioned Costs</u>:** $139,000

<u>Finding</u>: Deallocated funding not credited to federal programs

The Office of Management and Budget (OMB) <u>Cost Principles for State and Local Governments</u> (Circular A-87), Attachment A, Paragraph C states that allowable costs for federal programs should be net of credits.

Chapter 780, Public Laws of 1991 deallocated $706,310 from the Internal Service Funds and transferred the cash to the General Fund. This amount was based on a reduction in the state employees' work week, a reduction of the annual salary for those employees earning more than $50,000 a year, and a 0.9% across-the-board budget reduction. A portion of the deallocated amount should have been credited to federal programs since those programs paid for services provided by the Internal Service Funds at the same rates as the General Fund.

<u>Recommendation</u>:

We recommend that the department return the federal share of the deallocation to the federal programs.

<u>Auditee Response</u>:

We are not able to do the research necessary to properly answer this finding in the time allowed us. We will however, be doing so and will respond to the Audit Department as soon as possible.

(39) <u>CFDA#</u>: Various Federal Programs **<u>Questioned Costs</u>:** $3.6 million

<u>Finding</u>: Federal programs overcharged for retirement contributions

Chapter 591 Public Laws of 1991, and Chapter 66 Private and Special Laws of 1991 deappropriated $9,370,000 from the General Fund and $1,674,100 from the Highway Fund for employer contributions to the Maine State Retirement System (MSRS) for employees whose salaries are paid from those funds. Chapter 591 also deappropriated $16,180,000 from the General Fund for employer contributions for teachers. The MSRS recognized receipt of the contributions for the state funded employees and then returned the deappropriated portion of contributions to the respective funds by journal entries. The employer contributions for teachers were net of the deappropriation when received by the MSRS. The federally funded programs did not receive an equivalent reimbursement of contributions. Therefore, federally funded programs paid an employer contribution rate that was higher than the effective rate for the General and Highway Funds.

This resulted in an increase in the pension system's unfunded liability which will result in higher future contribution rates. The resulting overpayment for federally funded employer contributions is approximately $3.6 million. This overpayment was calculated using a ratio of deappropriated General Fund contributions to total General Fund contributions and applying the same ratio to total federal contributions for state employees and teachers.

We note that a similar finding with a questioned cost of $5.8 million was developed in the 1992 audit.

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 other activities. According to Circular A-87 Attachment A, Part B, Paragraph 1g the total cost should be net of credits.

Recommendation:

We recommend that the state comply with Circular A-87 and equitably distribute expenses incurred for employer contributions to pension plans. We also recommend that the state appropriately credit federally funded programs.

Auditee Response:

Agency did not respond.

Department of Agriculture, Food and Rural Resources

(40) Division of Resource Development

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

Department of Agriculture, Food and Rural Resources (cont.)

Finding: Noncompliance with contract provisions

The Department of Agriculture, Food and Rural Resources, as the distributing state agency, contracts with a third party to store commodities for CFDA # 10.569, Temporary Emergency Food Assistance, and CFDA # 10.571, Food Commodities for Soup Kitchens.

According to Title 7, CFR § 250.14(d):

> When contracting for storage facilities, distributing agencies and subdistributing agencies shall enter into written contracts to be effective for no longer than one year. The contract may be extended at the option of both parties for two additional one-year periods. . . . The contract shall, at a minimum, contain the following. . . .
>
> (6) A provision allowing for termination of the contract for cause by either party upon 30 days written notification;
>
> (7) The amount of any insurance coverage, which has been purchased to protect the value of food items which are being stored. . . .

The distributing agency's current contract with a storage facility spans approximately twenty-seven months. The contract has no termination provision " . . . for cause by either party, upon 30 days written notification " . . . and does not include the amount of insurance coverage purchased.

Recommendation:

We recommend that the distributing agency, comply with all of the federal Department of Agriculture's provisions when contracting for storage facilities.

Auditee Response:

The special services' contract between the Maine Department of Agriculture and a storage facility clearly does not comply with federal regulations as to time. We are not clear on how or why the contract period was in excess of one year. There is language in the contract that allows the department to suspend work on the contract or to terminate the contract for cause. The agreement does not offer the same opportunity for the contractor.

As a result of the audit we have questioned the amount of insurance the storage contractor carried. The president said he secured a $100,000 bond on the advice of a former school lunch program director and believed he had complied with the provisions of the agreement. The Maine Department of Agriculture believed the bond did not adequately secure the level of food in storage at any given time and asked the contractor to secure $500,000 in insurance. The storage facility has agreed to purchase a bond in this amount and assign it specifically to the Temporary

Emergency Food Assistance (TEFAP) and Food Commodities for Soup Kitchens programs.

The Maine Department of Agriculture will contact the Bureau of Purchases to find how it can alter the existing contract so that it complies with all federal regulations, particularly those regarding the length of the contract and termination.

---

(41) Division of Resource Development

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

Finding: Inventories not reconciled

According to the contract between the state agency and the storage facility which houses the commodities for CFDA # 10.569, Temporary Food Assistance, and CFDA # 10.511, Food Commodities for Soup Kitchens, the state agency agreed ". . . to reconcile inventories monthly."

The state agency reconciled its inventory records to an inventory count only one time during the audit period.

Recommendation:

We recommend that the state agency either comply with the contract or amend the terms to reconcile less often.

Auditee Response:

The Maine Department of Agriculture is now conducting physical counts at least every six months and reconciling with the warehouse monthly based on activity. We think that the new procedure is adequate for the purpose of controlling commodities and complying with the written contract. We agree that at the time of the audit our procedure was not in compliance but believe that we are now in compliance.

Department of Agriculture, Food and Rural Resources (cont.)

(42) Division of Resource Development

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

Finding: Records requirements and storage facility standards not met

According to the Code of Federal Regulations, 7 CFR, § 250.14(b):

> Distributing agencies . . . shall provide facilities for the handling, storage and distribution of donated foods which: (4) stock and space foods in a manner so that (U.S. Department of Agriculture) USDA - donated foods are readily identified.

According to 7 CFR, § 250.16 (a):

> Accurate and complete records shall be maintained with respect to the receipt, distribution/ use and inventory of donated foods . . . .

Year-end physical counts of stored commodities for CFDA # 10.569, Temporary Emergency Food Assistance, and CFDA # 10.771, Food Commodities for Soup Kitchens revealed the following:

1. U.S. Department of Agriculture (USDA) food was not maintained in distinctly identifiable lots as required in the storage facility contract; for seven out of nineteen commodities the warehouse had no records to identify which ones were tied to which program; and

2. One stock item for the Temporary Emergency Food Assistance program (CFDA #10.569) was not separated from stock for the National School Lunch program.

Deficiencies were discovered during the annual inventory. The state agency took corrective action and notified storage facility management as to policies and procedures needed to correct the problem.

Recommendation:

In order that USDA foods may be readily identified while in storage, we recommend that the state agency enforce both records requirements and storage standards.

Auditee Response:

Since the audit occurred, the state agency has held meetings with the management of the food storage facility and with warehouse personnel to enforce this recommendation. At the present time all food is maintained in distinctly identifiable lots; lots are rotated and are physically distinct from one another. The new storage and records procedures meet and exceed the audit recommendation.

Department of Economic and Community Development

(43) Office of Community Development

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

Finding: Incorrect CFDA number promulgated by recipient to subrecipients

When a recipient provides federal funds to a subrecipient, the recipient must clearly identify the source of funding as well as the administrative requirements imposed on the subrecipient. This facilitates the audit and the independent auditor's report.

We reviewed twenty-five subrecipient audits and observed that the Office of Community Development (OCD) promulgated the incorrect program identifying number (CFDA) to all of these subrecipients. Each of the twenty-five subrecipients' Schedule of Federal Financial Assistance referenced CFDA #14.219 which is the Community Development Block Grants/Small Cities Program. Although it is related to the Community Development Block Grant (State's Program), it is a distinctly different program with its own specific compliance requirements. Dissemination of the wrong CFDA number could result in a subrecipient's independent auditor checking for compliance with the wrong program regulations.

Recommendation:

We recommend that OCD promulgate the correct CFDA number on its subgrant contracts to facilitate the audit process.

Department of Economic and Community Development (cont.)

Auditee Response:

OCD acknowledges this administrative failure. The situation was corrected as of January, 1994.

(44) 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 (Prior Year Finding)

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

1. Report disbursements in columns (c) and (d) of the continuation report;

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, 1992, December 31, 1992 and June 30, 1993 within fifteen working-days 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.

Report Period	Due Date	Submission Date	Number of Days Late
07/01/92-09/30/92	10/21/92	10/28/92	7
10/01/92-12/31/92	01/25/93	1/28/92	3

Recommendation:

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

Auditee Response:

OCD has been trying to accurately report disbursements; however, the state regularly uses older *allocations to pay current grantees and the tracking system for the purposes of the SF272 has not been developed. The reports have been reconciled with MFASIS since this issue was raised during the last audit. OCD will continue to prepare the reports within the required fifteen working days after the end of each quarter.*

(45) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** $41,278

Finding: Noncompliance with subrecipient payment guidelines

The Department of Economic and Community Development (DECD) has established the following guidelines regarding disbursements made to its subrecipients:

1. The Request for Payment form must be signed and dated by the person(s) authorized on the signature page of the contract; if the subrecipient contract with DECD designates that two people sign requests for payment, then those two signatures must be on the Request for Payment before it is processed for payment;

2. An itemized list of expenses for a request must be attached to the Request for Payment form; the Request for Payment will not be processed unless this list accompanies it;

3. Cash on hand in excess of $5,000 for a subrecipient must be disbursed within three business days; if the subrecipient violates the three-day - $5,000 rule, correspondence must be sent to its project development specialist specifying why the violation occurred and when the funds will be expended.

We tested twenty-five payments made to subrecipients and observed the following:

1. Two of twenty-five Requests for Payment forms were not signed by the proper subgrantee designates; there was only one signature on a Request for Payment when two were required;

2. Two contract payments were made to a subrecipient after the contract expiration date and, as a result, we question costs of $41,278;

3. Eight of twenty-five Requests for Payment did not have an itemized list of expenses attached to the requests;

4. Four of twenty-five subgrantees had cash on hand in excess of $5,000 and therefore violated the three-day - $5,000 rule; and no correspondence could be located at the state agency specifying why these violations occurred.

Recommendation:

We recommend that DECD follow its established guidelines when making disbursements to its subrecipients.

Auditee Response:

For items #1, #2, & #4, OCD acknowledges the finding and will follow the prescribed recommendation. For observation #3, further clarification is necessary to enable OCD to respond in an informed manner.

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(46) Office of Community Development

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

Finding: Inadequate subrecipient monitoring efforts (Prior Year Finding)

The Department of Economic and Community Development (DECD), through the Office of Community Development (OCD), is responsible for conducting reviews of local government recipients to ensure compliance with applicable laws and regulations.

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

1. Seven had general review questionnaires which were incomplete;

2. Eighteen had review results that were not communicated promptly;

3. One questionnaire could not be located; and

4. For two subrecipients, we could not determine whether the environmental review monitoring piece was conducted due to unlocated or incomplete monitoring questionnaires.

Recommendation:

We recommend that OCD review the monitoring questionnaires before releasing the results; communicate the results of all subrecipient monitoring reviews on time; track and resolve deficiencies detected as soon as possible; and, until the federal audit is completed, retain all documentation of program monitoring.

Auditee Response:

OCD acknowledges the finding and has already taken corrective actions, in keeping with the recommendations, to correct this problem. The fourth item of the finding appears to be redundant and included in either #1 or #3.

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(47) Office of Community Development

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

Finding: Documentation for monitoring not located

We reviewed the state's monitoring efforts to ensure that its subrecipients complied with Relocation Assistance and Real Property Acquisition Requirements. We could not locate the monitoring checklists for three communities that verified or supported whether reviews were conducted.

Recommendation:

We recommend that, until the federal audit is completed, the Department of Economic and Community Development retain all records that document monitoring efforts.

Auditee Response:

OCD concurs with the finding. We continue to search for the documents cited.

Department of Economic and Community Development (cont.)

(48) Office of Community Development

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

Finding: Subgrantee quarterly reports not reviewed and approved / Inaccurate reporting of low/moderate-income expenditures

The Housing and Community Development Act requires each state to certify that the aggregate use of the Community Development Block Grant (CDBG) funds, received over a period specified by the state not to exceed three years, shall principally benefit low and moderate income (LMI) persons. The Office of Community Development (OCD) relies on its subgrantees to report LMI expenditures on the required quarterly financial reports. Project development specialists at the state agency must review and approve the reports.

We examined state records for the period July 1, 1990 through June 30,1993 to verify that seventy percent of the funds made available to local governments were for activities that benefitted LMI persons. We found the following inadequacies:

1. Source documents for two subgrantees showed that LMI expenditures did not agree with the amounts reported to HUD;. as a result, LMI expenditures were overreported by $500.85 and underreported by $579.61; and

2. Two quarterly reports, prepared by program subrecipients, were not reviewed and approved by state agency personnel as required.

Recommendation:

We recommend that OCD carefully review source documents before compiling and reporting LMI benefits data to HUD; and that state agency personnel review and approve all subrecipient quarterly financial reports.

Auditee Response:

OCD does not contest that two of approximately one hundred quarterly reports examined did not show evidence of review. It is quite possible that the documents were reviewed but program personnel inadvertently failed to place their initials and the date on the document. In the future, OCD will ensure all reports reviewed contain verification that the review took place.

OCD does not contest the reporting discrepancy of $78.76. It is believed the audit finding fails to place the discrepancy in the proper context, of $24,427,892 in total expenditures. OCD will carefully review all source documentation in the future as recommended.

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(49) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs:** $28,845

Finding: Noncompliance with Environmental Review Procedures

Each state must assume the environmental oversight responsibilities and functions of the Department of Housing and Community Development (HUD) under Section 104(f) of the Housing and Community Development Act. Each state must require each of its general local governments to perform as a responsible federal official in carrying out all HUD environmental review requirements under 25 CFR 58, the National Environmental Policy Act (NEPA), and other applicable authorities. Each state must review and approve each recipient's Request for Release of Funds (RROF) in accordance with the procedures provided under 24 CFR 58 J and must make sure that each subrecipient observes the statutory requirement that funds cannot be expended or obligated before the state approves its RROF and environmental certification. The state will not approve the ROF for any project before 15 calendar days have elapsed from the time of receipt of the RROF and certification or from the time specified in the published notice. In addition, the RROF and certification must be in a form specified by HUD. Our review of the state's compliance with environmental review procedures revealed the following:

1. Funds were disbursed by the state to one subrecipient prior to their approving of that subrecipient's RROF and environmental certification. As a result, we question costs of $28,845;

2. Receipt dates for three subrecipients were not indicated anywhere in their environmental review records (ERR). It should be noted that the state agency maintains a computerized log to track receipt dates of the RROFs and certifications but that it was not considered sufficient for audit purposes; and

3. The RROF and certification for one subrecipient was not presented in a form specified by HUD.

Recommendation:

We recommend that:

1. DECD not disburse program funds prior to approving the subrecipients' RROF and certification;
2. DECD indicate the date of receipt on the environmental review records submitted to them by their subrecipients; and
3. DECD only accept those RROFs and certifications presented in the form specified by HUD.

Auditee Response:

Item #1: OCD acknowledges the situation cited did occur. It should be noted that while funds were released prematurely during the comment period, no comments were received.

Item #2: OCD will stamp or handwrite receipt dates on all ERR records in the future. OCD reiterates the point made during the audit that HUD officials have reviewed and approved our use of the tracking log.

Item #3: OCD concurs with the finding in the instance cited by the audit. It is our belief that HUD allows alternative forms that are of reasonable facsimile to the HUD form. OCD will obtain written authorization from HUD to use the form we have created.

(50) Office of Community Development

Community Development Block Grant (State's Program)
CFDA #: 14.228 **Questioned Costs**: $32,634

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) federal 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."

Individual time distribution records (IDR) were reviewed for the time period of July 1, 1992 to June 30, 1993. Our review showed that several employees' salaries which were chargeable to more than one grant program were charged entirely to the CDBG federal account and its related matching account. This caused the program to be overcharged by $32,634.

Recommendation:

We recommend that the Office of Community Development correctly allocate staff payroll costs according to actual time worked on a program.

Auditee Response:

In response to similar findings in previous year's audits, the program staff complete time distribution records as a means of documenting time spent on all projects. OCD will be providing detailed documentation to HUD addressing the questioned costs in the near future.

Department of Education

(51) Bureau of Instruction - Division of Compensatory Education

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

Finding: Financial reports not timely (Prior Year Finding)

We tested one hundred financial reports for twenty-five Local Educational Agencies (LEAs). Thirty of the program reports were submitted late and twelve had not been submitted:

Report Name	No.	Reports Late or not Submitted	Due Date
Annual Financial Report	EF-U-420	9	30 day after project closure
Carry-over Requests (Annual)	EF-U-423	13	August 31

Annual Project Contract	EF-U-422A	7	July 15
Annual Statistical Report	EF-U-424	13	November 30
		42	

The Education Department General Administrative Regulations (EDGAR) 34 CFR, § 80.20 states 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 Department of Education strengthen procedures to ensure that subgrantees submit required financial reports on time.

Auditee Response:

A log-in sheet has been established for receipt of all reports. An automated system to help reduce time spent processing these reports has been implemented. The division will continue to strengthen procedures to ensure subrecipients submit the required financial data in a timely manner.

(52) Division of Finance

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

Finding: Capital equipment records not current (Prior Year Finding)

The 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.

Department of Education (cont.)

Our review of the equipment records revealed:

1. The Department of Education has not taken a physical inventory of equipment since 1988; and

2. The department has not completed either the quarterly equipment reports nor the annual capital equipment reconciliations for the 1991, 1992 and 1993 fiscal years.

Recommendation:

We recommend that the Department of Education conduct a physical inventory of all capital equipment and reconcile the physical counts to the equipment records.

Further, we recommend that the department prepare the required equipment reports and annual equipment reconciliations and submit these to the Bureau of General Services.

Auditee Response:

The Division of Finance is currently working on bringing outstanding quarterly reports and annual reports up to date.

We will be conducting a physical inventory by September 30, 1994. It is anticipated quarterly reports will be completed on schedule.

(53) Division of Finance

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

Finding: Inadequate cash management procedures

According to Title 31 CFR section 205.7, "A state shall request funds not more than three business days prior to the day on which it makes a disbursement . . . ."

The Department of Education has procedures to minimize the number of days it holds federal cash. We analyzed a three month period and found that the average number of days that it held the cash exceeded those guidelines:

Month/Year	Average Number of Days Cash on Hand
January 1993	6 days
February 1993	19 days
March 1993	4 days

Recommendation:

We recommend the department reduce the number of days that lapse between receiving U.S. Treasury funds and disbursing them.

Auditee Response:

The Division of Finance has implemented a database computer system for recording cash needs and drawing down only that amount. This is done two to three times weekly and should help reduce the number of days between receiving and disbursing U. S. Treasury funds.

(54) Division of Finance

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

Finding: Subrecipient monitoring not according to federal regulations (Prior Year Finding)

According to the Office of Management and Budget (OMB) Audits of State and Local Governments (Circular A-128), "State and local governments that receive between $25,000 and $100,000 a year shall have an audit 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 met the audit requirements of this circular.

We reviewed forty audit reports issued by independent public accountants (IPAs) for subrecipients receiving $25,000 or more in federal financial assistance (FFA). Of those reviewed, we noted:

1. One report did not indicate whether the IPA performed a single audit or a program compliance audit of each federal program of a subrecipient receiving between $25,000 and $100,000; later, the Department of Education - Division of Finance implemented desk review procedures to ensure that either single audits or program compliance audits would be performed; and

2. One audit report showed that the IPA had not performed a single audit of a subrecipient that received more than $100,000 in FFA, and the Division of Finance did not detect that audit was required; later, the division notified the IPA that a single audit was required.

These deficiencies are isolated; generally, the desk review process functions according to the internal control procedures.

Recommendation:

None

Auditee Response:

To address the first part of the finding regarding subrecipients that receive between $25,000 and $100,000 in federal funds, it should be noted that the department implemented corrective action October 22,1993 based on the auditor's review of the fiscal year 1992 audit reports. The department's desk review results of the fiscal year 1993 audit reports will be tested for compliance with the circular during the fiscal year 1994 Single Audit.

Regarding the second part of the finding, $116,497 was received by the subrecipient directly from the federal government for the Impact Aid Program. Since the funds were not passed through Maine Department of Education, there was no record to indicate program revenue received from other sources. We contend that the School Administrative Unit auditor should have been cognizant of all federal revenue and conducted the audit accordingly. The Impact Aid Program represents 81 percent of total federal assistance provided to the subrecipient and is the largest non-major program.

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(55) Division of Finance

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

Finding: Data on the Federal Cash Transaction Report not accurate (Prior Year Finding)

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 1993 PMS-272 report revealed a discrepancy of $1.8 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 reconcile the difference but have worked with federal officials to resolve the discrepancy.

Recommendation:

We recommend that the Division of Finance determine the reason for the discrepancy and determine the correct balance on the PMS-272 report.

Auditee Response:

During fiscal year 1994, the Division of Finance worked with the U.S. Department of Education to correct this problem. The division will continue to work toward resolution in fiscal year 1995. It should be noted that the work that was done in fiscal year 1994 was accepted by U.S. Department of Education.

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(56) Division of Finance

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

Finding: Financial Status Report submitted late (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) and the U.S. Department of Agriculture require the submission of the Financial Status Report (SF-269) for various federal food and nutrition service programs within thirty days of the end of the quarter. The department submitted the SF-269 report for the quarter ending September, 1992 two days after the required due date. It submitted the reports for the other three quarters on time.

Recommendation:

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

Auditee Response:

The Division of Finance and Division of School Business Services will continue to make every effort to prepare and submit the required reports in a timely manner.

(57) Division of Finance

CFDA#: Various Federal Programs **Questioned Costs:** $363,231

Finding: Employee salaries not allocated to grants as required (Prior Year Finding)

The Office of Management and Budget (OMB) Cost Principles of State and Local Governments (Circular A-87) Attachment B, Paragraph 10b states the following: "Salaries and wages of employees chargeable to more than one grant program will be supported by appropriate time distribution records."

We reviewed the time records of twenty-five employees to determine whether the Maine Department of Education correctly allocated employees' salaries to the right federal grants. From this review and from employee interviews, we determined that employees did not complete time distribution records consistently, and the department did not use the time records as the basis for the salary expense allocations. Documentation was either inadequate or did not support the salary allocations of twelve employees. We noted the following:

1. Nine employees worked on more than one federal grant but the department allocated the salaries based on a predetermined fixed percentage assigned to each grant and did not have a system to allocate salaries based on actual hours worked; and

2. Although their job duties were not grant specific, the salaries of three employees in the Division of Finance were charged to specific federal grants.

Sometimes department personnel did not maintain time distribution records. As a result, it charged employees' salaries to only one grant program. However, because employees actually worked on more than one program, time distribution records should have been maintained and used as the basis for distributing salary expenses. We could not determine what portion of each employee's salary should have been charged to specific federal grants. The questioned costs are:

Summer Food Service Program for Children, CFDA# 10.559	$ 36,865
State Administrative Expenses for Child Nutrition, CFDA# 10.560	1,609
Bilingual Education, CFDA# 84.003	35,634
Desegregation Assistance, Civil Rights Training, and Advisory Services, CFDA# 84.004	37,663
Migrant Education-Basic State Formula Grant Program, CFDA# 84.011	10,600
Educationally Deprived Children-State Administration (Chapter 1, State Administration), CFDA #84.012	38,409
Handicapped - State Grants CFDA # 84.027	151,197
Vocational Education-Basic Grants to States, CFDA # 84.048	29,890
Disabled-Special Studies and Evaluation, CFDA# 84.159	12,001
State Grants for Technology-Related Assistance to Individuals with Disabilities, CFDA # 84.224	9,363
Total	$363,231

Recommendation:

Since previous audits also noted problems of incorrectly charging personnel expenditures to single grant programs, we recommend that the department allocate salary expenses based on time distribution records. Further, in accordance with the proposed revision of OMB Circular A-87, we recommend that employees who work solely on a single grant program periodically certify that they work only on that program. Also, we recommend that employees who work on more than one federal grant program complete time distribution records to show which programs they work on.

Auditee Response:

Corrective action will be implemented to ensure employee salaries are charged to federal grant programs based on time distribution records maintained by the employee.

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(58) Division of Special Services

Handicapped - State Grants
CFDA #: 84.027 **Questioned Costs:** None

Finding: Payments to a School Administrative District exceed grant award

In accordance with Title 34, CFR 300.370, the Division of Special Education granted special education funds totaling $8.4 million to approximately two hundred School Administrative Units (SAUs) in the 1993 fiscal year.

We tested twenty-five grant award agreements. In one case the actual payments to a SAU exceeded the amount of the grant award by $945. The overpayment was due to a data accumulation error.

As a result of the audit, the Department of Education requested and received reimbursement from the SAU so there is no questioned cost.

Recommendation:

We recommend that the Department of Education - Division of Special Services carefully monitor the grant payments to ensure that the aggregate amount does not exceed the grant award.

Department of Education (cont.)

Auditee Response:

Corrective action has been implemented and the overpayment has been returned to the U.S. Department of Education. The Division of Special Services will carefully monitor grant payments to ensure this problem does not reoccur in subsequent years.

Department of Human Services

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

Foster Care Program
CFDA #: 93.658 **Questioned Costs**: None

Finding: Possible liability to the federal government

In October 1992 the Department of Administrative and Financial Services received $506,460 which it deposited into a suspense account. The payment came from a nonprofit agency that received Foster Care funds from the Department of Human Services (DHS) for services that were subsequently reimbursed by Medicaid. In addition, the Department of Education (DOE) subsidized part of those services. DHS has not returned the funds to the program because the amount owed to DOE has not been determined.

Recommendation:

We recommend that DHS return the funds to the appropriate program. In addition, we recommend that DHS determine the federal share of the amount and refund this to the federal government.

Auditee Response:

The department is in the process of determining how much each appropriate program is due from the amount deposited in the suspense account. The federal portion will be deposited in the federal account and reported as a credit to the Federal Government once this happens. This deposit should occur before the end of Fiscal Year 1995.

Department of Human Services (cont.)

(60) 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 utilization report (Prior Year Finding)

Title 42 United States Code (USC) § 1397e requires annual activity reports that include expenditures and service data for the Social Services Block Grant. We noted several errors or omissions in the federal fiscal year 1993 utilization report.

The reported amounts did not agree with the Controller's monthly expenditure reports. Total expenditures on the utilization report were underreported by $924,422 in fiscal year 1993, a variance of 7 percent. The Controller's records showed expenditures of $77,118 for the Bureau of Mental Retardation, and $648,788 for the Bureau of Mental Health but none were reported in the 1993 reports.

In the section of the report on the number of recipients, we noted that one thousand three hundred and twenty-eight children receiving counseling services and forty-six receiving other services were omitted from the report. The reported number of adults receiving congregate meals was understated by six. Also, the number of adults receiving health related services was understated by one hundred fifteen.

Recommendation:

We recommend that the Department of Human Services (DHS) coordinate information with Mental Health and Mental Retardation and the Department of Attorney General to confirm the expenditure variances and the service data omission. We also recommend that DHS file a revised 1993 report and that it maintain documents to support all data on the reports.

Auditee Response:

FINDINGS

The FFY 1993 utilization report for the Social Services block Grant required reporting of service and fiscal data in a new matrix format. The new format required multiple levels of manual calculations to translate service information from the department's computerized and manual reporting systems to the prescribed format. The process was further complicated where multiple *family members received services. The inaccuracies in the reported amounts were in the areas of departmental administrative costs, and in the Department of Mental Health and Mental Retardation expenses. The departmental inaccuracies were errors in computation; the DMHMR inaccuracy was an oversight in the report due to late submission of the information.*

The number of recipients inaccuracies were caused by having to report services under federally prescribed definitions of service. In several areas, the federal definitions require breaking down of the State's service reporting into several definitions. The cited inaccuracy for counseling service reporting was a forms omission, as these services were listed on the worksheets. The other minor inaccuracies were the result of having to fragment reported services.

RECOMMENDATIONS:

The department will submit a corrected 1993 report with submission of its 1994 report.

The department does maintain documents to support data on the reports. These documents are not, however, located with one entity in the department. No financial reports are received by the SSBG Grants Manager. Financial information for federal reports and audits must be acquired from several sources. The Department's Audit Division is the repository for the financial reports submitted by subgrantees once contracts have expired; the Department's Financial Services Division is the recipient of financial reports on funds administered by other state level agencies such as the Department of Mental Health and Mental Retardation and the Attorney General's Office. Financial reports on all other expenses charged to the SSBG are maintained by the Bureau of Child and Family Services' financial manager.

Computerized service reports are maintained in the Bureau of Child and Family Services' Information System Unit. Manual service reports are maintained in the Bureau's Division of Purchased and Support Services, and the Bureau of Health's Division of Maternal and Child Health.

Workpapers and data conversions used in completing federal reports are maintained by the SSBG Grants Manager. Source documents are retained by the entities providing information to the Grants Manager.

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

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

Finding: Payroll costs for district attorneys not recovered from federal programs

The Aroostook County District Attorney's Office, the Department of Human Services and the Attorney General's Office have a three-way agreement to provide legal representation for certain federal programs: the Child Support Enforcement (93.563), Child Welfare Services - State Grant (93.645), and Foster Care Title IV-E (93.658).

To provide these additional services the part-time attorney positions within the Aroostook County District Attorney's Office became full-time positions. All payroll costs were paid from a General Fund account maintained by the Attorney General's Office. The state did not recover any payroll costs from the federal programs served.

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

Recommendation:

We recommend that the payroll costs of attorneys providing legal representation for the Child Support Enforcement, Child Welfare Services - State Grant, and Foster Care Title IV-E be included in the Department of Human Services departmental indirect cost allocation plan.

Auditee Response:

Agency did not respond

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(62) Bureau of Elder and Adult Services

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

Finding: Inadequate monitoring of a subrecipient's advance (Prior Year Finding)

Chapter three of the Department of Human Services (DHS) - Bureau of Elder and Adult Services' (BEAS) manual on fiscal policies and procedures states:

> Providers using the advance reimbursement method must submit the quarterly report of advance reimbursement each quarter. The quarterly report must be submitted to reach the bureau by the fifteenth of the month following the end of the quarter.

The manual also says that the final report is the basis for the Department's audit and it signals termination of the grant. Failure to submit the final report will end reimbursement for current Title III grants.

The Social Services Block Grant (SSBG) award letter states:

> . . . 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 BEAS renders cash advances to subrecipients from 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. In July 1992, BEAS issued the first quarter's advance payment to a subrecipient without receiving the final quarterly report for fiscal year 1992.

Recommendation:

We recommend that the BEAS obtain the required reports from subrecipients before issuing advances.

Auditee Response:

The error was on oversight. The status of reports is now being monitored more closely and reminder memos are sent automatically to agencies whose reports are overdue. In addition, the bureau will be requiring subrecipients to reflect their cash balances on all cash requests and to adjust the amount of funds requested accordingly. These reported cash-on-hand amounts will be compared with the quarterly income and expense reports to confirm the accuracy of the cash balances identified. Any necessary adjustments will be made by the bureau on subsequent cash requests and less money will be advanced as appropriate.

(63) Bureau of Income Maintenance

Family Support Payments to States - Assistance Payments
CFDA #: 93.560 **Questioned Costs**: None

Finding: Noncompliance with quality assurance transmittal requirements (Prior Year Finding)

Title 45 CFR 205.42 (e)(1)(i)(c) requires that the state agency shall dispose of and submit 100 percent of its cases within one hundred twenty days of the end of the sample month. The Division of Budget and Administration-Quality Assurance Unit exceeded the time requirement in five of the twenty-five cases that we reviewed. However, three of the late cases were only one day late in transmission to Kansas City.

Recommendation:

We recommend that the department take steps to ensure that results are reported as required.

Auditee Response:

The Bureau of Income Maintenance staff will work closely with the Office of Data, Research and Vital Statistics to assure that all cases are transmitted within one hundred and twenty days of the end of the sample month.

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(64) Bureau of Income Maintenance

Family Support Payments to States - Assistance Payments
CFDA #: 93.560 **Questioned Costs**: None

Finding: Inadequate cash management procedures (Prior Year Finding)

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

The Department of Human Services passed through $1,347,789 of At-Risk Child Care funds to forty-four 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 immediate needs.

Recommendation:

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

Auditee Response:

The department passed through $694,325 in At-Risk Child Care funds to eleven community agencies who reimbursed providers for their child care services. The agencies cited . . . for inadequate cash management procedures are Voucher Management agencies. These agencies provide client intake and child care provider payment services for the At-Risk program. The funds cited . . . are only those funds that are used for provider payments, not for costs within the Voucher Management agencies.

Under department policy, Voucher Management agencies must disburse payments to individual providers within ten working days of receipt of a provider invoice. Most child care providers bill weekly or bi-weekly. The advanced payments to the agencies were based on the federal share of approved At-Risk vouchers (weekly voucher payment x twenty-six weeks x federal reimbursement rate).

Following the audit of the fiscal year 1992 At-Risk program, the department altered its advance payment schedule from six to three months, effective October 1, 1993. The Department has just entered into contracts with the Voucher Management agencies for fiscal year 1995. To alleviate any advance of federal At-Risk funds to the agencies, the Department will need to amend the new contracts with the eleven Voucher Management agencies to advance state funds sufficient to cover the full cost of at least one quarter's At-Risk vouchers. Because this will mean a change in the department's quarterly allotment of state general funds, it will require approval of the state's Budget Office. It is anticipated that the contract changes can be made in the next fiscal quarter.

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(65) Bureau of Income Maintenance

Family Support Payments to States - Assistance Payments
CFDA #: 93.560 **Questioned Costs:** None

Finding: No written agreements or contracts for pass-through funds (Prior Year Finding)

The Department of Human Services passed through $1,347,945 of At-Risk Child Care funds to forty-four community agencies for providing prescribed (verbal) child care slots. 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 (9b):

> 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 use written agreements or contracts with subgrantees.

Auditee Response:

The department disbursed $653,620 of At-Risk Child Care funds to child care provider agencies for reimbursement of department-verified child care services to At-Risk Child Care eligible clients. Reimbursements to service providers were authorized by the department on an individual client basis, and aggregated by provider agency for payment purposes. All service providers reimbursed by the department were under contract with the department for other funding, such as the Child Care and Development and/or Social Services Block Grants; thus they were subject to the federal audit and cost principles requirements of the At-Risk Child Care program. Also, when reimbursements are authorized by the department, service agencies must submit line-item financial plans for the intended use of At-Risk Child Care funds. All financial plans must be approved by the department.

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(66) Bureau of Income Maintenance

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

Finding: Outstanding claims not reconciled

The Bureau of Income Maintenance uses the Financial Status Report (FNS-209) to report the outstanding balance of claims due to the State of Maine for the Food Nutrition Services. It also maintains a detailed list of who owes outstanding claims. At June 30, 1993 the amount shown on the list was $3,209,628, or $859,279 more than the amount reported to the Food Nutrition Services on FNS-209.

According to 7 CFR 273.18 (k), . . .

> Each State Agency shall be responsible for maintaining an accounting system for monitoring claims against households. At a minimum, the accounting system shall be designed to readily . . . . Identify . . . households that owe outstanding payments on a previously issued claim determination."

Recommendation:

We recommend the bureau reconcile its list of Food Stamp claims to the amount that it reports under the "Status of Claims Against Household" on FNS-209.

Auditee Response:

The bureau has reconciled its Food Stamp claims amounts to the data on the FNS-209.

The June 1993 FNS-209 report was the first time the computer report was used in any way in the completion of the FNS-209. However, the computer did not match the manual records that were being kept simultaneously. Since we knew the manual records were correct, we made adjustments to the computer data so that it would be correct in the future.

The computer data is now the principle source of information for the completion of the FNS-209. That data is supplemented by the collection credits tracked manually for fifty-eight cases which were closed because the benefit amount equalled the allotment reduction amount.

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(67) Bureau of Medical Services

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Weak internal control over third-party recoveries (Prior Year Finding)

The Third Party Liability (TPL) unit investigates Medicaid claims to ensure that the Medicaid program is the payer of last resort. The TPL unit tracks the submission of claims and the recovery of reimbursements on an individual client basis. During the 1993 fiscal year, the TPL unit collected approximately $10 million from third parties.

Although the TPL unit tracked TPL billings on individual clients it did not monitor the total receivables that each third-party owed the state. In addition, the unit did not have an aging of accounts receivables by third-party. Absence of this data weakens the bureau's ability to monitor collection efforts.

Recommendation:

In order to strengthen internal control over collections, we recommend that the TPL unit monitor the total amount that each third-party owes the state.

Auditee Response:

A new Maine Medicaid Information System has been funded for development in 1995-1996. This will resolve the system problems which prohibit the implementation of this finding at this time

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(68) Bureau of Medical Services

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs**: None

Finding: Manufacturers' drug rebate due of $2.5 million not processed on time (Prior Year Finding)

The State of Maine receives rebates from drug manufacturers for Medicaid payments of outpatient prescription drugs. The Bureau of Medical Services (BMS) is attempting to resolve disputed rebates dating back to September 1991. According to BMS records, as of June 30, 1993 drug manufacturers owed the state $2.5 million. However, BMS personnel stated that this amount could be inflated due to manufacturers making subsequent price and quantity rate structure adjustments. 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 on the federal medical assistance rate.

Recommendation:

We recommend that BMS resolve the backlog of manufacturers' drug rebates so that amounts due the State of Maine from drug manufacturers can be realized as cost savings to the Medicaid program.

Auditee Response:

We have assigned three people to review these accounts. It will take several months to complete. The findings so far indicate that the amount is much smaller than the $2.5 million found in the audit. One indication is that we asked a vendor to review and assist us to catch up for a fee equal to 5 percent of total recoupment. After a review they declined and offered to assist for $16 per hour.

(69) Bureau of Rehabilitation- Disability Determination Services

Social Security - Disability Insurance
CFDA #: 93.802 **Questioned Costs:** $135,822

Finding: Noncompliance with federal regulations for medical payments

Federal regulations, 20 CFR 404.1519k and 20 CFR 404.1624, require that the program may not pay more for the purchase of medical or other services to make determinations of disability than the highest rate for the same or similar types of services that are paid by federal agencies or other agencies in the state.

Fees paid to hospitals for radiological procedures and laboratory tests exceeded those paid by the Medicare and Medicaid programs, well established as reimbursement benchmarks. Payments to hospitals for procedures and tests corresponded to amounts charged that did not show adjustments to comply with Federal regulation. Therefore, the amounts expended for consultative examinations at hospitals during the period July 1, 1992 to June 30, 1993 are questioned.

Recommendation:

The bureau should adopt a standardized price list for medical procedures, tests, examinations, and reports that assures compliance with the federal requirements.

Auditee Response:

Disability Determination Services will begin to use Medicare rates to reimburse hospitals for radiological and laboratory work after December 1, 1994.

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(70) Office of Management and Budget-Division of Audit

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Medicaid provider audits/cost settlements not prompt (Prior Year Finding)

Title 42 of the Code of Federal Regulations, (CFR) § 447.253 requires the state Medicaid agency to provide for periodic audits of the financial records of the participating providers. We noted that neither state nor federal regulations specify the time for completion of Medicaid audits.

The Department of Human Services (DHS) - Division of Audit is responsible for performing cost settlement audits of approximately 360 Medicaid providers. These providers include intermediate care facilities (ICF), hospitals, rural health centers, home health centers, and federally qualified health centers.

As of October 1, 1994, the DHS-Division of Audit had not yet performed a total of 309 Medicaid cost settlement audits. Listed below is a breakdown by fiscal year of the number of cost settlement audits that have not been completed:

Number of Settlement Audits Not Yet Completed

Providers' Fiscal Year-End	ICF's (Nursing Homes)	Hospitals, Home Health Center, Others	Total
1989	-	6	6
1990	2	28	30
1991	3	33	36
1992	10	72	82
1993	55	100	155
Total	70	239	309

We noted that DHS-Division of Audit cannot audit the ICFs until they receive both the cost reports and the audited financial statements from the provider. Also, the Division of Audit can not audit the hospitals and home health centers until they receive the audited Medicare cost reports from Blue Cross/Blue Shield, as authorized by the Health Care Finance Commission (HCFC) under the *Common Audit Agreement*. DHS Audit personnel said that delay in receiving this information has resulted in a backlog of providers that have not been audited.

If audits are not performed promptly, providers could misuse Medicaid funds for several years before detection and before remedial action could be taken.

Recommendation:

We recommend that DHS - Division of Audit ensure that Medicaid cost settlement audits are performed promptly.

Auditee Response:

We vigorously disagree with this finding as the majority of the number of audits that are not completed for 1993 are for providers of services who have year-ends six months after the period that the state audit covers. Because of this there is no way possible that providers with years ending December 31, 1993 could have their audits completed during this state audit period which ended June 30.1993. We do not feel we should be cited for something that is impossible to do.

For the ICF's prior to 1993 we have had trouble getting information from the providers on these facilities and we will be unable to complete these audits until this information is furnished to us.

For the Hospitals, Home Health Agencies, etc., as stated in the auditors finding, we cannot audit these until we receive the Medicare audit reports from the Federal Fiscal Intermediary. We operate with a common audit agreement as approved by HCFA as it is impractical and improper to use taxpayer funds for DHS to perform on-site audits of these facilities and come up with the same results as the fiscal intermediary. We are at the mercy of Blue Cross/Blue Shield as we cannot complete our work until they issue their audit reports which sometimes takes them over two years to do so.

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(71) Office of Management and Budget - Division of Audit

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

Finding: Federal and state audit requirements not satisfied

Department of Human Services (cont.)

The Department of Human Services (DHS) - Division of Audit is responsible for ensuring that audits of subrecipient nonprofit organizations satisfy federal and state audit requirements. DHS has not fulfilled this responsibility. The Division of Audit reviews audits prepared by independent public accountants. It also issues audit reports based on work performed by DHS auditors. The audits prepared by DHS do not satisfy either federal or state audit requirements.

There are three levels of audit requirements, all of which require the auditor to comply with *Government Auditing Standards*.

1. **OMB Circular A-128**, ***Audits of State and Local Governments:***

   This circular requires the recipient organization (the state) to ensure that subrecipients to which it provides $25,000 or more in federal funds expend those funds in accordance with applicable federal laws and regulations. This includes ensuring that subrecipients have appropriate audits in accordance with the applicable federal guidance. For nonprofit subrecipients this guidance includes OMB Circular A-133.

2. **OMB Circular A-133**, ***Audits of Institutions of Higher Education and Other Nonprofit Organizations*:**

   This circular establishes audit requirements for subrecipient nonprofit organizations. These requirements are based on the amount of federal assistance received: $100,000 or more requires an organization-wide audit; $25,000 to $100,000 requires either an organization-wide audit or a program-specific audit; and less than $25,000 requires no audit.

3. **MAAP**, ***Maine Uniform Accounting and Auditing Practices for Community Agencies*:**

   This manual establishes rules pursuant to Title 5 M.R.S.A., Chapter 148-B governing accounting and auditing practices for community agencies. Its provisions require state agencies to coordinate their audits of nonprofit agencies and to make various audit options available to the community agencies. If the federal and state funds provided are between $25,000 and $100,000, DHS auditors may conduct a "*single audit*" of the agency. MAAP defines a single audit as ". . . one financial and compliance audit of all funds contracted for between the State and community agency, excluding Medicaid . . . ."

DHS has not satisfied its audit responsibilities.

1. Audits are not conducted in accordance with *Government Auditing Standards*. Audit reports do not comply with generally accepted governmental auditing standards. The

reports do not refer to authoritative guidance, do not use consistent and correct terminology, and do not clearly identify the work performed or the subject on which an opinion is expressed.

DHS issues a Report on Supplementary Schedule of Federal/State Financial Assistance. This report by itself does not meet requirements; however, it may be included. We note that the reporting standards to be followed vary depending on the requirements to be satisfied. At DHS's request we offer the following comments on deficiencies in the content of this report.

1. The title should include "*Independent Auditors.*"

2. The report should be addressed the same as the report on the basic financial statements; however, there is no such report.

3. The first sentence should refer to the auditor's separate report on basic financial statements.

4. The report should refer to the schedule as additional information and not as a required part of the basic financial statements.

5. The report should state the information in the schedule was subjected to the procedures applied in the audit of the basic financial statements.

6. An opinion should be expressed that the information in the schedule is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

7. The report should be dated the same as the report on the basic financial statements; however, there is no such report.

8. The DHS's report reviewed stated that minor adjustments were required. This statement is not allowable. The financial statements are the responsibility of management. An opinion is expressed as they are presented. It is not acceptable to say the information is presented fairly as long as we make certain adjustments.

Additionally, auditors have not satisfied the qualifications standards. Some have not met continuing education requirements; DHS has not participated in an external quality control review program; and has not used due professional care to ensure that applicable reporting standards are followed.

2. Audits done by state agencies address only the funds provided by those state agencies. They do not address funds provided by other state agencies or other funds available to the subrecipient. The audits are not organization-wide. They do not include financial opinions on the organizations' financial statements. Therefore they do not satisfy OMB Circulars A-128 and A-133 and they do not satisfy the single audit requirement of MAAP.

3. Audit requirements of federal funds less than $100,000 may be satisfied by program specific audits. If this option is selected, auditors must issue three reports for **each** federal program: an opinion on a program's financial statements, a report on a program's internal controls, and a report on a program's compliance with laws and regulations. This option is generally cost effective if an agency has only a single program. DHS prepared audit reports also do not comply with this option. Audit reports prepared by DHS do not comply with any standard reporting requirements.

We note that DHS has taken corrective action in other areas that were cited in past audits. DHS's system for desk reviews of audits prepared by independent public accountants appears to be functioning well. We also note that DHS cannot, by itself, correct all problems associated with MAAP. Legislative action may be necessary.

Recommendation:

We recommend that DHS reconsider its audit responsibilities. It will require extensive effort to bring DHS into compliance with *Government Auditing Standards*. A policy decision is needed on whether DHS should continue being required to follow these standards. Because DHS now audits less than ten subrecipients using federal funds, we recommend that DHS seek to revise or repeal MAAP so that all subrecipient federal funds will be audited by independent public accountants.

Because state agencies have been unable to comply with the MAAP audit coordination provisions, we recommend that these policies be amended or repealed.

Auditee Response:

We are responding to the three findings contained within state audit finding #71 in the manner in which it was developed.

1. *We find that MAAP audit requirements issued 7/1/80 conflict with Federal audit Circular A-133 issued 3/18/90 and effective 12/31/90.*

Department of Human Services (cont.)

MAAP requires state departmental auditors to conduct their audit based on the agreement financial claims submitted to the state. The MAAP financial claims were in the form of the Schedules of Federal and State Assistance and the Schedule of Agreement Operations. MAAP provided three sample reports to be used for meeting these MAAP audit responsibilities. (Reference MAAP pages 101 and 106 for sample scopes and reports to be used).

Federal Circular A-133 was issued after MAAP. Federal Circular A-133 paragraph 12 and 15 address the subject of audit scope and audit reports. We have been audited by the State Audit Department for state fiscal year ending 6/30/91 and 6/30/92, a period of time under which Federal Circular A-133 had been in place without any indication that federal program specific audits must go beyond the financial claims or the awards, in that an audit report of the basic financial statements must be issued. It was only during the State of Maine federal single audit for 6/30/93, that the state auditor's uncovered via Federal Circular A-133's Q & A #21 & 22 (issued in June 1992) that a requirement existed that . . .the federal program specific audit must be extended to the basic financial statements for each CFDA.

In summary, MAAP requires a scope and a report at the agreement financial claims and awards level, while the federal government additionally requires scope and report at the basic financial statements level. The federal A-133 Q & A issuance of June 1992 and the state auditors report finding #71 as of 12/9/94 represent the first notification of this dilemma. We concur that MAAP needs to be amended or repealed to rectify this problem.

Regarding auditor's qualification, we have had several training sessions for audit personnel and several individuals have the met the GAS requirements.

We have contracted with a consulting firm to give us guidance in meeting our Peer Review requirements.

2. *Per MAAP the Lead state agency has responsibility to coordinate and publish the State's single audit report. Non Lead agency auditor's must participate, if requested in single audits (MAAP pages 23-26, and 99).*

   DHS is but one of ten state organizations falling within the MAAP definition of Department as contained on MAAP page 4 paragraph "Q". We have attempted several times to coordinate audits with these other state departments but to no avail. Seven departments either have no auditors or have auditors but they do not participate in MAAP audits.

Department of Human Services (cont.)

Additionally, DHS has been very active in the MAAP process having attended the initial training sessions initiated by the Department of Finance in the mid 1980's and having been integrally involved ever since its inception. We also have been active in the Commissioner of Finance's Advisory Committees over the ten year period of MAAP. It is a very well known fact that there are seven state departments who do not participate in MAAP audits. We concur with the state auditor that MAAP single audits do not include the funds of the other seven state Departments. We have aggressively tried to involve them and therefore wo do not concur that this finding should be included in the DHS portion of the audit as we have met DHS responsibilities in as far as we could. This finding should be on those Department who refuse to participate in MAAP audits.

Also, we have never been advised in the ten year history of MAAP to conduct audits for the non participating departments. Over the years, the Commissioner of Finance's office also has frequently tried to involve the other state departments to meeting its MAAP responsibilities, also to no avail.

3. *We have not prepared three reports for each federal program and we do not have an opinion on each program's financial statements. MAAP has not been updated to address this new revelation addressed in the June 1992 Federal Q & A issuance. Once again, Circular A-133 has been in existence since 12/31/90 and thereafter and, we have undergone audits by the state auditor for 6/30/91 and 6/30/92 with the being the first such notification in December of 1994.*

In closing, we would like to say that we strongly disagree to many of the phrases utilized in the State Auditor's development of this finding such as the references to . . .audits not conducted in accordance with GAS, not using due professional care, and reports not complying with any standard reporting requirement. . .etc. Because a standard is not adhered to is no reason to make a subjective judgement on our performance in relation to all standards. We believe we have acted in a professional manner and we have adhered to as many GAS standards and MAAP requirements as were within our control. Our Audit Division provides a very valuable and necessary service to both the State and Federal Government (taxpayers), but we have been caught in the logistical and structural web of MAAP. We do agree with the state auditor's recommendation for corrective action which is to repeal or amend MAAP.

(72) Office of Management and Budget - Division of Audit

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

Finding: Subrecipients' audit reports submitted late (Prior Year Finding)

The Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP), Section .05 G(1) requires that, within five months after the end of the fiscal year, community agencies audited under Option 1 of MAAP must provide financial statements to the state departments that provided funds to them. Annual audits performed by the state under Option 1, MAAP, Section .05 G(3)(a), must be completed and reports issued by lead state agencies within twelve months following receipt of community agencies' financial statements. For audits performed under Options 2A or 2B of MAAP, Section .05 G(2), community agencies must provide audit reports by Independent Public Accountants to state departments within twelve months following the end of fiscal year.

We reviewed the audit reports of ten subrecipients for their fiscal periods ending in 1992. Three of the reports reviewed did not comply with the time requirements. Of the three audits not in compliance, two were Option 1 audits. One report was issued three and a half months late and one was issued eight months late. The third audit not in compliance was an Option 2 audit. The audit report was received seventeen days late.

Recommendation:

We recommend that the department ensure that subrecipient audit reports are completed and submitted within the time allowed.

Auditee Response:

Currently, we do not have the audit resources needed to meet all MAAP and A-133 audit requirements. As a result of the State Auditor's A-128 (Single Audit) report for fiscal year 1992, we have reallocated our DHS audit resources to meet all of our federal responsibilities first. We have since completed the three audits cited by the state auditor. We believe we have made significant improvements in this regard.

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

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Department of Human Services (cont.)

Finding: Cost settlement recoveries not recorded on the HCFA-64 report (Prior Year Finding)

Subparagraph (a)(1) and (2) of Title 42 CFR, § 433.320 states the following:

> . . . 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.

We examined twenty-five audit cost settlements in which each Medicaid provider owed the state money because of disallowed costs. Our examination revealed the following:

1. The Department of Human Services (DHS) - Division of Financial Services did not include on the HCFA-64 report six overpayments totaling $88,416; department personnel did not record overpayments on the HCFA-64 report that resulted from audit cost settlements with home health centers, rural health centers, and intermediate care facilities for the mentally retarded; DHS personnel said that the overpayments were offset against subsequent billings from the respective providers; and

2. Of the overpayments on the HCFA-64 report, five were not recorded within the correct period.

Recommendation:

We recommend that DHS review its procedures for recording all overpayments on the HCFA-64 report to ensure that they are recorded within the correct period.

Auditee Response:

The department recognizes that these overpayments were not being recorded on the HCFA 64 report. Beginning October 1, 1994, overpayments to intermediate care facilities for the mentally retarded will be recorded on the quarterly HCFA 64 report. The overpayments for home health and rural health amounted to $3,352 and $200 respectively in fiscal year 1994 which at this time would not be sufficient to warrant the effort required to report the overpayment. Agency personnel have been instructed to monitor these categories and report any changes that occur. Every effort will be made to ensure that overpayments are recorded within the proper time period.

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

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Federal accounts receivable overstated by $1.3 million

Generally accepted accounting principles require accounts receivables to be disclosed at their net realizable value.

At June 30, 1993, financial records of the Department of Human Services (DHS) - Division of Finance showed $1.3 million due to DHS from the federal Medicaid Enhancement Program. DHS officials said that DHS no longer qualified for these funds.

Recommendation:

In order to reflect actual amounts due to the state we recommend that DHS write off the federal receivable of $1.3 million relating to the federal Medicaid Enhancement Program.

Auditee Response:

The Department of Administration will be sending out a Request for A/R Write-Offs to all Departments in March of 1995. At that time the Department will fill out the necessary forms (Schedule of Accounts Receivable Recommended to be Written-Off) to write off the Federal receivable of $1.3 million that relates to Medicaid enhancements. These forms will be presented to the Commissioner of the Department of Administration at the end of April, 1995 and the write-offs will occur by June, 1995 if approved by an opinion by the Attorney General's Office.

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

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

Finding: Errors in accounting for Block Grant funds (Prior Year Finding)

The accounting structure for the state's accounting system (MFASIS) for the Social Services Block Grant (SSBG) includes several organization code numbers (orgs) with many detail accounts for each. There have been errors in coding to the correct accounts:

1. A preventive Health Block Grant with a $16,190 balance at the 1993 state fiscal year-end was erroneously included in one detail account;

2. Child Care Development Block Grant (CCDBG) funds were drawn down to pay both CCDBG and SSBG expenditures; CCDGB has not been reimbursed for the $15,538; and

3. SSBG funds were drawn down to pay both SSBG and CCDGB expenditures but SSBG was reimbursed.

In addition, the Department of Human Services (DHS) did not review some miscoded expenses charged erroneously to the SSBG expenditures. Where there are accounts for expenses, revenue and cash-on-hand for more than one federal program, the department did not establish balances forward on the year-end reports for two of the SSBG accounts.

Recommendation:

We recommend that DHS, in consultation with the Controller and Budget Office, review the system that MFASIS uses for SSBG and reorganize detail accounts so that main accounts include only those related to SSBG. This would allow better cash management by matching drawdowns on separate letters of credit with the appropriate program expenditures. In order to determine accurate balances for SSBG funds, we also recommend that DHS clear inactive account balances and correct accounting records

Auditee Response:

Effective July 1, 1994, the department has taken corrective action to identify SSBG and CCDBG revenues and expenditures by setting up new reporting orgs which clearly identify funding sources. The department has also cleared inactive account balances during the state fiscal year 1994. The department is also in the process of determining the SSBG and CCDBG fund balances based on accounting records maintained by the agency.

Department of Human Services (cont.)

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

Women, Infants, and Children
CFDA #: 10.557 **Questioned Costs:** $3,804

Finding: Failure to make correct indirect cost adjustment (Prior Year Finding)

The Department of Human Services failed to adjust the provisional rate used for state fiscal year 1991 to the final rate calculated for the indirect cost. As a result, the indirect costs for the Women, Infants, and Children (WIC) program were over-assessed by $3,804.

Recommendation:

We recommend that the department make the necessary adjustment to compensate for the incorrect amount charged to indirect cost. We further recommend that the department make adjustments to compensate for differences between the provisional and final indirect cost rate.

Auditee Response:

An adjustment to the indirect rate was done by the WIC program in February 1993 to compensate for the difference between the provisional rate of 7.6 percent to the final indirect rate of 5.6 percent.

Due to the fact that the WIC program receives funds annually with no carryover of funds allowed, any indirect cost adjustment to prior fiscal year costs are made in the current fiscal year as soon as the new indirect rate cost agreement is received.

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

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

Finding: Poor internal control over capital equipment (Prior Year Finding)

According to the Office of Management of and Budget (OMB) 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 M.R.S.A. § 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 through 1993 fiscal years; and could not provide detail equipment records for the fiscal years 1991 through 1993.

Recommendation:

We again recommend that the DHS (1) record all capital equipment transactions for the 1991 through 1993 fiscal years; (2) perform a complete inventory; (3) reconcile the physical inventory to the detail property records; and (4) maintain all equipment records on a current basis.

Auditee Response:

We agree with this finding. The department's Division of Data processing has begun a new computer system for inventory . . . It is our intent to complete this project within the next year.

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

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

Finding: Federal Financial Reports Submitted late (Prior Year Finding)

According to program regulations listed below, federal financial reports are generally due thirty days after the close of each reporting period. Of the forty-four financial reports tested, twenty-eight were submitted after the due date.

Department of Human Services (cont.)

Program Name/CFDA#	Citation	No. of 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	25
Child and Adult Care Food Program CFDA# 10.558	7 CFR § 226.7(d)	4	8
AFDC CFDA# 93.020	45 CFR § 201.5(a)(1)	4	31
Child Support Enforcement CFDA# 93.563	45 CFR Ch. III § 301.15(a)(1)	4	31
Foster Care - Title IV-E CFDA# 93.658	45 CFR § 74.73	2	9
Medical Assistance Program CFDA# 93.778	45 CFR § 430.30(c)(1)	4	22
Rehabilitation Services Basic Support CFDA# 84.126	Program Policy Directive 90.10	1	2
Special Supplemental Food Program for Women, Infants and Children (WIC) CFDA# 10.557	FNS 154 Handbook Sec. 311(a)	5	7

Recommendation:

We recommend that the department prepare and submit the required federal financial reports by the date they are due.

Auditee Response:

The department recognized the fact that federal financial reports are due thirty days after the close of a quarter. The department is also attempting to use every means possible to achieve this goal.

Department of Human Services (cont.)

There are initiatives in place that, when finished, will help speed up the process. These include access to MFASIS accounting data through data warehousing which is at least one year from completion; automation of the direct and indirect cost allocation plans which would save several days each quarter; and distribution of federal accounts among the accountants which would more equitably spread the workload.

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

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

Finding: Financial data incorrectly reported (Prior Year Finding)

The Department of Human Services incorrectly reported expenditures on federal financial reports and on its Schedule of Federal Financial Assistance (SFFA):

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	$ 8,403,198	$ 8,393,292	$ 9,906
10.561	State Adm. Matching Grant for Food Stamp Program	$ 6,110,929	$ 6,077,056	$ 33,873
93.020	AFDC	$78,987,231	$78,999,869	($ 12,638)
93.563	Child Support Enforcement	$10,039,641	$10,031,517	$ 8,124
93.658	Foster Care	$ 9,391,199	$ 9,592,204	($201,005)

Differences in amounts reported on the SFFA and federal financial reports were due to unintentional accounting errors and errors in accumulating data used to support the SFFA.

All errors were corrected except for overreported expenditures of $12,638 (net) on the Aid to Families With Dependent Children (AFDC) September 30, 1992 quarterly report.

Recommendation:

We recommend that the department submit a revised financial report to the federal grantor agency. We also recommend that greater care be exercised when preparing federal financial reports and the SFFA.

Auditee Response:

The department concurs with the finding and every effort will be made to ensure proper reporting of expenditures. The department will submit a revised financial report.

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

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

Finding: Errors in accumulating indirect cost data

We reviewed and tested the accuracy of the information used in calculating the final indirect cost rate for fiscal year ended 1991 which is the provisional rate used in fiscal year ended 1993. A data accumulation error resulted in the total indirect costs for the Bureau of Health and the Bureau of Medical Services being overstated by $25,231 and understated by $25,227. These errors resulted in incorrect final rates calculated for these bureaus.

The department took immediate corrective action by using offsetting adjustments in the calculation of the final indirect cost rate for the affected bureaus for fiscal year ended 1993 . This action was discussed with and approved by the Department of Health and Human Services - Division of Cost Allocation.

Recommendation:

None.

Auditee Response:

The department concurs with the finding. Final indirect cost data is accumulated annually and therefore is easy to monitor and ensure proper reporting of adjustments to provisional rates.

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

CFDA #: Various Federal Programs **Questioned Costs:** $506,698

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

Paragraph 9 of the Office of Management and budget (OMB) Single Audits of State and Local Governments (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 . . . . "

We reviewed forty-five subrecipients' audit reports issued by the department's Division of Audit during the 1993 state fiscal year. These reports identified a total of $1,472,225 in grant overpayments and/or questioned costs. Of this amount, $506,698 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 before our review date, we question the following amounts:

Special Supplemental Food Programs for Women, Infants, and Children CFDA# 10.557	$ 438
Child and Adult Care Food Program CFDA# 10.558	36,869
Alcohol and Drug Abuse Treatment and Rehabilitation Block Grant CFDA# 13.141	89,147

Department of Human Services (cont.)

Refugee and Entrant Assistance State Administered Programs CFDA#13.787	34,807
Crime Victim Assistance CFDA# 16.575	781
Senior Community Service Employment Program CFDA# 17.235	6,268
Acquired Immunodeficiency Syndrome (AIDS) Activity CFDA# 93.118	2,451
Social Services Block Grant CFDA# 93.667	10,250
Family Violence Prevention and Services CFDA# 93.671	$ 363
Grants to States for Planning and Development of Dependent Care Programs CFDA# 93.673	93
Independent Living CFDA# 93.674	59
Medical Assistance Program CFDA# 93.778	(1,470)
Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA# 93.992	322,671
Maternal and Child Services Block Grant CFDA# 93.994	2,643
SSA - Reimbursement CFDA# None	1,328
Total Questioned Costs	$506,698

Department of Human Services (cont.)

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 $506,698 questioned in this finding.

Recommendation:

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

Auditee Response:

DHS is currently working on the above audit finding - Some of the above agencies are currently in the appeal process and are in process of being heard, while other grants are currently making payment arrangements. CFDA #939.22 agencies involved should be finalizing their CPA's reports by the end of January 1995 and be resolved. DHS now has a new system in place to track there audits and try to resolve them in a timely manner.

Maine Department of Labor

(82) 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. Circular A-87 is applicable to indirect cost allocations by reference of the Administrative Systems Manual of the Bureau of Employment and Training Programs (BETP).

The administrative and accounting staff of the 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 state and federal programs.

BETP implemented a cost allocation plan beginning October, 1993 which is designed to distribute costs to federal and state programs based on the benefits received.

Recommendation:

None.

Auditee Response:

The BETP believes it has resolved this issue when it implemented a cost allocation plan in October of 1993. The BETP agrees the regulations require a cost allocation plan, but the document was based on the FMS TAG and 627.440 of the Interim Final Regulations, not OMB Circular A-87.

The plan will be audited and approved or disapproved when program year 1993 is audited. Changes and modification will be made based on interpretations of the auditors' findings and comments for that program year.

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(83) Bureau of Employment and Training Programs

Job Training Partnership Act
CFDA #: 17.250 **Questioned Costs:** None

Finding: No monitoring of matching expenditures

The catalog of Federal Domestic Assistance (CFDA) grant description states, ". . . matching is required at the substate level for 80 percent of the 8 percent education grants."

We determined that the Bureau of Employment and Training Programs (BETP) had a correct 80 percent of the 8 percent match for the $627,432 in grant expenditures of the Job Training Partnership Act. However, the bureau did not monitor the match through the grant period, but compiled it at the audit date. Therefore, there was no assurance until the compilation that there was a proper match for the expenditures.

Recommendation:

We recommend that BETP monitor matching funds throughout the grant year to ensure a proper match for the 80 percent of the 8 percent grant.

Auditee Response:

The BETP has taken two steps to resolve this issue prior to the final audit report. First, match reports are required in the new close-out package. This package was redesigned based on the JTPA Amendments. The bureau already has a confirmed match report from the 8 percent service provider for program year 1993.

Second, the quarterly fiscal reports required from service providers is being modified to include space to report match.

Therefore, the BETP has implemented the auditor's recommendations since there are two different ways the match is now monitored throughout the year.

One hundred percent of the match for the 8 percent grant comes from general revenues appropriated by the legislature.

(84) Bureau of Employment and Training Programs

Job Training Partnership Act
CFDA #: 17.250 **Questioned Costs:** None

Finding: No on-site monitoring of Title IIA and Title III activities (Prior Year Finding)

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 1993 fiscal year BETP personnel completed on-site monitoring of the JTPA Title IIB grant activities.

Title 20 CFR, Part 629.43(b) says that the governor is responsible for the oversight of all Service Delivery Areas (SDA) or grant recipient activities.

Section IX of the 1992-1993 program year's Governor's Coordination and Special Services 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 JTPA funds are spent according to federal and state laws and regulations.

Auditee Response:

The BETP has begun its monitoring efforts. First, most of the program monitoring tools are complete, as are the tools for fiscal monitoring. In fact, on-site fiscal monitoring began in the state's largest SDA, the 12-County Workforce Development Centers, on October 26, 1994. A comprehensive review is taking place focusing on the JTPA Amendments of 1992. The review is expected to be complete by December 15, 1994. Additionally, based on information received from other areas, the BETP will be submitting its monitoring standards and plans as a modification to the current GCSSP so that auditors can have something concrete by which to judge the resolution of this finding. Currently, the Bureau doesn't define the level and extent or scope of its monitoring policy consistent with the regulations. Therefore, the auditors have no context for determining compliance.

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(85) Office of Administrative Services

Unemployment Compensation
CFDA #: 17.225 **Questioned Costs:** None

Finding: Federal expenditure variance of $2.9 million in Unemployment Compensation Fund

Reports of the Bureau of Employment Security (B.E.S.) on federal expenditures from the Unemployment Compensation Fund were $2.9 million higher than reflected in the B.E.S. general ledger. The variance may be greater because B.E.S. detected some off-line disbursements that were not posted to the general ledger.

Drawdowns to fund the expenditures are posted in the general ledger and they may be affected. In addition, the Schedule of Federal Financial Assistance may be affected since it is based on the general ledger.

__Recommendation__:

We recommend that the Department of Labor (1) determine the reason for the variance; (2) determine the scope of the problem; (3) correct accounting records and procedures; and as necessary (4) adjust drawdowns; (5) make revised federal reports; and 6) revise the Schedule of Federal Financial Assistance.

__Auditee Response:__

(We reviewed) the auditor's working papers regarding the . . .the recommendation . . . (and believe) the finding is misleading because all reported federal and state expenditures are posted and reconciled between the bank, State Controller and the general ledger. To address the finding a meeting was held with . . . Unemployment Insurance, Office of Information Processing, Office of Administrative Services and Economic Analysis and Research. We reviewed the information generated on the daily benefit account check register and monthly statement of charges by program (Report 709) and found variances. The work group will review the information reported on both systems and . . . determine the reason for any discrepancy.

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(86) Office of Administrative Services

Unemployment Compensation
__CFDA #__: 17.225 **__Questioned Costs__:** None

__Finding__: Excessive cash balance in benefit account

There was an average daily cash balance in the benefit account equal to eight and one-half days of unemployment compensation benefit disbursements during June 1993. According to the contract, this excess was carried as a compensating balance with the bank covering the account charges.

The U.S. Department of Treasury Circular 1075 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."

Title 26 M.R.S.A. § 1162 states, " . . . the commissioner shall . . . requisition from the Unemployment Trust Fund the amounts . . . as he deems necessary for the payment of the benefits and refunds for a reasonable future period."

We understand the excessive balance in the benefit account represents the state's (employer paid) portion of the trust fund. In fiscal year 1994, the State of Maine started operating under the federal Cash Management Improvement Act. Under this Act, the State Department of Labor (MDOL) may request funds from the state portion of the trust fund up to three days before a disbursement. The state incurs an interest liability on the funds during the time from drawdown to bank clearance (pre-issuance funding).

Recommendation:

We recommend that MDOL maintain cash balances in the benefit account consistent with federal and state regulations.

Auditee Response:

Cash management is an important program for the department. A review of the procedure will be done to assure our cash management practices are consistent with federal and state regulations.

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(87) Office of Administrative Services
Unemployment Compensation Division
Office of Information Processing

Unemployment Compensation
CFDA #: 17.225 **Questioned Costs:** None

Finding: Reports on delinquent employer contributions differ

On its Contribution Operations Report (ETA 581) to the U.S. Department of Labor, the Maine Department of Labor (MDOL) reported $5,912,551 of delinquent employer contributions to the unemployment trust fund for the quarter and fiscal year-end June 30, 1993. This amount is for both contributory and direct reimbursement employers and is supported by the MDOL accounts receivable aging report.

However, the MDOL Accounting Control Report showed an accounts receivable balance of $5,280,278 at the 1993 fiscal year-end for both categories of employers. This differed from the ETA 581 by $632,273. It is significant because the Office of Administrative Services uses the Accounting Control Reports to post to their records and to make yearly reports to the Controller on trust fund accounts receivable.

Recommendation:

We recommend that MDOL determine the reasons for the difference and make the necessary corrections so that data between reports is consistent and accurate.

Auditee Response:

A meeting will be scheduled with Contributions, Office of Information Processing, Economic Analysis and Research Divisions to review the reports that generate accounting information. A review of employer accounts receivable will be made to assure information is generated to reflect actual activity during the accounting period.

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(88) Office of Administrative Services

Employment Services\Unemployment Compensation
CFDA #: 17.207/17.225 **Questioned Costs:** None

Finding: Equipment inventory discrepancies (Prior Year Finding)

The Office of Management and Budget (OMB) Uniform Administrative Requirements (Common Rule) states:

> . . . a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years . . . (and) . . . a control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage or theft shall be investigated.

Out of twenty-seven equipment items that we tested, fourteen originally costing $111,072 either could not be found or could not be accounted for.

Maine Department of Labor (cont.)

Recommendation:

We recommend that the Maine Department of Labor - Office of Administrative Services conduct a complete physical inventory of its capital equipment every two years. The physical inventory counts should be reconciled to the department's property records.

Auditee Response:

A review of the fourteen equipment items was done. Six items were found in the location reported on the sample test. One was found in another location and the property system has been adjusted to reflect the appropriate cost center. Three items were found as trade-in pieces used to purchase new equipment and the property system has been adjusted. When the equipment was examined by the auditors these items were not tested. During the examination our property officer was not available to assist this activity because of illness and could have assisted the auditor. The four (4) pieces outstanding are old (1985 and 1983) and unusable equipment and most likely were surplused and transferred to the scrap metal contractor. We are taking measures to ascertain that all surplus equipment is accounted for properly before disposition.

The Office of Administrative Services will conduct a complete agency wide equipment inventory during state fiscal year 1996 and reconcile the results to the records maintained at the Bureau of General Services. A smaller inventory will be conducted during fiscal year 1995 at the warehouse and 20 Union Street locations.

(89) Office of Administrative Services

Employment Service\Unemployment Compensation
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.

Maine Department of Labor (cont.)

The Maine Department of Labor (MDOL) personnel did not retain the Time Distribution Reports (form BM-3) for the 1993 fiscal year. This data is entered into the cost allocation system which generates the information used to report expenditures to the federal government.

In September 1993 the MDOL started maintaining Time Distribution Reports which will provide documentation of expenditures reported to the federal government.

Recommendation:

None.

Auditee Response:

As indicated by the auditor's finding, the Office of Administrative Services now retains the monthly time distribution reports until they can be reviewed by the auditors or until the record retention requirement is met.

(90) Office of Administrative Services - Division of Economic Analysis and Research

Employment Service\Unemployment Compensation
CFDA #: 17.207/17.225 **Questioned Costs:** None

Finding: Federal report submissions either late or not documented (Prior Year Finding)

Submissions of several federal reports were either late or undocumented. All submission requirements are published in Employment and Training Administration (ETA) handbooks. The reports with discrepancies were: Statement of Expenditure and Adjustments of Federal Funds for Unemployment Compensation for Federal Employees and Ex-service members (ETA 191); Contribution Operations (ETA 581); Overpayment Detection/Recovery Activities (ETA 227); and Federal Cash Transactions Report (SF 272).

Report	Report Period	Due Date	Submission Date	No. of Days Late	Reference
ETA 191	1/1/93-3/30/93	4/26/93	Undocumented	Unknown	ETA Handbook 401 § II-3-C

Maine Department of Labor (cont.)

ETA 581	7/1/92-9/30/92	11/20/92	11/25/92	5	ETA Handbook 401 § II-7-D
	10/1/92-12/31/92	2/22/93	2/24/93	2	
ETA 227	7/1/92-9/30/92	11/2/92	Undocumented	Unknown	Employment Security Manual, Part III, Sec. 5602
SF 272	4/1/93-6/30/93	7/30/93	Undocumented	Unknown	ETA Handbook 336, Chap. II

Recommendation:

We recommend that Maine Department of Labor comply with the federal regulations, submit the reports within the correct period, and document the submission dates.

Auditee Response:

The Department agrees to comply with federal regulations, submit reports within the correct period, and document the submission dates.

Department of Mental Health and Mental Retardation

(91) Bureau of Children With Special Needs -
Division of Mental Health Services
Division of Mental Retardation Services

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

Finding: Inadequate follow-up on subrecipients' corrective actions

We reviewed twenty-three subrecipient audit reports that contained findings and/or questioned costs. Other than subrecipient responses included in the audit reports, The Department of Mental Health and Mental Retardation (MHMR) did not document its efforts to ensure that subrecipients promptly correct any deficiencies noted. Accordingly, we could not determine whether subrecipients were prompt in correcting deficiencies.

Department of Mental Health and Mental Retardation (cont.)

Recommendation:

To strengthen the subrecipient monitoring and follow-up process, we recommend that MHMR maintain a written record of the resolution status of audit findings and questioned costs. We also recommend that it require subrecipients to report, in writing, all planned and completed corrective actions on findings and questioned costs.

Auditee Response:

We concur with the recommendation and have revised our audit report cover letter to include a paragraph requiring the subrecipient to report to the department in writing what corrective actions have, or will be, taken within 90 days following receipt of the audit report.

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(92) Bureau of Children With Special Needs -
Division of Mental Health Services
Division of Mental Retardation Services

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

Finding: No requirement for allowing independent auditors to access records

The Single Audit Act and the Office of Management and Budget (OMB) Audits of State and Local Governments (Circular A-128) require subrecipients to allow independent auditors access to their records and financial statements. Standard subrecipient contracts of The Department of Mental Health and Mental Retardation (MHMR) allow access by ". . . any authorized representative of the State of Maine or Federal Government . . ." but the contracts do not address access by independent auditors.

Recommendation:

We recommend that the department include language in standard subrecipient contracts that allows independent auditors to have access to subrecipients' records and financial statements.

Auditee Response:

We agree with the recommendation and will modify contracts to include access to records by independent auditors. Since the contract document has been promulgated through the Administrative Procedures Act as part of the department's exceptions to OMB Circulars, it will require going through the APA process to achieve this modification.

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(93) Division of Audit

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Medicaid provider audits/cost settlements not timely (Prior Year Finding)

Title 42 of the Code of Federal Regulations, § 447.253 requires the state Medicaid agency to provide for periodic audits of the financial records of the participating providers. We noted that neither state nor federal regulations specify the time for completion of Medicaid audits.

The Department of Mental Health and Mental Retardation (MHMR) - Division of Audit was authorized to perform cost settlement audits of one hundred and forty three Medicaid providers that provide services for the mentally ill and the mentally retarded. These providers include intermediate care facilities for the mentally retarded, boarding homes, and day programs.

As of October 1, 1994, MHMR-Division of Audit had not yet performed two hundred and thirteen Medicaid cost settlement audits:

Number of Settlement/Audits Not Yet Completed

Providers' fiscal year-end:	
1992	82
1993	131
Total	213

If audits are not performed promptly, providers could misuse Medicaid funds for several years before detection and before remedial action could be taken.

Recommendation:

We recommend that MHMR-Division of Audit ensure that Medicaid provider audits are performed promptly.

Auditee Response:

The department is well aware of the backlog of audits to be completed and has requested two additional positions in a supplemental request to the State Budget Office. If approved, we should be able to "catch up" approximately one year after the positions are filled.

(94) Division of Audit

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

Finding: Questioned costs not fully developed

The Department of Mental Health and Mental Retardation (MHMR) - Division of Audit discloses questioned costs of any subrecipient expenditures that do not comply with state or federal guidelines. The grantor agency may then disallow these costs and require repayment. MHMR auditors do not isolate costs related to federal financial assistance nor identify them by the Catalog of Federal Domestic Assistance number. This practice does not allow MHMR to adequately resolve questioned costs.

Recommendation:

We recommend that when developing questioned costs, the MHMR Division of Audit isolate those related to federal financial assistance and identify them by their CFDA number.

Auditee Response:

We concur with the recommendation and will be separating questioned costs between state and federal funds, as applicable, beginning immediately.

(95) Division of Audit

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

Finding: No policies on independence of auditors, disclosure of conflicts, confidentiality

The second general standard for government auditing requires that auditors be free from personal and external impairments to independence in all matters relating to the audit work.

The Department of Mental Health and Mental Retardation (MHMR) - Division of Audit does not formally require its auditors to report potential conflicts of interest or impairments to independence; nor does it require auditors to be accountable for confidential information obtained during their audits.

Recommendation:

We recommend that the MHMR Division of Audit develop the following:

1. A form for auditors to sign that certifies their independence;

2. A policy for disclosing personal or external impairments that prevent auditors from being independent in all matters related to the audit work; and

3. A statement for auditors to sign certifying that they understand the confidentiality policy and conform to it.

Auditee Response:

We agree with the recommendation and have implemented a requirement which achieves the essence of what is being recommended. All employees will henceforth be required to annually sign independence/disclosure statements.

(96) Division of Audit

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

Department of Mental Health and Mental Retardation (cont.)

Finding: Subrecipient audit reports submitted late

The Office of Management and Budget (OMB) Audits of Institutions of Higher Education and Other Non-Profit Organizations (Circular A-133) Paragraph 15i states the following:

> Subrecipient auditors shall submit copies to recipients that provided Federal awards. The report shall be due within 30 days after the completion of the audit, but the audit should be completed and the report submitted not later than 13 months after the end of the recipient's fiscal year . . . .

We reviewed thirteen subrecipient audit reports prepared by the Department of Mental Health and Mental Retardation-Division of Audit. Seven of these were submitted to the recipient after thirteen months.

Recommendation:

We recommend that the Division of Audit comply with Circular A-133 and submit subrecipient audit reports within the required thirteen months.

Auditee Response:

We concur with the recommendation, however, many reports have been delayed pending the receipt of reports from non-lead audit divisions as required by MAAP. We will continue to encourage non-lead auditors to provide their reports on a timely basis so that we can meet the 13 month requirement.

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(97) Division of Audit

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

Finding: Federal and state audit requirements not satisfied

The Department of Mental Health and Mental Retardation (MHMR) - Division of Audit is responsible for ensuring that audits of subrecipient nonprofit organizations satisfy federal and state audit requirements. MHMR has not fulfilled this responsibility. The Division of Audit reviews audits prepared by independent public accountants. It also issues audit reports based on work performed by MHMR auditors. The audits prepared by MHMR do not satisfy either federal or state audit requirements.

There are three levels of audit requirements, all of which require the auditor to comply with *Government Auditing Standards*.

1. **OMB Circular A-128**, ***Audits of State and Local Governments***:

   This circular requires the recipient organization (the state) to ensure that subrecipients to which it provides $25,000 or more in federal funds expend those funds in accordance with applicable federal laws and regulations. This includes ensuring that subrecipients have appropriate audits in accordance with the applicable federal guidance. For nonprofit subrecipients this guidance includes OMB Circular A-133.

2. **OMB Circular A-133**, ***Audits of Institutions of Higher Education and Other Nonprofit Organizations***:

   This circular establishes audit requirements for subrecipient nonprofit organizations. These requirements are based on the amount of federal assistance received: $100,000 or more requires an organization-wide audit; $25,000 to $100,000 requires either an organization-wide audit or a program-specific audit; and less than $25,000 requires no audit.

3. **MAAP**, ***Maine Uniform Accounting and Auditing Practices for Community Agencies***:

   This manual establishes rules pursuant to Title 5 M.R.S.A. Chapter 148-B governing accounting and auditing practices for community agencies. Its provisions require state agencies to coordinate their audits of nonprofit agencies and to make various audit options available to the community agencies. If the federal and state funds provided are between $25,000 and $100,000 MHMR auditors may conduct a "single audit" of the agency. MAAP defines a single audit as " . . . one financial and compliance audit of all funds contracted for between the State and community agency, excluding Medicaid . . . ."

MHMR has not satisfied its audit responsibilities.

1. Audits are not conducted in accordance with *Government Auditing Standards*. Audit reports do not comply with generally accepted governmental auditing standards. The reports do not refer to authoritative guidance, do not use consistent and correct terminology, and do not clearly identify the work performed or the subject on which an opinion is expressed. Additionally, auditors have not satisfied the qualifications

Department of Transportation (cont.)

Finding: No written policies to maintain internal auditor objectivity

In order to maintain an internal auditor's objectivity, the Statement of Auditing Standards (SAS) # 65, Section 10 states that auditing entities should have the following policies:

1. Policies prohibiting internal auditors from auditing areas where relatives are employed in important or audit sensitive positions; and

2. Policies prohibiting internal auditors from auditing areas where they were recently assigned or are scheduled to be assigned on completion of responsibilities in the internal audit.

The Maine Department of Transportation (MDOT) Office of Audit has not established these policies.

Recommendation:

We recommend that MDOT Office of Audit develop and maintain written policies according to the standards set forth in SAS #65.

Auditee Response

Based on these findings, the MDOT Office of Audit has developed written policies as set forth in SAS # 65.

Department of Defense and Veteran's Services

(100) Maine Emergency Management Agency

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

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

During fiscal year 1993, the Maine Department of Defense and Veterans Services (DVS) did not

Department of Mental Health and Mental Retardation (cont.)

3. *The department will explore further the requirement to participate in an external quality control review.*

4. *We do believe that we have used due professional care when conducting our audits.*

5. *MAAP rules are vague and do not specifically state that any particular audit unit will be responsible for all state and federal funds from all state departments issuing agreements to a particular subrecipient. Our jurisdiction is within our own department as MAAP required all department to be responsible individually.*

6. *State audit units do not conduct organizational-wide audits. Those statements are the primary responsibility of the public accountant. Likewise, major federal programs are also covered by the IPA in accordance with A-133 and MAAP.*

7. *Most, if not all, our agreements do not contain more than one federal CFDA under $100,000. Thus, we do issue the required reports as indicated in the finding. However, our reports do not specifically indicate the particular federal program audited. There are a few agencies receiving federal funds under $100,000 and we have audited them in accordance with applicable rules and regulations. Our work papers would attest to this fact. If MAAP rules are repealed the IPA could be responsible for the few remaining agreements we have requiring a program specific audit.*

Department of Transportation

(98) Office of Audit

Highway Planning and Construction
CFDA#: 20.205 **Questioned Costs:** None

Finding: Continuing education requirements not satisfied

Government Auditing Standards require an audit organization to ensure that its staff maintain professional proficiency through continuing professional education (CPE). Accordingly, auditors responsible for planning, directing, conducting or reporting on government audits must complete at least eighty CPE hours every two years. At least twenty hours must be completed in any one year of the two-year period.

Department of Transportation (cont.)

Since January 1, 1993 five of the seven staff of the Office of Audit have not completed the minimum twenty hours in one year; and two staff auditors received no CPE.

Recommendation:

We recommend that the department ensure that all staff auditors complete CPE requirements.

Auditee Response:

Your finding indicated that Government Auditing Standards require that auditors responsible for planning, directing, conducting, or reporting on government audits must complete at least 80 CPE hours every two years and that at least 20 hours must be completed in any one year of the two year period. The report further stated that, for the two year period beginning January 1, 1993, the following was noted:

1. *Five of the seven staff of the Office of Audit have not completed the minimum 20 hours in one year; and*

2. *Two staff auditors received no CPE.*

We do not agree that the Standards state that 20 hours must be completed in any one year of the two year period. The specific language in the standards is "At least 20 hours should be completed in any 1 year of the 2-year period." [emphasis added] We agree that five of the seven staff did not complete the minimum recommended 20 hours in the first year of the two year period and that, as of the time of your review, two staff auditors had received no CPE. As of the end of the two year period on December 31, 1994, all staff of the Office of Audit have completed the required 80 hours of CPE including 24 hours of Government related training.

We have included Continuing Education Requirements in our revised Audit Manual which will guide the staff and management of the Office of Audit in completing the CPE requirements as required. It is our intent, as identified in our policy, to comply with the recommended completion of at least 20 hours in each year of ensuing biennial periods.

(99) Office of Audit

Highway Planning and Construction
CFDA: 20.205 **Questioned Costs:** None

Department of Transportation (cont.)

Finding: No written policies to maintain internal auditor objectivity

In order to maintain an internal auditor's objectivity, the Statement of Auditing Standards (SAS) # 65, Section 10 states that auditing entities should have the following policies:

1. Policies prohibiting internal auditors from auditing areas where relatives are employed in important or audit sensitive positions; and

2. Policies prohibiting internal auditors from auditing areas where they were recently assigned or are scheduled to be assigned on completion of responsibilities in the internal audit.

The Maine Department of Transportation (MDOT) Office of Audit has not established these policies.

Recommendation:

We recommend that MDOT Office of Audit develop and maintain written policies according to the standards set forth in SAS #65.

Auditee Response

Based on these findings, the MDOT Office of Audit has developed written policies as set forth in SAS # 65.

Department of Defense and Veteran's Services

(100) Maine Emergency Management Agency

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

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

During fiscal year 1993, the Maine Department of Defense and Veterans Services (DVS) did not have a system to ensure that subrecipient audits for the following programs were performed according to federal regulations:

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 a state government to do the following if, in a fiscal year, it provides $25,000 or more of federal financial assistance to a subrecipient:

1. Determine whether the subrecipient met the audit requirements of the Circular;

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

3. Ensure that it takes corrective action within six months after receiving the audit report;

4. Consider whether a subrecipient audit requires the recipient to adjust its own records.

Effective July 8, 1994 the Department of Audit agreed to provide technical support to ensure that DVS subrecipient audits are performed according to federal regulations.

Recommendation:

None.

State of Maine
Status of Unresolved Significant or Material Findings and Recommendations
For the Years Ended Prior to June 30, 1993

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) 1992	1993
Department of Administrative and Financial Services		
Accounting system does not comply with GASB principles	65	69
Department of Administrative and Financial Services - Bureau of General Services		
Incomplete General Fixed Assets Account Group records	81	69
Department of Administrative and Financial Services - Bureau of Taxation		
Inadequate tax reconciliations and revenue recognition procedures overstate General Fund fund balance	82	71
Department of Administrative and Financial Services - Division of Financial and Personnel Services		
Maine Uniform Accounting and Auditing Practices Act (MAAP) not effectively administered	84	96

State of Maine
Summary of Questioned Costs
By Federal Agency
For the Year Ended June 30, 1993

Federal Grantor Agency	CFDA Number	State Agency	Amount	Finding Number
U. S. Dept. of Agriculture	10.557	Human Services	$ 3,804	76
Total U. S. Dept. of Agriculture			3,804	
U.S. Dept. of Health & Human Services	93.802	Human Services	135,822	69
Total U.S. Dept. Health & Human Services			135,822	
U.S. Dept. of Housing & Urban Development	14.228	Economic & Community	41,278	45
	14.228	Development	28,845	49
	14.228		32,634	50
Total U.S. Dept. of Housing & Urban Dev.			102,757	
Various	Various	Dept. of Administrative	204,983	37
Various	Various	& Financial Services	139,000	38
Various	Various		3,600,000	39
Various	Various	Dept. of Education	363,231	57
Various	Various	Human Services	506,698	81
Grand Total			$5,056,295	

State of Maine
Summary of Questioned Costs
By State Agency
For the Year Ended June 30, 1993

State Agency	CFDA Number	Federal Agency	Amount	Finding Number
Dept. of Administrative and Financial Services	Various	Various	$ 204,983	37
	Various	Various	139,000	38
	Various	Various	3,600,000	39
Total Dept. of Administrative and Financial Services			3,943,983	
Dept. of Economic and Community Development	14.228	Housing & Urban Dev.	41,278	45
	14.228	Housing & Urban Dev.	28,845	49
	14.228	Housing & Urban Dev.	32,634	50
Total Dept. of Economic and Community Development			102,757	
Dept. of Education	Various	Various	363,231	57
Total Dept. of Education			363,231	
Dept. of Human Services	10.557	Agriculture	3,804	76
	93.802	Health & Human Services	135,822	69
	Various	Various	506,698	81
Total Dept. of Human Services			646,324	
Grand Total			$5,056,295	

State of Maine
Resolution Status of Prior Questioned Costs
For the Year Ended June 30, 1993

Year	State Agency & Federal Program	Federal Agency	CFDA Number	Amount	Current Status Unresolved	Current Status Resolved
	Administrative & Financial Services:					
1992	Various Federal Programs	Various	Various	$5,975,672	X	
	Total Administrative & Financial Services			$5,975,672		
	Human Services:					
1990	Food Stamps - Admin	USDA	10.561	$ 633	X	
1990	Food Stamps - Admin	USDA	10.561	1,810	X	
1990	Food Stamps - Admin	USDA	10.561	18,101	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	Rehab. Services - Basic Support	ED	84.126	1,460	X	
1991	Crime Victim Assistance	DOJ	16.575	140	X	
1991	Social Services B/G	HHS	93.667	1,064	X	
1991	Medical Assistance Program	HHS	93.778	2,449	X	
1991	ADMS Block Grant	HHS	93.992	40,438	X	
1991	Food Stamps	USDA	10.551	2,441	X	
1991	Various Federal Programs	Various	Various	366,882	X	
1992	Child Support Enforcement	HHS	93.023	85	X	
1992	Medical Assistance Program	HHS	93.778	129	X	
1992	Various Federal Programs	Various	Various	97,451	X	
	Total Human Services			$908,646		
	Mental Health & Mental Retardation:					
1990	Alcohol Drug Abuse B/G	HHS	93.992	$6,000	X	
	Total Mental Health & Mental Retardation			$6,000		
	Economic & Community Development:					
1991	Community Development Block Grant	HUD	14.228	$12,526	X	
1992	Community Development Block Grant	HUD	14.228	33,367	X	
	Total Economic & Comm. Development			$45,893		

State of Maine
Resolution Status of Prior Year Questioned Costs
For the Year Ended June 30, 1993

Year	State Agency & Federal Program	Federal Agency	CFDA Number	Amount	Current Status Unresolved	Resolved
	Education:					
1992	Vocational Education - Basic Grants	ED	84.048	$49,176	X	
1992	Rehabilitation Services - Basic Support	ED	84.126	70	X	
1992	Various Federal Programs	ED	Various	56,823	X	
	Total Education			$106,069		
	Bureau of Human Resources:					
1991	Various Federal Programs	Various	Various	$615,437	X	
	Total Bureau of Human Resources			$615,437		
	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	139,000	X	
	Total Maine State Library			$612,497		
	Maine State Retirement:					
1992	Various Federal Programs	Various	Various	$248,483	X	
	Total Maine State Retirement			$248,483		
	Grand Total			$8,520,799		

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
FAX 287-2351

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, 1993, 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 December 21, 1994. A separate report dated December 21, 1994, contains our report on reportable conditions on the State's internal control structure. This letter does not affect our report dated December 21, 1994, 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

December 21, 1994

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State of Maine
Management Letter Findings and Recommendations
For the Year Ended June 30, 1993

Department of Administrative and Financial Services

(101) Bureau of Accounts and Control

Finding: Special revenue funds incorrectly classified as trust funds

The Coastal and Inland Surface Oil Cleanup Fund had a fiscal 1993 year-end balance of $4.3 million and the Groundwater Oil Cleanup Fund had a balance of $11 million. The Controller's records classify these funds as expendable trust funds. However, the purpose of these funds is to account for fees, fines and penalties associated with the intrastate transportation and storage of petroleum products. Disbursements are restricted to oil spill cleanup and remediation costs, in accordance with 38 M.R.S.A. § 551 and § 569-A.

According to the Codification of Governmental Accounting and Financial Reporting Standards (GASB), trust funds should be used to account for assets held by a governmental unit in a trustee capacity. Conversely, accounting for proceeds from specific revenue sources and expenditures that are legally restricted for specific purposes should be classified as special revenue funds.

Recommendation:

We recommend that the Controller use GASB guidelines and reclassify the Maine Coastal and Inland Surface Oil Cleanup Funds and the Groundwater Oil Cleanup Fund as special revenue funds.

Auditee Response:

We agree with your interpretation and we will close out the trust funds and transfer all monies to Other Special Revenue Fund accounts.

(102) Bureau of Accounts and Control

Finding: Incorrect accounting for working capital advance (Prior Year Finding)

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. In addition, we recommend that the bureau correct the entries for the Annual Financial Report - GAAP Statements.

Auditee Response:

Accounts and Control is aware of this problem and will develop procedures to account for all transfers correctly.

(103) Bureau of Accounts and Control

Finding: Records of interagency transactions not centralized (Prior Year Finding)

Title 5 M.R.S.A. § 1545 provides the Bureau of Accounts and Control with authority to do the following: ". . . 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 Controller should maintain a permanent record of all transactions that 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 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:

The Bureau of Accounts and Control considered this recommendation and decided that current procedures provide adequate documentation of transactions between state agencies.

(104) Bureau of Accounts and Control

Finding: User identifications for Human Resource system not adequately monitored

During our review of MFASIS' access controls for the Human Resource system (HRMD) we noted that user identifications (ID) of several employees remained active after the personnel transferred or terminated, and one after the agency was abolished. This was due to lack of communication between the agencies where the employees worked and the Bureau of Accounts and Control.

Recommendation:

We recommend the Bureau of Accounts and Control develop a method to remove any invalid user IDs, and to monitor those that access HRMD.

Auditee Response:

Our current security form requires that agency security coordinators, when requesting new security for an employee, indicate the name of the former employee. In addition, when a *modification is made to an agency's security, a roster of the respective agency's employees, who have system access, is mailed to the agency security coordinator. It is the agency security coordinator's responsibility to inform us of staffing changes that affect security access to the human resource system. I recommend that we send a memo, with an agency security roster, to agency security coordinators reminding them of this responsibility.*

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(105) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Alcoholic Beverages Fund / Revenue recognition of sales to agency stores

Payments of $118,000 received for liquor shipped to agency stores on or before June 30, 1993 are included in revenue for fiscal year 1994. Revenue should be recognized on the accrual basis in the accounting period in which it is earned and becomes measurable.

Historically, sales on the last day of the state fiscal year have not been recorded and recognized as revenue until the next fiscal period.

Recommendation:

We recommend that the bureau recognize revenue from sales in the same fiscal year as earned.

Auditee Response:

The bureau agrees with the amount of revenue not recorded correctly. Procedures have been implemented to prevent this from occurring in the future.

---

(106) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Alcoholic Beverages Fund / Inadequate capital equipment inventory control

State inventory control procedures require documentation of capital equipment transactions. Equipment Adjustment Slips (EAS) must be used for inventories to report any physical changes.

The slips should be signed in order to maintain control authorization and approval for such transactions.

The Bureau of Alcoholic Beverages and Lottery Operations did not maintain adequate control over $205,000 of capital equipment when it closed thirty-one state liquor stores. The bureau did not complete the EAS as required by state inventory control procedures to report inventory relocation.

Recommendation:

To ensure that capital equipment inventory items are adequately controlled and protected, we recommend that the agency follow state inventory control procedures. We further recommend that the agency prepare a control listing for the remaining stores in order to identify the current location for any items moved.

Auditee Response:

The Bureau will utilize proper inventory control procedures in future transactions. Inventory Adjustment Slips will be required to report a change relating to capital equipment. A capital equipment schedule is now being maintained.

(107) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Alcoholic Beverages Fund / Incorrect inventory valuation (Prior Year Finding)

The Bureau of Alcoholic Beverages and Lottery Operations uses a "current cost" method for establishing the value of its liquor inventory. This practice does not conform with generally accepted accounting principles nor does it comply with 28-A M.R.S.A. § 164 which requires inventory to be valued at cost.

Recommendation:

We again recommend that the Bureau of Alcoholic Beverages and Lottery Operations record inventory at cost and use an acceptable inventory costing method such as last-in, first-out (LIFO) or first-in, first-out (FIFO).

Auditee Response:

The Bureau agrees with the auditor's recommendation. The costing method used is due to constraints of the computer system of the Bureau of Alcohol Beverages which will not support a more sophisticated system that would be more compatible with retail inventory costing.

(108) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Alcoholic Beverages Fund / Lack of inventory procedures (Prior Year Finding)

The Bureau of Alcoholic Beverages and Lottery Operations 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 bureau has developed written procedures for conducting physical inventories of liquor in the state liquor stores. These procedures have been adopted as the standard and will be included in the Store Operations Manual. Distribution will be made to the stores in December of 1994.

(109) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Alcoholic Beverages Fund/Agency stores submitted blank checks (Prior Year Finding)

Due to its interpretation of 28-A M.R.S.A. § 352, subsection 1, D, the Bureau of Alcoholic Beverages and Lottery Operations requires agents to submit endorsed, blank checks with liquor orders. This practice contributes to poor internal control.

Recommendation:

We again recommend that the Bureau of Alcoholic Beverages and Lottery Operations 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:

M.R.S.A. § 352, sub. sec. 1-D has been amended. There no longer is any need to require blank checks for payment of liquor shipments by licensed agents. Agents may now mail a check for payment within three days of receipt of a liquor delivery.

(110) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Alcoholic Beverages Fund/Journal entries not approved (Prior Year Finding)

Profit earned on the sale of alcoholic beverages is transferred by monthly journal entries from the bureau's enterprise fund to the General Fund. Two of twelve journal entries made during the audit period did not have approval signatures.

Recommendation:

We again recommend review and approval of all journal vouchers prior to transferring profit to the General Fund.

Auditee Response:

According to the Deputy State Controller, there is no requirement that journal vouchers have two signatures provided that the signer is authorized to do so; however, the department will attempt to obtain two signatures whenever possible.

Department of Administrative and Financial Services (cont.)

(111) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Alcoholic Beverages Fund/Outdated audit guide for liquor stores

The only state guide for conducting audits of liquor stores was compiled in 1971: Manual for Conducting Audits of Liquor Stores and Warehouse - Maine State Liquor Commission. This manual has only limited value since the state's accounting system has changed over the last twenty-three years.

Recommendation:

We recommend that the department develop a new guide for conducting liquor store audits.

Auditee Response:

Liquor store audit programs have been expanded over the past eighteen months to include current procedures. However, this has not been reduced to writing in a manual format. This will be completed by April 1995.

---

(112) Bureau of Alcoholic Beverages and Lottery Operations

Finding: State Lottery Fund / Lack of established written procedures

The Maine State Lottery disburses prize monies directly to winning ticket holders. Prior to payment, certain procedures should be followed that document validation of winning tickets and approval of disbursements. The Lottery has no established written procedures related to the handling and processing of prize disbursements.

Recommendation:

We recommend that the bureau develop written procedures to follow when it disburses prizes to the winning ticket holders.

Auditee Response:

Procedures for the disbursement of prizes have been rewritten as recommended by the auditor.

(113) Bureau of Alcoholic Beverages and Lottery Operations

Finding: State Lottery Fund / Support documents not located

During the course of our audit we were unable to locate documentation to verify or support $5,815 in instant ticket sales and $10,009 in disbursements to lottery prize winners.

Recommendation:

We recommend that the Bureau of Alcoholic Beverages and Lottery Operations retain all records through the audit period in order to document instant ticket sales and prize disbursements.

Auditee Response:

We agree these two documents could not be located.

(114) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Service auditor's report needed for 1994 audit

A service auditor's report on the operating effectiveness of policies and procedures of Scientific Games, Inc. is needed for the 1994 audit of the Maine State Lottery.

Scientific Games Inc., of Atlanta, Georgia is the service organization responsible for recording and processing transactions of the Maine State Lottery's instant games. In fiscal year 1994 the service organization changed the computer system used to process transactions for the Instant Games. This would have altered the service organization's internal control policies and procedures. To assess the adequacy of the internal controls, the user organization, Maine State Lottery, and its auditor should obtain a service auditor's report.

Recommendation:

We recommend that the Maine State Lottery contact the service organization and request a copy of a service auditor's report. Professional auditing standards (SAS No. 70) state:

> The type of engagement to be performed should be established by the service organization. However, when circumstances permit, discussions between the service organization and the user organization are advisable to determine the type of report that will be most suitable for the user organization's needs . . . ..

The Maine Department of Audit could assist the Maine State Lottery in carrying out this recommendation.

Auditee Response:

Discussions will be held with Maine State Lottery officials on how best to implement the finding for fiscal year 1994.

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(115) Bureau of Alcoholic Beverages and Lottery Operations

Finding: State Lottery Fund / Difference in accounts receivable not reconciled

As of June 30, 1993, the Bureau of Alcoholic Beverages and Lottery Operation's detail records show an accounts receivable balance, after adjustments, of $3,247,195; however, the Controller's records show an ending balance of $3,539,708, a difference of $292,513.

The difference resulted primarily from commission expenses that were incorrectly coded due to a computer program error.

Recommendation:

We recommend that the bureau investigate the difference in the receivable balances, consult with the Controller's office and make the appropriate adjusting entry.

Auditee Response:

The difference in accounts receivable between the agency and the Controller's office has been investigated and an adjustment will be made.

(116) Bureau of Alcoholic Beverages and Lottery Operations

Finding: State Lottery Fund / Accounts receivable not routinely reconciled (Prior Year Finding)

The Bureau of Alcoholic Beverages and Lottery Operations does not reconcile the accounts receivable detail for instant ticket vendors to the Controller's records on a regular basis.

Failure to reconcile as a routine practice could result in inaccurate financial information or loss of assets.

Recommendation:

We again recommend that Lotttery accounting personnel reconcile the instant tickets accounts receivable detail to the Controller's records on a regular basis.

Auditee Response:

A program has been written which will enable the Bureau of Lottery to obtain a listing of all agent accounts with which the accountant will be able to reconcile the Accounts Receivable. This will be done routinely as recommended by the auditor.

(117) Bureau of Alcoholic Beverages and Lottery Operations

Findings: Certain practices of the Tri-State Lottery Commission do not comply with Maine laws

The following are specific findings and recommendations as apply to Maine State Lottery's participation in the Tri-State Lottery.

Department of Administrative and Financial Services (cont.)

The Tri-State Compact provides that *Fifty percent of the gross sales from each state will be aggregated in a common prize pool, and operating costs will be charged proportionally according to sales, to the party states.* All operating costs are not charged *proportionally*. Exceptions are: the facilities management fee that is based on contracted percentage of operating revenue that varies from state to state; Daily Number expenses that are allocated to each state based on Daily Number ticket sales; and per diem charges and certain printing and miscellaneous costs which are allocated based on actual charges generated by each state. The Tri-State Lottery also allows the member states to have specific advertising expenses that are based on historical sales.

According to discussion with Tri-State lottery representatives, they decided to allocate the expenses on state specific basis because of the varying costs incurred by the member states. Our comments below relate to certain of these expenses.

1. **Per diem expenses not in compliance with Maine statutes**

   Per diem expenses are established by 5 M.R.S.A. § 12004-G,14 as the same as the legislative per diem or $55 per day. Additionally, 8 M.R.S.A. § 373 provides that members of the Maine Lottery Commission not be compensated for more than twenty meetings per year. In our review of Tri-State lottery detail expense reports, we found that the per diem was paid as follows:

   We note that these totals do not include any per diem paid for attendance at the Maine State Lottery Commission meetings. The statutory limit is not adequate to permit full participation in both the state and Tri-State commission meetings.

FY	Per Diem	# Days	Minimum Excess Per Diem
1992	$3,190	59	$1,500
1993	1,595	29	450
1994	1,980	36	750

Recommendation:

We recommend that the Maine State Lottery Commission draft legislation to amend 8 M.R.S.A. § 373 to recognize the additional time commitment required of the Tri-State Commissioner or take appropriate action to comply with the statutory limitation.

Auditee Response:

Per diem rates paid to members of the Maine State Lottery Commission and the Tri-State Commission are in accordance with M.R.S.A., S12004-G, 14. Also, we find no evidence that

Department of Administrative and Financial Services (cont.)

Maine State Lottery Commissioners were compensated for more than 20 meetings per year. We are of the opinion, after legal counsel, that meetings of the Tri-State Commissioners, which a representative of the Maine State Lottery Commission attends, are separate and apart from the 20 meetings limitation as imposed by 9 M.R.S.A., S373, for Maine State Lottery Commission meetings.

2. **State-specific advertising not allowed**

   As part of the annual advertising budget, the Tri-State Commission allocates $200,000 to Maine, $200,000 to New Hampshire, and $100,000 to Vermont. The amounts spent are not charged proportionally to sales by the member states.

   It was not readily distinguishable whether a specific charge benefitted Tri-State games as opposed to state lottery operations. For example, we noted a $12,000 charge paid in July 1993 for Maine expenses associated with *agent events* in Portland, Bangor, and Presque Isle.

   The state-specific advertising expenses do not comply with the Tri-State Compact as they are not allocated proportionally to sales. Additionally, because expenses of member states may be shifted to Tri-State, state legislative budgetary and expenditure controls can be overridden.

Recommendation:

We recommend that the Compact be amended to allow state specific expenses or the states should comply with the Tri-State Compact.

Auditee Response:

You have presented this finding as a specific Maine State Lottery Commission issue, but it will require action by the Tri-State Commission. However, all advertising expenses are reviewed and approved by the using lottery and monitored by the Tri-State business representative to ensure all such costs are proper and in the promotion of Tri-State products.

Having said that, I will recommend to the Maine representative of the Tri-State Commission to support a policy change allowing for State-specific advertising allocations based proportionally to sales and to continue the policy for allowing only those expenditures relating to the promotion of Tri-State products.

3. Daily Numbers Expenses

According to the Tri-State Compact, "*Tri-State Lotto*" means . . . *a combined lotto game for all member states, with common tickets, common advertising and a common prize pool*. There are now only two games that meet this definition: Cash-5 and Megabucks. As stated in Policy No. 5 of the Commission Policies, Rules and Regulations, *The daily number games, Pick3 and Pick 4, shall be considered state games, but a common drawing may be conducted by the Tri-State Commission*. The daily number games do not have a common prize pool and therefore do not meet the statutory definition of a combined lotto game to be administered by the Commission. The common draw was implemented to reduce expenses to the individual states. However, because all draw expenses (media time and personnel services) for the daily number games are paid directly by the Commission, state and legislative budgetary approval and expense controls are bypassed. If Pick-3 , Pick-4 expenses are recorded as expenses of Tri-Sate, game specific financial reports may be misstated. Net profits will not be affected. According to the report of the independent public accountant, Daily Numbers expenses paid on behalf of the member states for the 1994 fiscal year were $102,460; Maine's share of these expenses was $47,410. A related issue regarding personnel compensation follows.

Recommendation:

None

Auditee Response:

This is an issue that must be resolved by the Tri-State Commission. However, as you noted in your report, net profits to the states are not affected under the current operating procedures. Nevertheless, because the daily numbers games do not satisfy the definition of the "Tri-State Lotto" and it is determined that the present procedures for conducting the daily numbers games is the most appropriate, I will recommend to the Tri-State Commission to take the necessary action to make the daily numbers games a Tri-State game.

4. Compensation of state employees conflicts with Maine statutes

The Tri-State Lottery Commission directly compensates certain lottery employees of the member states for services provided but has no formal contracts or agreements with the individuals.

Department of Administrative and Financial Services (cont.)

Four Maine State Lottery employees receive such extra compensation. The Deputy Director and a Management Analyst I are each paid at $60 per hour for internal control computer work; two Lottery Field Representatives are each paid $45 per drawing for monitoring the draws. Gross individual compensation for the 1994 fiscal year for these four state employees was:

Deputy Director	$14,160
Management Analyst I	13,770
Lottery Field Representative	10,530
Lottery Field Representative	10,575
Total	$49,035

This compensation agreement does not appear to comply with Maine state laws as follows:

Title 5 M.R.S.A. § 18, Disqualification of executive employees from participation in certain matters, states in part: *An executive employee commits a civil violation if he personally and substantially participates in his official capacity in any proceeding in which, to his knowledge, any of the following have a direct and substantial financial interest: A. Himself, his spouse or his dependent children . . . D. An organization in which he has a direct and substantial interest . . . ..* Section 18 (1) D. defines *Proceeding* to mean . . . *a proceeding, application, request, ruling, determination, award, contract, claim, controversy, charge, accusation, arrest or other matter relating to governmental action or inaction.*

Additionally, 17 M.R.S.A. § 3104, Conflicts of interest; purchases by the State, says: *No trustee, superintendent, treasurer or other person holding a place of trust in any state office or public institution of the State shall be pecuniarily interested directly or indirectly in any contracts made in behalf of the State or of the institution in which he holds such place of trust, and any contract made in violation hereof is void.*

The Deputy Director appears to have a conflict of interest and may be committing a civil violation because she may be involved in decisions regarding the state's continued relationship with the Tri-State Lottery while at the same time receiving direct compensation from Tri-State of over $14,000 per year.

We note that in June 1988 the Maine State Lottery received an opinion from the Maine Department of the Attorney General on the authority of employees of the Maine State Lottery to receive additional compensation from the Tri-State Lottery Commission for attending and monitoring the Pick-3 and Pick-4 daily numbers games. The opinion said that Tri-State could pay such compensation if it was for services outside the scope of employees' normal duties and if no personnel rule or regulation prohibited it. The opinion also refers to other correspondence giving an opinion that it was not appropriate for the Deputy Director to accept such compensation for work that fell within the scope of her duties as Deputy Director. The Maine State Lottery has taken the position that the services provided are not within the scope of the normal duties of the Deputy Director. However, Lottery does not seem to have considered the provisions of Titles 5 and 17 M.R.S.A. cited above. In our opinion, a conflict of interest exists when policy officials receive additional compensation from an organization they are required to monitor and supervise.

Because Pick-3 and Pick-4 are state and not Tri-State games, the expenses paid by Tri-State for draw monitors are, in effect, state expenses. Effectively, therefore, the Maine State Lottery rather than Tri-State is contracting with and compensating its own employees for additional services rendered. The rate of this compensation is not set by state personnel guidelines or by competitive bidding as is required for services by other than state employees. Title 5 M.R.S.A. § 1816 , Bids, awards and contracts, provides that . . . *the State Purchasing Agent shall make purchases of services, supplies, materials, and equipment needed by the State or any department or agency thereof by competitive bidding.*

Recommendation:

We recommend that the Maine State Lottery consult with legal counsel regarding its personnel arrangements with the Tri-State and Daily Numbers games and take corrective action to eliminate or minimize any real or potential conflicts of interest.

Auditee Response:

The bureau will initiate in the immediate future efforts to obtain the required supervisory services from individuals who are not employees of the Bureau. It will, however, be necessary to have a Bureau employee present to unlock, oversee the activities of the contractor, and secure the building at the end of the activity. We will look to Tri-State to fund the contract and to compensate the supervisor.

5. Commission and vendor expenses intermingled

Vendors regularly attend and participate in subcommittee monthly meetings. Vendors and Tri-State representatives customarily join each other for the evening meal. A vendor pays for bus transportation to the restaurant. A Tri-State credit card is used to pay for meal expenses for all who attend, including present and potential vendors. The vendors in turn pay for the dinner beverages. Although credit card documentation is incomplete, we noted one restaurant charge that partially documents this arrangement. At least three of the ten people whose meals were paid were individuals whose companies had contracts with either Tri-State or the member states. The restaurant receipt identified charges for food items only; no beverages were listed. The practice of paying for the vendors' meals while accepting beverages paid for by the vendors may effectively result in paying for prohibited beverages. This arrangement does not comply with various provisions of both Tri-State and Maine contracts and laws.

The member states contract individually for facilities management (on line) fees. Maine's contract for these services includes standard contract language: STATE EMPLOYEES NOT TO BENEFIT: *No individual employed by the State at the time this contract is executed or any time thereafter shall be admitted to any share or part of this Contract or to any benefit that may arise therefrom directly or indirectly due to his other employment by or financial interest in the Contractor or any affiliate of the Contractor.* The contract payment provisions are based on a set percentage of sales; there is no provision for payment of other vendor expenses such as meals. Additionally, Title 2 M.R.S.A. § 5, Acceptance of gifts, provides that the Governor is authorized to accept in the name of the state any and all gifts, bequests, grants or conveyances to the State of Maine. No other state official may accept any gift with a value greater than $50 unless specifically authorized to do so. Also, 5 M.R.S.A. § 8-I Fees and receipts states: *All fees, charges, emoluments and other receipts of whatever nature, which may be payable to any state official or employee, excepting their lawful salaries and expenses properly payable to them, shall be credited to the General Fund or special revenue funds as appropriate . . . .* Maine expense policies prohibit payment of alcoholic beverages.

Recommendation:

We recommend that commission representatives not pay for vendor expenses other than for those contracted and not accept any items paid by vendors other than advertising material of nominal value such as a calendar.

We recommend that the commission annually advise, in written form, all of its vendors and employees of its policies in this regard.

Auditee Response:

I concur with the audit recommendations and will recommend that the Tri-State Commission redraft the expense policy to ensure compliance.

(118) Bureau of Accounts and Control - Pre-Audit Division Bureau of General Services - Division of Purchases

Finding: Inappropriate use of Open Market Purchase Orders

We examined invoices and supporting documents for thirteen Open Market Purchase Orders (PO) to determine whether their uses complied with established internal control procedures. We found that the Bureau of Accounts and Control - Pre-Audit Division approved payment for a purchase order of $322 for printing services without prior approval of the Division of Purchases.

According to the policy manual for the Division of Purchases, printing services are not an allowable use of Open Market Purchase Orders. In addition, they require the division's prior approval. The Pre-Audit section was not aware of this policy exception.

Current procedures require that after payment the Pre-Audit section forward Open Market Purchase Orders to the Division of Purchases which then reviews them for acceptability and confirms that the POs were used for items that were not under contract. Division personnel then verbally advise agencies if the POs were used incorrectly. However, these communications are not documented and therefore cannot be verified. Thus, the extent of any inappropriate use and consequently the effectiveness of the procedure cannot be determined.

Recommendation:

We recommend that the Bureau of Accounts and Control approve for payment only those invoices accompanied by appropriate documentation.

We recommend that the Division of Purchases retain documentation of any communications advising agencies of their noncompliance with purchasing policies and procedures.

Auditee Response:

Bureau of Accounts and Control:

Agency did not respond.

Division of Purchases:

The Division of Purchases agrees with this finding. Training will be given to the Bureau of Accounts and Control. Appropriate record of agency notification of non-compliance will be kept.

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(119) Bureau of General Services - Division of Purchases

Finding: Inadequate control over Open Market Purchase Orders

The central warehouse for the Division of Purchases keeps supplies of prenumbered Open Market Purchase Orders (POs) in an insecure open bin and does not account for their distribution. Vendors accept POs as authorization for purchases up to $1,000 that can be billed to the state. Therefore the warehouse should hold the POs in a secure area and account for their use.

Recommendation:

We recommend that the Division of Purchases maintain adequate control over POs by providing a secure storage area, restricting access to the area, and by maintaining records of PO distributions to authorized personnel of the various state agencies.

Auditee Response:

The division agrees with this finding about the security of PO documents although there is limited access to the inventory by the public. POs will be stored.

The PO distribution is tracked by department so that POs can be associated with a particular order, if needed. An authorized person is not recorded but the ordering document does contain a department official's approving signature which allows for past verification, if required.

Department of Administrative and Financial Services (cont.)

(120) Bureau of General Services - Division of Purchases

Finding: Suspense account should be closed and income distributed to various funds (Prior Year Finding)

Before fiscal year 1993, the Division of Purchases recorded transactions from the sale of surplus property in a suspense account of its Internal Service Fund. Part of the suspense account balance dated back to March 1984. A suspense account is only a temporary holding account and the division should not have retained old items in the account balance.

Once the division identified the agency that provided the surplus property, it should have reduced the suspense account and distributed revenue from the sale to that agency. Also, as established by the division's policies and procedures, the General Fund should have received some sale proceeds. However, to date, the suspense account still holds approximately $412,000 in old balances which has not been distributed to various state agencies.

Recommendation:

We recommend that the Division of Purchases continue to review the suspense account and make the appropriate adjustments. If details of old items are unavailable and correct entries unclear, we recommend the division close the suspense account and distribute income to the various funds based on analysis of historical data.

Auditee Response:

The Division of Purchases agrees with the finding. It should be noted that the balance in the suspense account represents prior year transactions. These will be liquidated as described within the finding.

(121) Bureau of General Services - Division of Purchases

Finding: Poor internal controls over fixed assets

The Division of Purchases did not reconcile capital equipment records with the control ledger balances. The equipment detail records were $9,200 more than the control account, while building improvements records were $9,535 less. In addition, the division has not conducted a physical inventory of equipment in seven years.

Recommendation:

We recommend that the division periodically reconcile the detail records to the equipment and accumulated depreciation control accounts. We also recommend that it complete a physical inventory.

Auditee Response:

We agree. The various operating locations will be given copies of the inventory and will perform a physical inventory.

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(122) Bureau of Information Services - Telecommunications Division

Finding: Inadequate internal control over fixed assets

The Telecommunications Division did not conduct a physical inventory of fixed assets as of June 30, 1993. Therefore, the division has not complied with state procedures and has not exercised accountability for its fixed assets.

Recommendation:

We recommend the division conduct a yearly physical inventory of its fixed assets.

Auditee Response:

The Telecommunications Division is developing procedures for updating its inventory of fixed assets and for keeping it current. The Division will take a complete inventory, beginning in the Spring of 1995, and completed within a three year period. This time period is considered necessary because of the large geographical area and the number of items to be inventoried. the first region to be inventoried will be Augusta which contains approximately one-half of the assets.

Concomitant with this, procedures are being updated to keep track of all additions and deletions into and out of the regions as well as do spot checks of the assets. The Division, through service orders, currently maintains records of additions and deletions.

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(123) Bureau of Taxation - Enforcement Division

Finding: Inadequate procedures for escrow deposit

Procedures for the Bureau of Taxation - Enforcement Division provide for actions of levy, seizure, and liens on real and personal property to satisfy outstanding tax liabilities. In rare cases, taxation personnel feel it may be in the interest of the state to accommodate a cooperative debtor by paying over to a third party some funds obtained through tax liens before recognizing revenue, in order to secure additional payment to the bureau at a later time. In one instance to date, this was accomplished through the use of an escrow account managed by a third-party escrow agent, subject to certain restrictions by the Enforcement Division. This account was subsequently replaced with an escrow account established by the Bureau of Taxation.

The Bureau of Taxation currently has no written policies regarding escrow accounts. Enforcement personnel establishing and managing an escrow account on behalf of a taxpayer results in a lack of segregation of duties over the negotiation, settlement and collection functions of the delinquent account balance. In addition, this practice creates the appearance of a lack of independence by enforcement personnel and could expose them to questions regarding the propriety of their actions. Although this account was entitled State of Maine, Bureau of Taxation, Escrow Agent for (taxpayer name), it was not recorded on the official accounting records of the state. The Office of Treasurer of State was not involved in its establishment and the account was not subject to legislative allocation.

Title 5 M.R.S.A. § 131 states:

> Every department and agency of the State, . . . collecting or receiving public money, or money from any source whatsoever, belonging to or for the use of the State, . . . shall pay the same immediately into the State Treasury, without any deduction on account of salaries, fees, costs, charges, expenses, refunds, claims or demands of any description whatsoever . . . . Any department or agency may deposit such money to the credit of the State upon communicating with the Treasurer of State and receiving from the Treasurer of State instructions as to what state depository may be used for that purpose and in every such case, the depositor shall send to the Treasurer of State a statement of the deposits certified by the bank receiving it . . . .

In addition, 5 M.R.S.A. § 135-A states:

> Except in cases when a state department or agency receives funds that the department or agency is legally required to distribute to or hold on behalf of specifically named persons, . . . all departments or agencies of State Government, in working with the Treasurer of State, are prohibited from establishing trust funds, escrow accounts or other accounts that would not be specifically allocated by the Legislature unless there is a compelling, documented legal reason, as determined by the Treasurer of State, to do otherwise.

Also, 5 M.R.S.A. § 1543 limits disbursement of state monies to appropriations duly authorized by law, and states:

> Every disbursement from the State Treasury shall be upon the authorization of the State Controller and the Treasurer of State . . . .

In addition to the serious implications of enforcement personnel establishing escrow accounts on behalf of debtor taxpayers, the use of independent, third-party escrow accounts for settlement of tax liens may be in violation of the statutes, as noted:

1. Independent third-party escrow accounts do not conform to §131 which requires that all monies belonging to the state be deposited to the credit of the state through the Treasurer;

2. Distribution of escrow funds prior to deposit to the credit of the state would violate the provisions of § 1543 and §131 which requires that the deposits not have deductions for any claims or demands; and

3. Escrow accounts not subject to specific allocation by the legislature unless legally required not to be are prohibited by §135-A; they violate this provision because (1) the accounts are not subject to legislative allocation; and (2) although the accounts are established at the discretion and direction of the Enforcement Division, there is no documented legal or compelling reason for them.

Recommendation:

We recommend that the Bureau of Taxation- Enforcement Division, with the Office of Treasurer of State, develop a written policy on negotiating and establishing escrow-type accounts that meet the requirements of 5 M.R.S.A. § 131, 135-A, and 1543: (1) immediate deposits to state accounts, through the Treasurer's Office and subject to legislative allocation, and (2) disbursement of funds subject to legislative authorization.

Auditee Response:

Until the present, the Bureau of Taxation has not had a written policy on escrow accounts. It is within the context of the Enforcement Division activities that the infrequent consideration of an escrow account may arise, the subject escrow account being the sole example . . . in recent years. With regard to the impropriety of the escrow account that the bureau has brought to your attention, our internal review is about complete and will be forwarded to the State Auditor upon completion. All necessary actions regarding specific resolution of this particular account have otherwise been completed.

We are ready to detail for your comment our specific policy relative to any future escrow account-like activity in which the bureau may be involved. In brief, we identify two possible types of special accounts: one a suspense account and the other an escrow account, either of which is to be used only when no other reasonable alternatives exist. The first situation involves the necessity to create a state account with the Treasurer that complies with statutory strictures relative to suspense accounts. It is to be used whenever the "ownership" of funds received by the bureau is subject to significant question. The second situation involves the requirement by the bureau that a taxpayer establish a third-party escrow account subject to specific limitations. Such an account would not apply to state funds, but rather funds of the taxpayer upon which the bureau would impose specific limitations. In this situation, bureau policy would require a document setting forth the conditions governing the escrow account. This would be used as a tool in effecting future collection of state funds.

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(124) Bureau of Taxation

Finding: Statutory provisions for recognizing revenues and expenditures conflict with generally accepted accounting principles

Title 36 M.R.S.A. § 113 states: "Funds derived from contract audit and collections efforts are treated as revenues only to the extent that collections resulting from those efforts exceed the costs associated with the audit and collection efforts . . . ." Accordingly, the Bureau of Taxation charges the cost of contract audit and collection efforts to tax revenue.

The Governmental Accounting and Financial Reporting Standards 1600.117 states that decreases in net financial resources are expenditures and should be recorded as such when the related liability is incurred. Since September 1993, the Bureau of Taxation has charged $279 thousand to tax revenue for contract audit and collection efforts. As a result, fiscal year 1994 revenues and expenditures are understated by $279 thousand.

Recommendation:

We recommend that the Bureau of Taxation, in conjunction with the Controller, take the steps necessary to properly record the cost of audit and collection efforts as expenditures, in accordance with generally accepted accounting principles.

Auditee Response:

The bureau feels that it is in compliance with state statutes as it relates to the handling of this issue. The bureau has implemented spreadsheet analysis of all § 113 contracts and will make these spreadsheets available to the Controller.

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(125) Bureau of Taxation

Finding: Inadequate procedures to ensure complete filing for owners of telecommunications property

The Bureau of Taxation does not have adequate procedures in place to ensure complete filing by all owners of telecommunications property subject to taxation. In addition, the bureau does not maintain sufficient documentation to verify detection efforts. During our review, the Public Utilities Commission provided telecommunications business listings. The Bureau of Taxation had no documentation on file to indicate the tax status of four of these businesses.

Recommendation:

We recommend that the Bureau of Taxation implement procedures for ensuring complete filing by all owners of telecommunications property subject to taxation. We further recommend that the bureau document all efforts to detect non-filers.

Auditee Response:

The Property Tax Division (PTD) has requested information from and reviews documentation on file at the Maine Public Utilities Commission (PUC). The PTD also searches various business listings to discover potential telecommunications business entities. The PTD has authority to *supplementally assess any telecommunications business which may escape initial discovery efforts. The PTD issues written notification to any potential and each known telecommunications businesses to file its complete return. The PUC listings which Audit referenced were out-of-date assets situated in Maine for the time applicable. The PTD does not have resources which might be tasked to independently audit various taxpayers to ascertain if complete disclosure is obtained. The PTD periodically compares taxpayer's declaration with available PUC and/or FCC Reports.*

(126) Bureau of Taxation

Finding: Cigarette tax subsidiary ledger balance not supported by unpaid invoices (Prior Year Finding)

The Bureau of Taxation maintains a subsidiary ledger of cigarette taxes receivable. The account balance for each customer should represent unpaid cigarette stamp orders. Posting errors have caused discrepancies between account balances and unpaid invoice detail for various distributors. For example, one major distributor's account balance was $26,000 higher than unpaid cigarette stamp orders on file.

Also, according to 36 M.R.S.A. § 4366, a distributor may purchase cigarette stamps on account only up to a posted bond amount and only up to a thirty-day credit limit. Undetected posting errors in the subsidiary ledger may result in account balances that exceed the thirty-day credit and/or bond limits.

Recommendation:

We recommend that each month the Bureau of Taxation reconcile the cigarette tax subsidiary ledger to unpaid invoices.

Auditee Response:

The bureau has adopted the auditor's prior year recommendation and has been reconciling the cigarette tax subsidiary ledger to invoices unpaid since March 1994.

Department of Administrative and Financial Services (cont.)

(127) Bureau of Taxation

Finding: Failure to charge interest and penalties on insurance premium and special fuel taxes

The Bureau of Taxation is authorized to charge interest and penalties on delinquent tax balances in accordance with 36 M.R.S.A. § 186 and 187. Insurance premium and special fuel tax return forms show that if a return is filed late, interest and penalties will be due. In some instances, personnel responsible for processing insurance premium and special fuel tax returns are not billing for interest and penalties on delinquent returns. The bureau's written policy authorizes only the Tax Section Manager or Tax Division Assistance Executive to waive interest and penalties on these taxes. In some cases, interest and penalties are waived by persons other than those authorized by bureau policy.

The bureau's failure to charge interest and penalties results in lost revenues to the General Fund and does not deter taxpayers from filing late.

Recommendation:

We recommend that the Bureau of Taxation charge interest and penalties on insurance premium and special fuel tax returns when appropriate. We further recommend that the bureau develop a written policy for waiving interest and penalties, and that it require supervisory approval of such waivers.

Auditee Response:

The bureau has begun charging interest and penalties on insurance premium taxes.

The current special fuel supplier system does not impose interest or penalties. However, this tax is currently being added to the MATS system and will begin processing October 1994 returns. Appropriate interest and penalties will then be automatically imposed.

The current special fuel user system imposes interest and penalties on the initial late return. It does not automatically perform monthly updates. These are manually computed and entered into the system.

If a taxpayer does not agree with the interest and penalties, the taxpayer must ask for reconsideration which is approved or denied by either the Tax Section Manager or the Tax Division Assistance Executive. Policy for waiver of interest and penalties is stated within § 187-B, sub-§ 7.

Someone other than the Tax Section Manager or the Tax Division Assistance Executive prepares the payer work for the waiver of penalty and interest. The personnel involved have been advised to obtain authorization of the Tax Section Manager or the Tax Division Assistance Executive before issuing a waiver of penalty and interest.

(128) Bureau of Taxation

Finding: Gasoline tax transfer exceeds statutory limit

The Bureau of Taxation transfers gasoline tax revenue monthly from the General Fund to Special Revenue Fund accounts of the Departments of Marine Resources, Conservation, and Inland Fisheries and Wildlife. Title 36 M.R.S.A. § 2903-A and B authorize a maximum transfer amount of $2 million less refunds paid for commercial motor boats. During fiscal year 1993, the bureau transferred $331 thousand more than the statute authorized.

Recommendation:

We recommend that the Bureau of Taxation monitor the amount of gasoline tax transfers to comply with 36 M.R.S.A. § 2903-A and B. We further recommend that the bureau take steps necessary to return the amount of the excess transfer to the General Fund.

Auditee Response:

The auditor's recommendation implies that the gasoline tax is General Fund revenue. Gasoline tax is a special fund, as are the transfers to Parks and Recreation and Marine Resources.

The bureau will monitor more closely the gasoline transfers to ensure that the amount does not exceed the amount prescribed by law as stated in Title 36 M.R.S.A. § 2903 A and B. Once we realized the excess transfer occurred in fiscal year 1993, we were in contact with the Department of Transportation (DOT) since it was their fund that was affected. It was agreed by DOT that if Marine Resources and Parks and Recreation had the money to transfer back, then DOT would ask that it be done. Otherwise, DOT would not require repayment. It is our impression that Parks and Recreation was going to reimburse DOT but Marine Resources was not.

Department of Administrative and Financial Services (cont.)

(129) Bureau of Taxation

Finding: Real estate transfer tax receipts not compared to amounts due

The Bureau of Taxation does not reconcile real estate transfer tax receipts to declarations of value that determine the amounts due. Each month the bureau receives real estate transfer tax payments from counties separately from underlying supporting declarations of value because counties must comply with separate statutes that require different submission times. Because the bureau does not reconcile, it does not ensure that all monies due are paid or that correct amounts are collected.

Recommendation:

We recommend that the Bureau of Taxation reconcile the counties' real estate transfer tax payments to the declarations of value.

Auditee Response:

The bureau will compare on a quarterly basis the cash receipts to the summary report of the Declaration of Values at the end of each year to determine the reasonableness of the Real Estate Transfer Tax revenues. If our findings indicate any improprieties we will initiate tests to validate revenues.

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(130) Bureau of Taxation - Property Tax Division

Finding: Failure to charge interest and penalties on commercial forestry excise tax

The Bureau of Taxation - Property Tax Division administers the commercial forestry excise tax. According to 36 M.R.S.A. § 2726, taxes remaining after the due date are subject to interest and penalties. The division does not calculate interest and penalties due on delinquent balances nor does it send out notices to delinquent taxpayers. The bureau currently has no written policy that clearly identifies the organizational unit responsible for review and follow-up of delinquent balances. Division personnel indicated they lacked the time to monitor taxes receivable on a periodic basis.

Failure to charge interest and penalties results in lost revenues to the General Fund and does not deter delinquent filing by taxpayers. The amount of lost revenue cannot be readily determined.

Recommendation:

We recommend that the Bureau of Taxation develop a written policy for calculating and charging interest and penalties on delinquent commercial forestry excise tax balances in accordance with 36 M.R.S.A. § 2726.

Auditee Response:

*The bureau has instituted a procedure which provides that a notice of overdue tax together with applicable costs be sent to taxpayers. If this notice of delinquency is not satisfied within 45 days, unpaid accounts are assembled and turned over to the Bureau's Enforcement Division for **formal demand** and collection action.*

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(131) Bureau of Taxation

Finding: Failure to pay interest on special fuel tax refunds

Title 36 M.R.S.A. § 3218 states that interest shall be paid on special fuel tax refunds, calculated from the date of receipt of the monthly claim, for all proper claims not paid within thirty days of receipt. Bureau of Taxation Rule 505 provides for interest on regional fuel tax agreement refunds ninety days after receipt of request for payment.

The Bureau of Taxation does not stamp special fuel tax and regional fuel tax agreement returns indicating the date of receipt or processing. As a result, it is not possible to calculate interest due on refunds in accordance with the statute and departmental rule.

Recommendation:

We recommend that the Bureau of Taxation implement procedures for paying interest on refunds according to 36 M.R.S.A. § 3218 and the Bureau of Taxation Rule 505.

Auditee Response:

Procedures are in place for payment of interest on refunds in the event refunds are not issued within the prescribed time. Historically, all refunds have been issued within those times.

(132) Bureau of Taxation

Finding: Inadequate allowance for estimated uncollectible taxes receivable (Prior Year Finding)

The Bureau of Taxation has not provided the Bureau of Accounts and Control with complete information to establish a reasonable allowance for estimated uncollectible individual income taxes receivable. The bureau provided an aging of individual income taxes receivable on two of the five systems in use. Three systems that the bureau maintains - EX, RAR and CP2000 - were not included. At June 30, 1993 receivable balances on these systems totalled $2.9 million. Because of incomplete information, the June 30, 1993 allowance account balance in the General Fund was not sufficient to include all recorded revenues that might not be collected.

Recommendation:

So that adequate allowances for estimated uncollectible accounts can be established, we recommend that the Bureau of Taxation accumulate complete and accurate data to properly age and report all taxes receivable to the Bureau of Accounts and Control.

Auditee Response:

The CP2000 system is scheduled to be transferred to the MATS system in November of 1994. At this time the data will be aged along with other receivable balances already on the MATS system. The EX and RAR systems are scheduled for transfer to the MATS system at an undetermined future date. When this occurs they will be aged similarly to the already existing receivable balances on the MATS system.

(133) Bureau of Taxation - Property Tax Division

Finding: Lack of support documents for Unorganized Territory tax

The Bureau of Taxation - Property Tax Division was unable to locate tax payment batches to support approximately nine months of Unorganized Territory tax deposits. In order to provide an adequate audit trail to support recorded transactions and to assist the bureau when taxpayer questions arise, original document batches should be maintained on file with the bureau.

Recommendation:

We recommend that the Bureau of Taxation - Property Tax Division maintain all original document batches relating to Unorganized Territory tax in accordance with the State of Maine records retention schedules.

Auditee Response:

After recording all the necessary information from the batches, the Revenue Processing Section forwards all batches to the Property Tax Division. The Property Tax Division uses the batches to make corrections and reconcile the data. When all necessary adjustments are made, the individual contact for the State Archives is notified. This individual makes arrangements to have the batches removed to the State Archives for microfiche and/or storage. Unfortunately, at the time of the Auditor's request, we were unable to locate these batches. We have notified the Property Tax Division to ensure that the proper procedures are followed when transporting and storing batch files.

(134) Division of Financial and Personnel Services

Finding: State Lottery Fund / Journal entries not approved

Personnel within the Division of Financial and Personnel Services of the Department of Administrative and Financial Services transfer monies from the Lottery Fund to the General Fund. These are profits earned from the sale of lottery tickets that are transferred through monthly journal entries. Our review showed that only ten out of twelve entries made during the audit period had approval signatures.

Department of Administrative and Financial Services (cont.)

Recommendation:

We recommend review and approval of all journal vouchers before transferring profit to the General Fund.

Auditee Response:

According to the Deputy State Controller, there is no requirement that journal vouchers have two signatures if the signer is authorized to do so; however, the department will attempt to obtain two signatures whenever possible.

(135) Division of Financial and Personnel Services

Finding: Cost accrual entry for State Lottery Fund not documented

Our review of year-end cost accrual showed that the Department of Administrative and Financial Services-Division of Financial and Personnel Services did not document the method used for the cost accrual entry.

Recommendation:

To ensure consistency and a reasonable basis for year-end accruals, we recommend that the division document the method used for the cost accrual entries.

Auditee Response:

At fiscal year-end, an estimate of lottery sales was made as well as an estimate of the related costs of those sales. This cost estimate was $10,524 less than the actual cost. We feel the accountant made an accurate estimate as required for fair presentation of the financial statements. However, we will keep the auditors' needs in mind as year-end accruals are made.

Department of Administrative and Financial Services (cont.)

(136) Division of Financial and Personnel Services

Department of Human Services
Office of Audits

Department of Mental Health and Mental Retardation
Division of Audit

<u>Finding</u>: Revisions to the Maine Uniform Accounting and Auditing Practices Act are void and have no legal effect

Title 5 M.R.S.A, Chapter 148-B established the Maine Unifrom Accounting and Auditing Practices Act (MAAP) that set forth standard accounting practices and uniform criteria for audits of all state and federal funds provided by the state to community agencies. The Department of Administrative and Financial Services issues a manual that outlines its rules and policies.

According to the Maine Administrative Procedures Act, (APA) Title 5 M.R.S.A. § 8057, rules are void and have no legal effect when the following requirements are not met:

1. The agency shall give notice to the industry and may hold a public hearing;

2. The agency shall notify the Secretary of State who shall publish notice of each rule-making proceeding; and

3. The agency shall obtain approval by the Attorney General as to form and legality.

During fiscal year 1991 the department issued three *"clarifications"* to the manual that did not go through the process of the APA. Consequently, the Department of Human Services and the Department of Mental Health and Mental Retardation (MHMR) have administered programs using rules and policies that are void and have no legal effect.

<u>Recommendation</u>:

We recommend that the Department of Administrative and Financial Services ensure MAAP revisions are processed through the Maine Administrative Procedures Act.

In addition, we recommend that the Department of Human Services and Department of Mental Health and Mental Retardation enforce only those rules that satisfy the provisions of the Maine Administrative Procedures Act.

Auditee Response:

Department of Administrative and Financial Services:

Thank you for bringing this to our attention.

Department of Human Services:

The MAAP Guidance releases should have gone through the Maine Administrative Procedures Act. It should be noted that DHS does not have rulemaking authority as it relates to MAAP. That authority and responsibility resides with the Commissioner of Finance. However, one should keep in mind, the Commissioner's MAAP Guidance releases were completed to recognize and clarify the issuance of Federal Circular A-133 and to delineate A-133's impact on Maine subrecipients and on it's interrelated relationship to MAAP. We followed these guidance releases to be in compliance with the federal government's expectation that Maine subrecipients receiving "Federal Pass Thru Funds" obtain an A-133 audit. *This could easily have been done with a letter; however it was done through the MAAP guidance releases because of the integral relationship of MAAP to Circular A-133. We request, by copy of this finding, that either the Commissioner of Finance promulgate the MAAP "Guidance Releases" through the Maine Administrative Procedures Act or that MAAP be amended to alleviate this legality issue.*

Department of Mental Health and Mental Retardation:

We will contact the Department of Administrative and Financial Services and seek clarification on this matter . . . .

Department of Agriculture, Food and Rural Resources

(137) Maine Blueberry Commission

Finding: Incorrect handling of state funds

The Maine Blueberry Commission participates in the annual Eastern States Exposition where it promotes the sale of Maine blueberry products. To secure cash received and to pay expenses for the exposition, the commission established a bank account. However, the Treasurer of State did not authorize the account. Consequently, the exposition revenues, disbursements and cash balance are not recorded on the state's accounting system.

Department of Agriculture, Food and Rural Resources (cont.)

Title 5 M.R.S.A. § 131 states: "Every department and agency of the State . . . collecting or receiving public money, or money from any source whatsoever, belonging to or for the use of the State . . . . shall pay the same immediately into the State Treasury . . . ."

Title 5 M.R.S.A. § 135-A requires, except in specific instances, that " . . . all departments or agencies of State Government in working with the Treasurer of State, are prohibited from establishing trust funds, escrow accounts or other accounts that would not be specifically allocated by the Legislature unless there is a compelling documented legal reason, as determined by the Treasurer of State, to do otherwise."

As of June 30, 1993 $9,415 remained on deposit for use at the 1993 fall exposition and as of December 31, 1993 a balance of $12,341 had been invested in a certificate of deposit.

Recommendation:

We recommend that the commission, together with the state Treasurer and Controller, determine the appropriate disposition of funds deposited and invested; and determine the correct recording and management of funds collected or expended for future expositions, as set forth by 5 M.R.S.A. § 131 and §135-A.

Auditee Response:

We concur.

Department of Attorney General

(138) District Attorneys

Finding: York County extradition account balance exceeded statutory limit

Balances in extradition accounts maintained by prosecutorial districts may not exceed the statutory limit of $10,000. Any amount exceeding the limit must be transferred to the General Fund.

Based on account information submitted by the York County Administrator, the excess in the extradition account was as much as $8,597 during the period July 1, 1992 to June 30, 1993.

Recommendation:

We recommend that York County comply with Title 15 M.R.S.A. § 224-A and transfer the excess balance in the extradition account to the state's General Fund.

Auditee Response:

During the period between July 1, 1992 and June 30, 1993 the FPDEA did have amounts in excess of $10,000 during the month; however, at month end the balance had been reduced below that amount.

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(139) District Attorney

Finding: Hancock County extradition account balance exceeded statutory limit

The balance that may exist at any time in extradition accounts maintained by prosecutorial districts may not exceed $10,000. Any amounts in excess of the limit must be transferred to the General Fund.

During the period July 1, 1992 to June 30, 1993, the excess in the extradition account was as much as $2,101, based on a report from the Hancock County Treasurer.

Recommendation:

We recommend that Hancock County transfer the excess balance in the extradition account to the state's General Fund in order to comply with 15 M.R.S.A. 224-A. Balances in the account should not exceed the statutory limit.

Auditee Response:

The extradition account which you make reference to . . . is reviewed on a quarterly basis by the District Attorney's Office. They in turn advise (us) . . .to cut a check and to send it to the state. (We have also been) advised . . . that this is the prescribed procedure to be followed.

It has been our policy to review the FPDEA on a monthly basis. As noted earlier no remittance to AOC had occurred as the balance at month's end has been below the $10,000 limit.

Department of Attorney General (cont.)

This and all other accounts maintained by York County are audited annually by an independently contracted audit firm with written reports on file and available for public inspection.

Department of Corrections

(140) Maine State Prison

Finding: Prison industries activities supported by General Fund (Prior Year Finding)

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.

Ten 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 1993 this unrecorded subsidy was approximately $371,000.

Recommendation:

We again 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:

With regard to the above finding, although payroll expenses for those employees whose efforts relate to Prison Industries Fund activities are paid from the General Fund and are not directly charged to the Prison Industries Fund, those expenses are reflected when the operating statement is prepared for the Prison Industries fund, resulting in what the Department of Corrections believes to be an accurate presentation of the financial position of Prison Industries activities.

The Department of Corrections continues to evaluate and study the Department of Audit's recommendation regarding this issue and no conclusion has been reached at this time.

Department of Economic and Community Development

(141) Office of Community Development

Finding: Transfer of funds not timely

In 1991 legislation was enacted to establish the Economic Opportunity Program. The program was created to provide grants to municipalities for public and private investments to stimulate economic growth. The Department of Economic and Community Development is responsible for administering this program which also includes the newly created Economic Opportunity Fund. Public Law 1992 Chapter 780, §N-2, requires that " . . . the Economic Opportunity Fund must be capitalized by a transfer of the cash available in the Community Industrial Buildings Fund on July 1, 1992 and the funds received by the Community Industrial Buildings Fund for repayments of outstanding loans."

In January of 1993 we notified the Office of Community Development that the required transfer had not been made. A recommendation will not be made since the state agency took immediate corrective action and transferred $165,000 of available cash as mandated.

Recommendation:

None

Department of Education

(142) Governor Baxter School for the Deaf

Finding: Handling of receipts not according to statutory provisions (Prior Year Finding)

Title 20-A M.R.S.A. § 256 states, "Gifts and donations received by the Governor Baxter School for the Deaf (GBSD) must be credited to a special revenue account." The statute 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 tested fifteen prenumbered receipts issued from June 1, 1992 through June 22, 1993. We note 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. GBSD collected $4,800 from rentals of school facilities; there were seven transactions where the proceeds were credited 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:

1. *All gifts and donations are now deposited directly into the Special Revenue Account.*

2. *Rental fees are now being deposited into the General Fund.*

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(143) 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 activities conducted at the facility.

The State of Maine contracts with individuals to provide special services such as speech pathology or social work for the school. In some cases, GBSD will pay for these services by advancing money to these individuals from the student benefit account. When these individuals are then paid by either the state or a local school district, GBSD reimburses the student benefit account.

Out of thirty-five disbursements that we tested for the period July 1, 1992 through June 22, 1993, we noted seven payments totaling $3,900 that were advanced from the student benefit account for work performed for GBSD.

Recommendation:

We recommend that the GBSD use the student benefit fund for its intended purpose of supporting student activities.

Auditee Response:

The practice of paying vendors/contractors from local funds has been stopped. All the accounts in the local fund are now for the direct support of student activities. Existing funds that were deposited in the local account in error have been transferred into the special revenue account. There does exist a small balance for two special projects. These will be removed July 18, 1994.

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(144) Governor Baxter School for the Deaf

Finding: Bank certificate of deposit not recorded on Controller's records (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 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.

Department of Education (cont.)

Auditee Response:

The certificate of deposit has a maturity date of September 12, 1994. It will be transferred to the state treasury after this date. If we move it now, the penalty is $826.

Department of Human Services

(145) 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:

DHS now has an A/R listing established within this Department. DHS has not established this A/R with Accounts and Control on these non-profit agencies. We are currently working towards this process. We are involved with Accounts and Control's new A/R system. Most probably DHS will be the last department to be set up into this system due to the uniqueness of our A/R..

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

Finding: Untimely transfer of funds

By June 30, 1993, according to Chapter 6, Public Laws of 1993, Sections H-2 and H-3, the Department of Human Services (DHS) should have transferred $255,000 from the Bureau of Medical Services-Other Special Revenue account and $320,000 from the Intermediate Care Services-Other Special Revenue account to the General Fund undedicated revenue.

These transfers were not made until January 1994. Therefore at June 30, 1993 the fund balance for the General Fund was understated by $575,000, and the fund balance for the Special Revenue Fund was overstated by that same amount.

Recommendation:

None, since the transfers have been made.

Auditee Response:

The department is aware of this situation and every effort will be made to ensure that future transfers will be made in a timely fashion.

Judicial Department

(147) Administrative Office of the Courts

Finding: Incorrect recognition of amounts receivable

The District Court Violations Bureau (DCVB) has jurisdiction over all traffic infractions committed in the state. If violators' checks do not clear because of insufficient funds, DCVB cannot re-establish in court records any outstanding balances due. Consequently, the violators' records show the fines as having been settled when they were not. Also, DCVB does not adjust state accounting records to reflect the returned checks, thereby overstating General Fund cash balance and revenue. DCVB is not able to reconcile the amounts paid with actual cash in hand.

Recommendation:

We recommend that the Administrative Office of the Courts (AOC) change systems and processing procedures to allow accurate reporting of fines paid. We also recommend that the AOC prepare journal entries to correctly state actual cash receipts and revenue.

Auditee Response:

1. *A file in the computer was set up in October for protested checks and the unpaid fine balance has been increased accordingly.*

2. *The AOC is now in receipt of information concerning bounced checks and makes appropriate entries to allow for accurate reporting of fines paid/unpaid as well as to correctly state cash receipts and revenue.*

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(148) Administrative Office of the Courts

Finding: Inadequate revenue reconciliation (Prior Year Finding)

The Administrative Office of the Courts (AOC) has not reconciled its records of revenue collection to that reported to the Controller. At June 30, 1993 the Judiciary Annual Report reflected $262,131 more revenue than did the Controller. Differences were principally due to funds that the courts deposited with the Treasurer but that the AOC did not report to the Controller until the next fiscal period. Other adjusting entries were made to the Controller's records but not recognized by the AOC.

Recommendation:

To ensure that revenues are reported in the correct fiscal period and that they include any adjustments, we recommend that the AOC obtain revenue reports from the Controller's office and reconcile to them.

Auditee Response:

1. *We have tried to obtain necessary reports to reconcile revenue but have not been able to obtain them from the MFASIS system. Reports that are available only provide summary totals. Summary totals are not sufficient for reconciliation purposes.*

2. *We shall continue to pursue modification of MFASIS reports so that we have sufficient detailed information to perform reconciliations.*

(149) Administrative Office of the Courts

Finding: Funds deposited in non interest-bearing accounts

Title 4 M.R.S.A. §163 requires, in criminal cases, that District Court clerks deposit funds received as bail into an interest-bearing account unless the clerk determines that it is not cost effective to do so. Our examination of bank confirmations and bank statements showed that courts in Dover-Foxcroft and Madawaska had not deposited these funds into interest-bearing accounts. There was no indication that maintaining interest-bearing acccounts for bail receipts was not cost effective.

Recommendation:

We recommend that the Administrative Office of the Courts instruct District Courts to comply with the provisions of 4 M.R.S.A. §163.

Auditee Response:

These two courts now deposit funds for into interest-bearing accounts.

Maine Department of Labor

(150) Office of Administrative Services

Finding: Different reports used for benefit account check issuances

The Maine Department of Labor (MDOL) uses different formats for the Treasurer and Controller when it reports disbursements from the benefit account. The Treasurer receives daily reports whereas the Controller receives compilations in monthly journals. Information is not always reported nor is it always timely.

The difference in timing and reporting has caused significant cash reconciliation problems between the Treasurer and Controller.

Recommendation:

We recommend that (1) MDOL make daily reports to the Controller and Treasurer for any disbursements from the benefit account; and (2) use the same reporting method for both parties.

Auditee Response:

Prior to June 30, 1994, the Maine Department of Labor did not report cash disbursements from the benefit account into the state accounting system (MFASIS) due to the requirement that a positive cash balance was required to make the entry. Cash management practices restricted ordering cash for the benefit account until the estimated clearance date, thus preventing us from having sufficient cash balances to make these entries on a daily basis. The department would make a monthly journal entry recording these disbursements when there was a sufficient cash balance to cover the disbursements.

Effective July 1, 1994, the Controller is provided a copy of the daily disbursements (B-27 report) and his office is entering the disbursements using an override capability that was not available to MDOL. This new procedure will eliminate the problem cited in the finding.

(151) Bureau of Employment Security - Unemployment Compensation

Finding: Employer accounts receivable penalties and interest not properly accrued or reported

Employer accounts receivable data found in the Unemployment Insurance tax data base shows amounts for contributions, penalties, and interest due. All amounts shown for penalties and interest are not accrued and normally remain unchanged during the fiscal year unless a payment is received or transaction processed. As payments are received, outstanding contribution due amounts are reduced and the accrued penalty and interest associated with any account balance for a quarter is computed and posted. Penalties and interest for quarters with balances due, but no payment activity or other transactions, are not accrued as part of the accounts receivable report.

Maine Department of Labor (cont.)

Recognizing *contributions due* and only the limited accrued entries as the receivable understated the value of the account receivable.

Recommendation:

We recommend that the department apply generally accepted accounting principles and recognize accrued penalty and interest on all contributions due from employers.

Auditee Response:

We agree that the current process does understate receivables; however, we see no immediate resolution to this problem. Our current system cannot accommodate the change requested without major programming. This will be addressed when the tax rewrite resumes for contributions. However, we do not yet have a timetable for the change. (We have begun the) process (in a meeting with) our Unemployment Compensation Tax Unit, the Office of Information Processing, the Division of Economic Analysis and Research, and the Office of Administrative Services.

Department of Mental Health and Mental Retardation

(152) Division of Reimbursement

Finding: No formal policies to determine patient charges for non-Medicaid billing

When assessing a patient's ability to pay, the reimbursement specialists at Augusta Mental Health Institute (AMHI) and Bangor Mental Health Institute (BMHI) do not uniformly determine patient charges for non-Medicaid billing. Since there are no formal policies in place at either reimbursement office, the reimbursement specialists individually assess billing rates using their own judgment. Included in the financial forms completed by the payee, husband, wife or conservator is a section to show the amount of support the payee is willing to offer. There were instances where no form was sent; the applicable section of the form was not completed; or follow up action was not taken. The effects of incomplete and outdated patient financial information are outlined below.

Department of Mental Health and Mental Retardation (cont.)

AMHI

1. Of the cases tested, 32 percent contained billing errors resulting in at least $18,096 of unrecovered charge;

2. Available patient monies totaling $53,039 were not drawn down in 36 percent of the cases tested;

3. Patient billing rates were decreased without supervisory approval in 16 percent of the cases tested; and

4. There was incomplete or outdated information on file for 12 percent of the cases tested.

BMHI

1. The latest available documentation allows $80 per month for a patient's personal needs, with any necessary and appropriate adjustments, and any deviations from the $80 allowance should be documented in patient files; 72 percent of the cases tested included rates other than $80 without written justification in the patient files;

2. Available patient monies totaling $10,705 were not drawn down in 28 percent of the cases tested; and

3. There was incomplete or outdated information on file for 40 percent of the cases tested.

Recommendation:

In order to determine patient charges consistently, we recommend that the Department of Mental Health and Mental Retardation - Division of Reimbursement initiate formal policies for reimbursement specialists to follow.

Auditee Response:

We agree with the recommendation and the newly hired manager of the division will be implementing formal policies over the next several months.

(153) Division of Reimbursement

Finding: Medicaid billings are prepared and submitted without supervisory review

Monthly Medicaid billings for all Department of Mental Health and Mental Retardation (MHMR) facilities are prepared by accountants and submitted without supervisory review. The Medicaid Office has rejected claims for various reasons such as dates in the wrong column, bills not signed, or columns not filled in correctly. It is extremely time consuming to rebill and follow up on rejected Medicaid claims. A supervisory review could detect and correct errors before billings are submitted to ensure a lower rate of rejection and more prompt payment by Medicaid.

Recommendation:

We recommend that MHMR instruct personnel to review and approve all Medicaid billings before they are sent out.

Auditee Response:

We agree with the recommendation and procedures are being implemented to assure supervisory review of all bills prior to their being sent.

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(154) Division of Reimbursement

Finding: Billing processes not adequately automated

Various attempts have been made to automate portions of the billing at the Department of Mental Health and Mental Retardation (MHMR); due to lack of funds and training, and vendor inattention these have not been successful. MHMR continues to bill using an antiquated bookkeeping machine. Because of the complexity of the billings, it may not be appropriate to include the total billing process in one computerized application. However, since different personnel need to view, update and enter data simultaneously, some form of a database with networking capabilities should be installed.

Recommendation:

We believe that Medicaid and Medicare billings should be automated with the Blast software where appropriate. Any bills completed on a word processing system should be on a network whereby the accounts receivable records could be accessed by accountants, data entry specialists, and reimbursement specialists. The MHMR Reimbursement Office is in the planning stages of such a system and should be encouraged to continue its efforts.

The vendor under contract to complete the automation of the Case Management billing at the Augusta Mental Health Institute should provide prompt and responsive service. We recommend that MHMR establish a firm date for the vendor to complete the automation. We further recommend that all Medicaid claims not currently billed electronically be automated so that they can be completed more efficiently. In addition, regular billings could be automated using a database system or spreadsheet software to calculate and document bills.

Auditee Response:

We wholeheartedly agree with the recommendation and will be acquiring additional hardware and software in the very near future and will also convert many of our manual systems to electronic billing in the next several months.

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(155) Division of Reimbursement

Finding: Accounts receivable aging and monitoring functions not automated

The Department of Mental Health and Mental Retardation (MHMR)-Division of Reimbursement monitors and ages accounts receivable balances manually. Because the accounts receivable function is not automated and is very time consuming, the MHMR Reimbursement Division cannot age accounts receivable more than once a year. As an attempt to monitor outstanding receivables, the data entry specialist notifies reimbursement specialists and accountants of balances that are over sixty days old. This is labor intensive. Automation of the accounts receivable monitoring and aging function would create prompt follow-up on Medicaid and private pay billings at all MHMR locations.

Recommendation:

We recommend that MHMR automate the accounts receivable monitoring and aging function using a spreadsheet or a database software as appropriate.

Auditee Response:

We concur with the recommendation and with the leadership of our newly hired division manager will be automating our accounts receivable and aging functions.

(156) Division of Reimbursement

Finding Balances of commercial accounts receivable over a year old

The remaining $151,000 commercial accounts receivable balances at the Augusta Mental Health Institute (AMHI) are over one year old, and originated as early as 1987. There are no current accounts receivable because the Department of Mental Health and Mental Retardation (MHMR)-Division of Reimbursement has successfully collected from commercial accounts any payments that are current and due.

Recommendation:

We recommend that the MHMR Reimbursement Division write off any accounts receivable balances considered uncollectible.

Auditee Response:

This recommendation has already been achieved and any future receivables that are considered to be uncollectible will be written off on a more timely basis.

PUBLIC UTILITIES COMMISSION

(157) **Finding:** Additional $50,000 owed to the General Fund

According to the Public Laws of 1993, Chapter 6 (V-2), $50,000 must be transferred from the Public Utilities Commission (PUC) Regulatory Fund to the General Fund undedicated revenue by June 30, 1993. The PUC did not transfer the funds.

Recommendation:

We recommend that the PUC transfer $50,000 to the General Fund.

Auditee Response:

The Commission will immediately comply with the recommendation that the Commission transfer $50,000 to the General Fund.

Maine State Retirement System

(158) Group Life Insurance Program

Finding: The petty cash account is not reconciled

The Group Life Insurance Program maintains a petty cash account to pay life insurance claims when due. Since December 1990 the general ledger account balance has exceeded the authorized petty cash amount by $67,467. In addition, the Group Life Insurance Program does not reconcile the account. The group life manager reconciles an agency workpaper to the monthly bank statement but does not reconcile the bank statement to the general ledger control account. As a result, transfers and credits were not posted properly and required transfers to the petty cash account were not made.

Recommendation:

We recommend that group life personnel reconcile the general ledger petty cash balance to the bank statement on a regular basis. We further recommend that group life adjust the general ledger balance to the authorized level.

Maine State Retirement System (cont.)

Auditee Response:

The System agrees that the cash balance in the Life Insurance "petty cash" account is in excess of the prescribed limit. This situation occurred as the result of interest income earned on the account. Under the State's accounting system, the MSRS was forced to utilize a petty cash account to pay life insurance claims in order to implement a new claims payment process by which the System saved approximately $200,000 annually in interest expenses. The interest income remained in the petty cash account in order to properly credit the life insurance program with the income over the years. Under the System's new accounting system, the monies will be transferred to a more appropriate account.

Secretary of State

(159) Bureau of Motor Vehicles

Finding: Inadequate method for handling cash receipts

Weak internal controls for handling cash receipts increase both the chances for accounting errors and misappropriating drivers' license reinstatement fees.

The Augusta branch of the Court Records section of the Bureau of Motor Vehicles receives cash for drivers' license reinstatements. There is no summary before the cash is delivered to the bureau's cash office and the receipt forms are not numerical. The Court Records section does not have the right equipment to perform these tasks. In fiscal year 1993, reinstatement fees amounted to about $950,000 dollars.

Recommendation:

We recommend that Court Records section acquire the equipment needed and implement internal control procedures to ensure accurate recording of cash transactions and to minimize the risk of misappropriating funds.

Auditee Response:

Agency did not respond.

Department of Transportation

(160) Bureau of Maintenance and Operations - Motor Transport Service

Finding: Inconsistent salvage value assessments for fixed assets

The Motor Transport Service (MTS) capitalization procedures do not contain a policy for assigning salvage values to fixed assets. Because of this, MTS personnel have applied different percentages of salvage value to similar vehicle classes.

Recommendation:

We recommend MTS develop a specific policy for assigning salvage values to all fixed assets.

Auditee Response:

It is the current policy of the Department of Transportation to assess each fixed asset with a 10 percent salvage value. We recognize variances in this policy exist due to prior assessments of salvage value. The department is also reviewing its depreciation policy and procedures with the objective of revising them.

(161) 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.

Inventory procedures at MTS for segregation of duties within the storeroom function are not adequate. The same clerk may be responsible for ordering, receiving, counting inventory, and posting to the perpetual inventory records. Also, MTS does not always restrict physical access to storerooms.

The Augusta locations have improved some internal controls since last year; however, because of limited staff, the smaller locations have not made similar improvements.

Recommendation:

We recommend that MTS:

1. Maintain records that will identify trends in variances;

2. Investigate and reconcile all significant variances;

3. Ensure that supervisors approve changes to inventory records;

4. Segregate storeroom and operations functions as much as possible; and

5. Perform independent inventory spot checks throughout the year.

Auditee Response:

Stock personnel and their supervisors have been advised to strengthen controls over parts inventory and to follow procedures set forth in the Motor Transport Services - Stock Issue Policy dated September 1992.

Complete segregation of functions at MTS is a goal that we recognize as appropriate. However, limited staff and the physical layout of the facilities make it difficult to obtain. Nevertheless, we will strive to improve this condition.

Spot checks of inventory will be performed periodically by staff of the Bureau of Finance and Administration.

(162) Bureau of Transportation Service

Finding: Inconsistent accounting for depreciation of donated fixed assets (Prior Year Finding)

Donated fixed assets acquired with contributed capital can be accounted for by one of two depreciation methods. The enterprise funds of the Department of Transportation use both methods. Although both depreciation methods are acceptable, they result in different balances for retained earnings and contributed capital.

As recommended in the past, the state should adopt a single method and apply it consistently. The

Department of Transportation did take corrective action and drafted accounting policies and procedures for the enterprise funds. At this time the procedures have not been finalized.

Recommendation:

To ensure comparability of financial data of the enterprise funds we recommend that the Department of Transportation adopt consistent accounting policies and procedures for depreciable property.

Auditee Response:

In order to take corrective action on deficiencies reported in prior audit reports, the department contracted with a consultant to review, analyze and recommend a set of established procedures to satisfy the accountability and propriety of our enterprise asset accounting. The consultant is in the final stage of the effort and we expect completion soon.

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(163) Bureau of Transportation Services

Finding: Depreciation expense overstated

A review of depreciation expense charged to the Marine Ports Fund for fiscal year 1993 revealed that it was incorrectly calculated. As a result, depreciation expense was overstated by $443,686.

Recommendation:

We recommend that depreciation expense calculations be reviewed for accuracy prior to making entries to the financial record keeping system of the State of Maine.

Auditee Response:

We concur with the audit finding and recommendation. As a matter of procedure we will review all depreciation calculations prior to making entries to the financial record keeping system of the State of Maine.

Department of Transportation (cont.)

(164) Bureau of Transportation Services

Finding: Fixed asset records not reconciled

Per the detail fixed asset records maintained by the Bureau of Transportation Services, accumulated depreciation of the Augusta State Airport Fund is $300,000 less than the amount on the Controller's records.

Recommendation:

We recommend that the Department of Transportation accounting personnel reconcile the accumulated depreciation detail to the Controller's records. This reconciliation process will ensure the accuracy of financial information for both management and financial reporting purposes.

Auditee Response:

We concur with the audit finding and recommendation. As a matter of procedure, accounting personnel will reconcile the accumulated depreciation to the Controller's records. Further review by our accounting staff will attempt to determine the cause of the $300,000 discrepancy.

Office of Treasurer of State

(165) Finding: Detailed accounting data for state-held trust funds not provided to Controller.

The Treasurer's Office is responsible for recording any activity within state-held trust funds. The treasury's current practice is to record transactions only within trust fund equity accounts. Operating accounts are not used. Consequently, detailed operating account activity that the Controller needs for preparing accurate operating statements is not available.

Recommendation:

In order for the Controller to prepare detailed operating statements we recommend that the Treasurer either post state-held trust fund activity to operating accounts on the state's accounting system or provide the Controller with annual summaries of trust fund transactions.

Auditee Response:

Each month, gains and losses are recorded in journals in the 085, 087, 088 and 089 accounts on the Controllers' records. Earnings, net of fees charged by the bank, are recorded on the Controller's records semiannually. Summary listings of trust transactions for each fiscal year will be given to the Controller at year-end.

(166) Finding: Reconciling items not cleared (Prior Year Finding)

At fiscal year-end 1993 there were outstanding items over thirty days old that had not cleared treasury bank accounts by December 1993: $517,689 in bank deposits not booked; $1,155,000 in bank adjustments; and $345,545 in deleted checks.

The Treasurer's office is currently working with a bank technician to clear these items.

Recommendation:

We recommend that the Treasurer's office continue to investigate and resolve outstanding items.

Auditee Response:

The items are resolved in the most part and entries have and will be made by the bank to resolve the manner in which they handled the payments of checks. Deleted checks paid to abandoned property which were properly paid have been reversed by abandoned property.

Further, we are starting August 1, 1994 to electronically transfer checks issued data daily to the bank which will completely eliminate the checks paid by the bank not reconciled category by the state from the reconciliation process.

(167) Finding: Inaccurate accounting for premium on tax anticipation notes

Tax anticipation notes issued at a premium are sold at a higher interest rate. Interest costs are lower because the proceeds exceed the face amount of the debt, and the interest expense recorded at maturity should be reduced by the amount of the premium.

The Office of the Treasurer of State did not properly account for the proceeds and expenses of the July 1992 issue of $170 million General Obligation Tax Anticipation Notes (TANs). The state received $171,150,900 from the issue that included a premium of $1,150,900. Of this, $200,600 was withheld for underwriter costs; $200,000 was credited to a General Fund suspense account; and the remaining $750,300 was credited to the Debt Service Fund. The premium should have been recorded as a credit to the TAN liability account thereby reducing interest expense.

Recommendation:

We recommend that when the state issues TANs, the Treasurer's office credit the entire premium to a liability valuation account and reduce interest costs by the same amount. In addition, we recommend that the office record all costs of issuance so that all debt service costs can be recognized.

Auditee Response:

Procedures will be followed on all future TANs.

---

(168) Finding: State Lottery Fund / Inadequate segregation of duties

The segregation of responsibilities is an important element in an internal control system. It helps safeguard assets and preserve reliability of the accounting records. No one person should be assigned duties that would allow that person to commit an error or perpetuate fraud and to conceal the error or fraud. For example, the same person should not be responsible for recording the cash received on account and for posting the receipts to the accounting records.

The state lottery uses a petty cash account to reimburse agents who disbursed prize monies for winning tickets that were redeemed. An employee of the Office of Treasurer of State maintains the accounting records, performs the monthly bank reconciliations and authorizes the transfer of funds to the lottery agents. According to bank personnel who oversee the wire transfer process, a call back authorization goes to the Treasurer's office prior to all wire transfers. The call back is recorded and is not directed to the originator of the transfer request from the Treasurer's office. However, the treasury employee who is the originator of the transfer request says that the call back is directed to her.

Recommendation:

We recommend that the Treasurer's office segregate duties for maintaining the petty cash account.

Auditee Response:

A different person is now verifying by call-back.

(169) Finding: Investments for state trust funds did not comply with law

From July to November 1992 the state did not comply with 5 M.R.S.A. §1951 that after July 1, 1992 prohibited investment of state funds in corporations doing business in or with South Africa. In November 1992 the Advisors of the Various Trusts responded to guidance from the Department of the Attorney General by selling the investments not in compliance with the law.

Recommendation:

We recommend that in the future the Treasurer invest only as allowed by law.

Auditee Response:

As soon as was practical the Advisors of the Various Trusts sold all such investments being held in trust.

(170) Finding: Security deposits not recorded on books or reported on financial statements

The Office of the Treasurer of State oversees contractors' security deposits. At June 30, 1993 it had neither recorded $1.1 million in these deposits on the state's accounting records nor reported the amount on the state's financial statements.

Office of Treasurer of State (cont.)

Recommendation:

The Treasurer's Office recorded the securities for fiscal year 1994. We do not recommend further action.

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Appendices

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

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Tel. 287-2201
FAX 287-2351

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, 1993, 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 279 through 281 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

December 21, 1994

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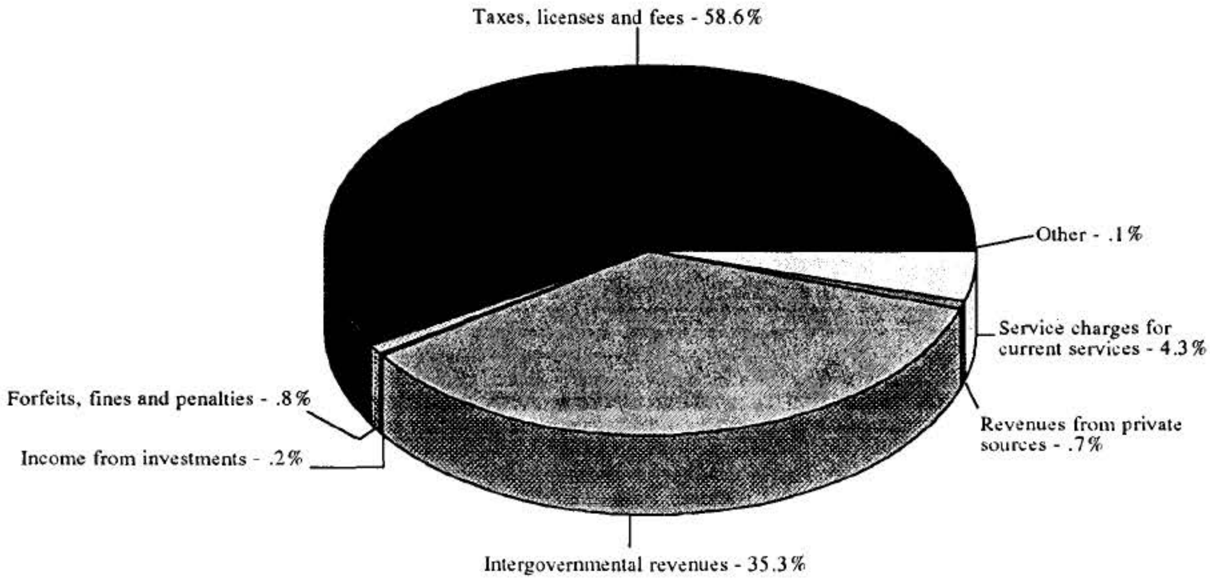
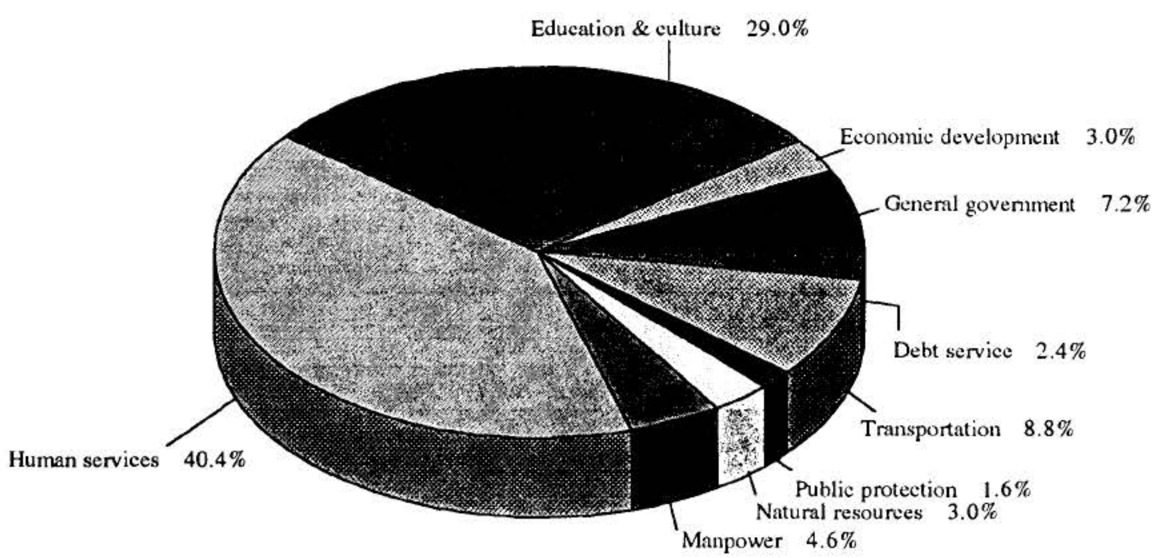
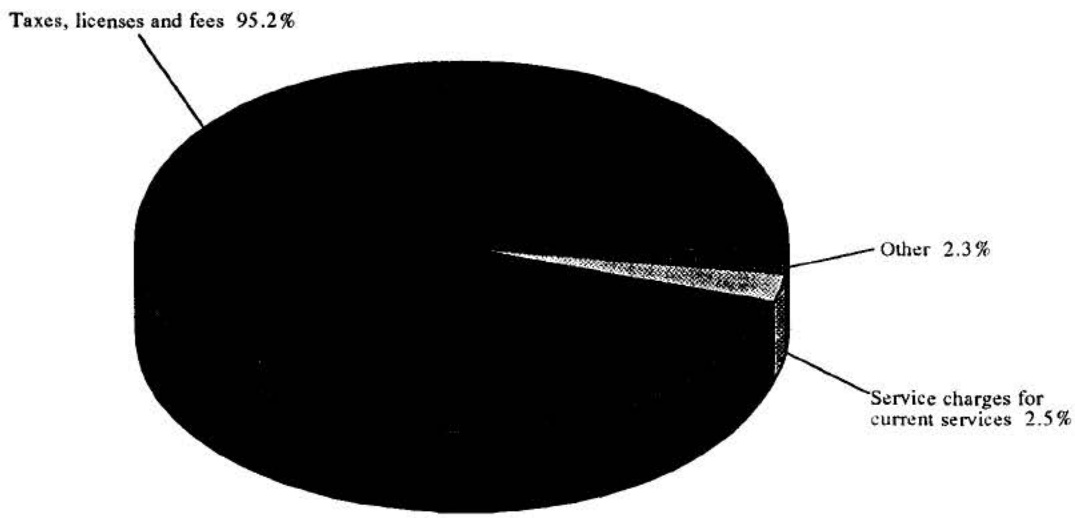
Revenues by Source
(All Governmental Fund Types)



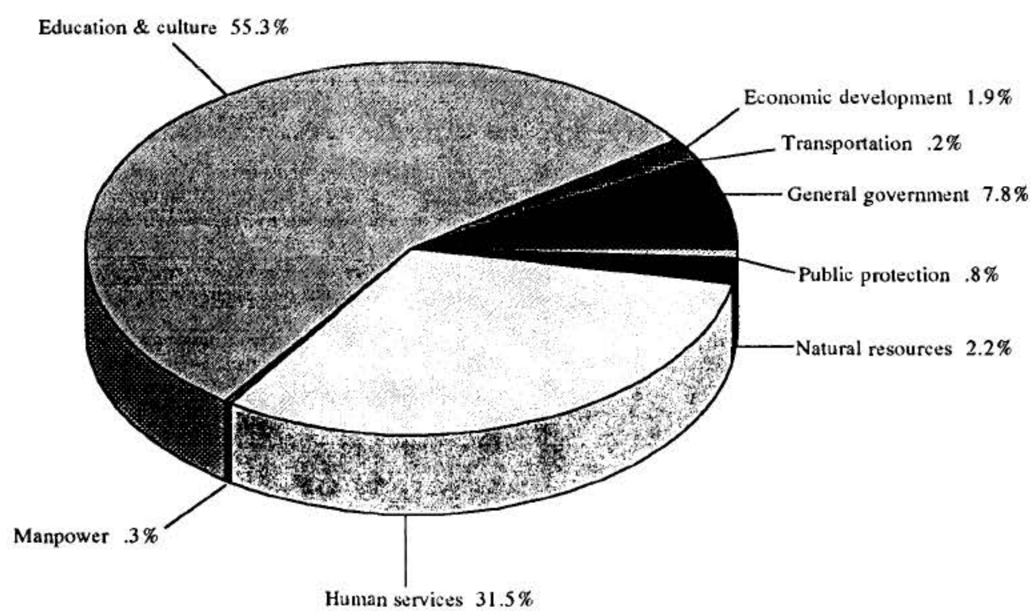
Expenditures by Function
(All Governmental Fund Types)



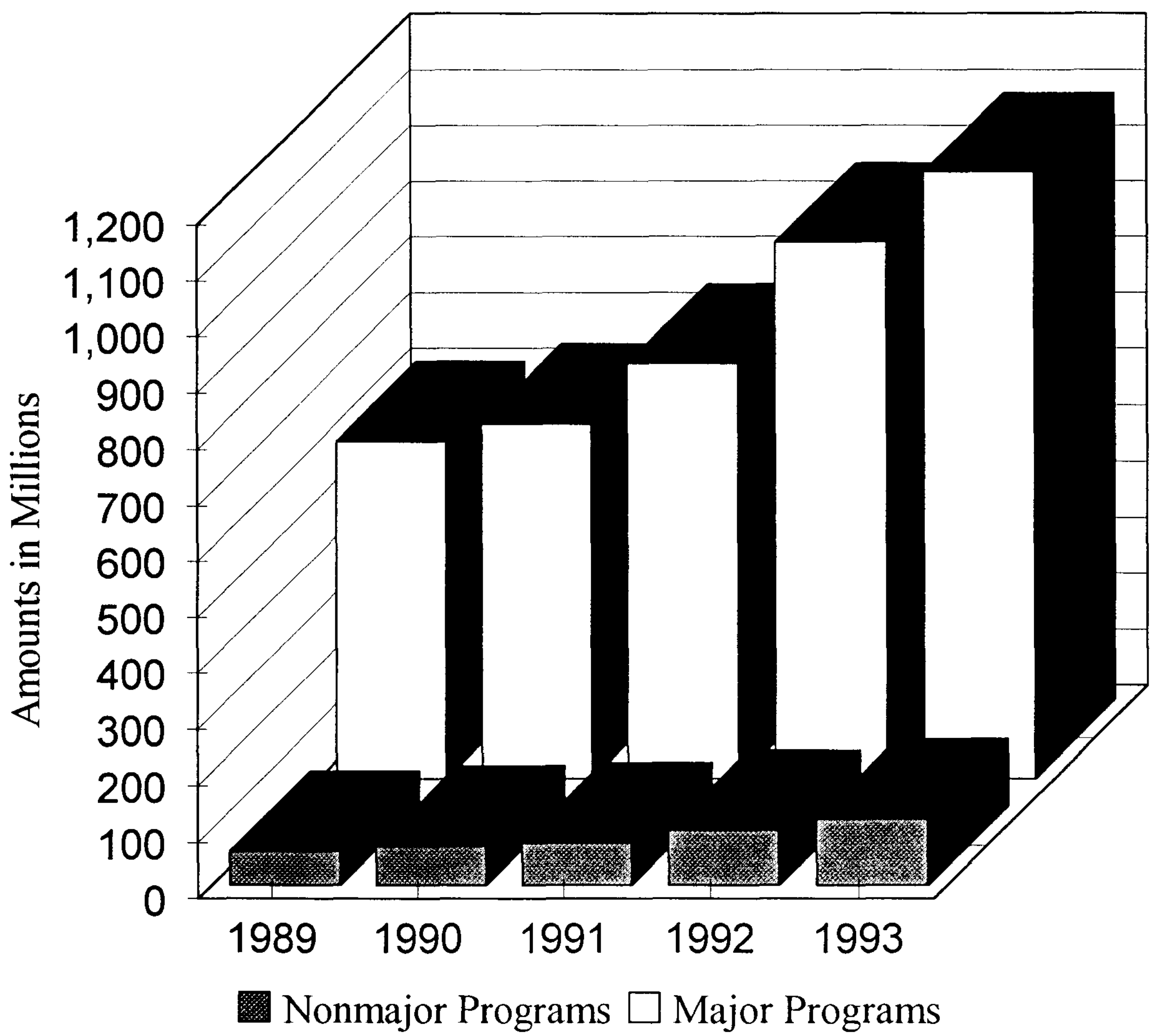
Revenues by Source
(General Fund)



Expenditures by Function
(General Fund)



Federal Financial Assistance



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State of Maine
Legend of State Agencies/Departments
For the Year Ended June 30, 1993

Abbreviations	Agency/Department
ASRSC	Atlantic Sea Run Salmon Commission
ADFIN	Administrative and Financial Services
AGRI	Agriculture, Food and Rural Resources
AG	Attorney General
BSPA	Baxter State Park Authority
CONS	Conservation
CORR	Corrections
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
PUC	Public Utilities Commission
TREAS	Office of the Treasurer of State

State of Maine
Summary of Federal Findings
by Federal Grantor Agency
For the Year Ended June 30, 1993

Federal Grantor Agency	CFDA#	Program	Finding Number (Schedule D)
U.S. Dept. of Agriculture	10.551	Food Stamps	66
	10.557	Special Supplemental Food Program - Women, Infants and Children	76
	Various	Various	40, 41, 42
U. S. Dept. of Education	84.010	Chapter 1 Programs - Local Educational Agencies	51
	84.027	Special Education - State Grants	58
	Various	Various	52, 53, 54, 55, 56, 57
U.S. Federal Emergency Management Agency	Various	Various	100
U.S. Dept. of Health & Human Services	93.560	Family Support Payments to States - Assistance Payments	63, 64, 65
	93.658	Foster Care Program	59
	93.667	Social Services Block Grant	60, 62, 75
	93.778	Medical Assistance Program	67, 68, 70, 73, 74, 93
	93.802	Social Security - Disability Insurance	69
	Various	Various	61, 71, 72, 77, 78, 79, 80, 81, 96
U.S. Dept. of Housing and Urban Devel.	14.228	Community Development Block Grant	43, 44, 45, 46, 47 48, 49, 50
U.S. Dept. of Labor	17.207	Employment Service	88, 89, 90
	17.225	Unemployment Insurance	85, 86, 87, 88, 89, 90
	17.250	Job Training Partnership Act	82, 83, 84
		Various Other Federal Programs	36, 37, 38, 39, 91, 92, 94, 95, 97

State of Maine
Summary of Findings/Conditions
by State Department
For the Year Ended June 30, 1993

Department	Material Weakness	Reportable Condition	Federal Finding	Management Letter	Total
ADFIN	3	21	4	36	64
AGRI			3	1	4
AG				2	2
DECD			8	1	9
DHS		2	23	2	27
DOC				1	1
DSS		1		1	2
DVS			1		1
ED			8	3	11
JD				3	3
MDOL			9	2	11
MDOT	1	4	2	5	12
MHMR		2	7	5	14
MSRS		2		1	3
PUC				1	1
TREAS	1	3		6	10
TOTAL	5	35	65	70	175

Published under appropriation 010 27A 1001 012