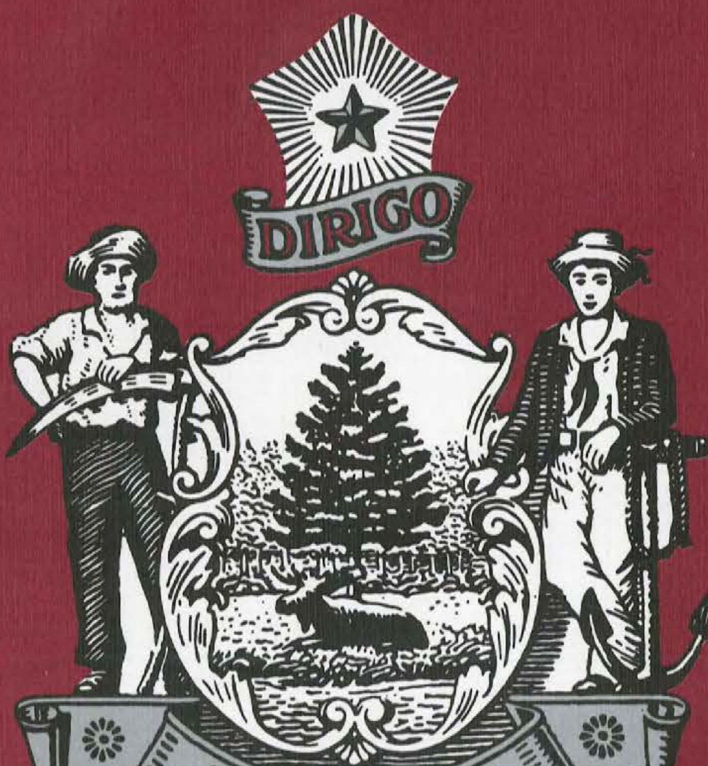
State of Maine

Single Audit Report

Fiscal Year Ended June 30, 1995



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

State of Maine

Single Audit Report Fiscal Year Ended June 30, 1995

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, 1995

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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 Single Audit of the State of Maine covering the fiscal year ended June 30, 1995.

The audit which covered over $3.8 billion in expenditures, of which $1.2 billion was for various federal programs, was conducted pursuant to Title 5 MRSA §243, subsection 1 which states, in part, that "the Department of Audit is . . . to perform a postaudit of all accounts and other financial records of the state government. . . and to report annually on this audit, and at such other times as the Legislature may require . . . ." In addition, 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 Circular A-128, "Audits of State and Local Governments".

On behalf of the Department of Audit, I would like to express my gratitude to the countless number of employees throughout state government who have assisted us during the conduct of our audit and in the issuance of this report. Without their efforts and dedication it would not be possible to continue our mutual quest for improved financial reporting and accountability to the citizens of our State. As always, we will strive to provide the Governor, Legislature and the management of state government agencies with meaningful information useful in their decision making process.

We would be pleased to respond to any of your questions or comments about the 1995 Single Audit of the State of Maine.

Respectfully submitted,

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

November, 1996

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Executive Summary

INTRODUCTION

The *Single Audit of the State of Maine* for the fiscal year ended June 30, 1995, contains the primary government financial statements and the *Independent Auditor's Report* thereon, the *Schedule of Federal Financial Assistance* and the auditor's report thereon, reports on the State's internal control structure and on the State's compliance with laws and regulations. The Single Audit also contains a *Schedule of Findings and Questioned Costs, Schedule of Reportable Conditions* and a *Management Letter*. Management's responses to the various audit findings and recommendations have been included with the related audit findings.

This audit, which covers the primary government of the State of Maine, includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate.

The audit, which has both financial and compliance objectives (as noted below) has been conducted in accordance with the following auditing standards and Federal regulations.

Generally Accepted Auditing Standards
Audit of primary government financial statements

Government Auditing Standards
Internal controls at the financial statement level
Compliance with laws and regulations at the financial statement level
Audit of primary government financial statements

Single Audit Act of 1984
Internal controls at the Federal financial assistance program level
Compliance with laws and regulations at the Federal financial assistance program level

OBJECTIVES

The specific objectives of the *Single Audit of the State of Maine* for the year ended June 30, 1995 were as follows:

- To obtain reasonable assurance as to whether the primary government financial statements of the State of Maine present fairly, in all material respects, the financial position and results of operations in accordance with generally accepted accounting principles;

- To consider the internal control structure in order to determine auditing procedures necessary for the purpose of expressing an opinion on the financial statements;

- To obtain reasonable assurance as to whether the *Schedule of Federal Financial Assistance* was fairly presented in all material respects in relation to the primary government financial statements of the State of Maine;

- To determine whether the State of Maine has an internal control structure to provide reasonable assurance that it is managing Federal financial assistance programs in compliance with applicable laws and regulations;

- To obtain reasonable assurance as to whether the State of Maine has complied, in all material respects, with specific requirements that may have a material effect on each major Federal financial assistance program;

- To test for compliance with specific requirements any transactions of nonmajor programs that were tested in connection with either the State's primary government financial statements or the consideration of the internal control structure; and

- To test for compliance with general requirements applicable to Federal financial assistance programs.

RESULTS

The audit of the primary government financial statements and Federal financial assistance programs administered by the organizational units comprising the primary government of the State of Maine revealed certain deficiencies. These deficiencies are addressed in the required auditor's reports and schedules listed in the Table of Contents, and include management's responses to our audit findings and recommendations.

The Department of Audit has issued eight Single Audit reports since 1987. We must again render a qualified opinion on the State's financial statements, as noted in the *Independent Auditor's Report*. The total number of audit findings has decreased only slightly (from 175 to 165) from the previous Single Audit.

FINANCIAL STATEMENTS

The *Independent Auditor's Report* on the primary government financial statement of the State of Maine is a "qualified report," primarily for the following reasons:

- Incomplete financial records to support the amounts at which property and equipment should be recorded in the General Fixed Assets Account Group. This has been a qualification in previous reports.

- Inadequate systems to identify and report capital leases.

- Lack of required pension information.

AUDIT FINDINGS - AN OVERVIEW

The various reports and schedules contained in the *Single Audit of the State of Maine* included 165 audit findings. Of these findings there were 28 or 17 percent that represented significant deficiencies in accounting and administrative controls affecting key areas of the State's financial monitoring and reporting systems.

MATERIAL WEAKNESSES

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 of risk that -

- errors or irregularities in amounts that would be material in relation to the financial statements may occur,

- and/or 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.

During our audit we identified seven audit findings which are considered to be material weaknesses. These significant audit findings summarized and referenced below warrant a higher degree of attention from those individuals responsible for implementing corrective action plans.

(A) <u>Accounting system does not comply with Governmental Accounting Standards Board (GASB) principles (Prior Year Finding)</u>

The State of Maine's accounting system does not make it possible to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups in accordance with generally accepted accounting principles. (See page 56)

(B) <u>Inadequate understanding of internal controls over data processing by service centers</u>

The Bureau of Alcoholic Beverages and Lottery Operations contracts with two vendors for computer services relating to instant ticket and on-line sales. Financial statements of lottery operations are derived almost entirely from vendor reports. Lottery has not independently verified whether the vendor systems correctly record, process, summarize and report financial data. (See page 58)

(C) Fixed assets records incomplete (Prior Year Finding)

The Bureau of General Services does not have detailed records of all land, buildings and equipment owned by the State. (See page 59)

(D) Inadequate internal control system in place to identify capital leases

The Department of Administrative and Financial Services does not evaluate and report leases in accordance with the Financial Accounting Standards Board (FASB) *Statement No. 13, Accounting for Leases*. Centralized information is not sufficient to prepare all necessary financial adjustments and required financial statement note disclosures. (See page 59)

(E) Incorrect rates charged for equipment attachment rentals/Related party refund

The Motor Transport Services (MTS) fund of the Department of Transportation overcharged the Highway Fund approximately $1.5 million for equipment attachment rentals. During the same fiscal period, MTS made refunds to the Bureau of Maintenance and Operations for "higher than anticipated collections". (See page 60)

(F) Inadequate revenue recognition procedures

Motor Transport Services (MTS) records revenue for equipment rental at the time that the department's Bureau of Maintenance and Operations makes payment. During our audit we noted that approximately $1.2 million earned in June 1995, was not recorded until the following fiscal year. (See page 61)

(G) Federal financial data incorrectly reported (Prior Year Finding)

The Department of Human Services (DHS) incorrectly reported program outlays on its *Schedule of Federal Financial Assistance* and on the department's individual Federal financial reports. On one of the Federal programs there was an accounting error that resulted in a reporting error of over $1.8 million. (See page 66)

REPORTABLE CONDITIONS

A "reportable condition"involves 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's ability to record, process, summarize, and report financial data consistent with the assertions of management in the primary government financial statements.

During the course of our audit, we identified twenty-one reportable conditions. These audit findings, considered to be the next most important findings (to those previously described as "material weaknesses") are presented in the *Schedule of Reportable Conditions* on page 69 of this report. The findings included the following types of deficiencies;

- Financial reporting not in accordance with generally accepted accounting principles
- Noncompliance with State and Federal laws and regulations
- Insufficient oversight/monitoring functions
- Internal control procedures not in place or not followed
- Unrecorded accounts and/or transactions
- Inadequate cash management procedures

COMPLIANCE WITH FEDERAL LAWS AND REGULATIONS

The *Schedule of Findings and Questioned Costs* on page 129 of this report contains eighty-three findings of noncompliance with Federal laws and regulations governing the expenditures of Federal funds. (Three of these findings are also reported in the *Schedule of Reportable Conditions*). Some of these findings resulted in "questioned costs" which are a potential liability to the State in that they represent overcharges or costs that may not be eligible for Federal reimbursement. This report identifies approximately $0.6 million in questioned costs that may have to be repaid to the Federal government by the State.

OTHER AUDIT FINDINGS

The balance of the audit findings contained in this report are included in the *Management Letter* section on page 227 of the *Single Audit of the State of Maine*. The management letter comments are considered to be less significant than the other types of audit findings previously described. A "*management letter*" includes only those comments and suggestions that may improve internal controls, operating efficiencies or organizational effectiveness that are not included in other reports. There are fifty-four management letter comments that were presented for management's consideration.

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Primary Government Financial Statements

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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 primary government financial statements of the State of Maine, as of and for the year ended June 30, 1995, as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following four paragraphs, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the 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 State does not maintain adequate systems to identify, classify and report capital leases in conformity with generally accepted accounting principles. Accordingly, we were unable to form an opinion regarding the amounts at which property and equipment (stated at $61.1 million), accumulated depreciation (stated at $19.1 million), and lease/purchase payable (stated at $0 million) are recorded in the Enterprise Fund. In addition, we were unable to form an opinion regarding the amounts for lease/purchase payable (stated at $19.0 million) and amounts to be provided for retirement of general long-term debt (stated at $640.3 million) are recorded in the General Long-Term Debt Account Group.

The State does not have complete financial records to support the amounts included in the General Fixed Assets Account Group. Accordingly, we were unable to form an opinion regarding the amounts at which property and equipment, and investments in general fixed assets are recorded in the accompanying financial statements (stated at $335.2 million).

The State of Maine's financial statements do not disclose required pension information. In our opinion, disclosure of that information is required to conform with generally accepted accounting principles.

The primary government financial statements of the State of Maine for the year ended June 30, 1994 were not audited, and we were unable to apply procedures to determine whether the opening balances in the primary government financial statements as of June 30, 1995, were presented in conformity with generally accepted accounting principles or whether accounting principles have been consistently applied between 1994 and 1995.

A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Such legally separate entities are referred to as component units. For the reasons expressed in the first preceding paragraph, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year ended June 30, 1995, or on the consistency of application of accounting principles with the preceding year.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had records concerning capital leases been adequate (discussed in the fifth preceding paragraph), and the omission of pension information (discussed in the third preceding paragraph), the Combined Balance Sheet referred to in the first paragraph (as included in the table of contents) presents fairly, in all material respects, the financial position of the primary government of the State of Maine, as of June 30, 1995, in conformity with generally accepted accounting principles. For the reason discussed in the fourth preceding 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.

However, the primary government financial statements, because they do not include the financial data of component units of the State of Maine, do not purport to, and do not, present fairly the financial position of the State of Maine, as of June 30, 1995, and the results of its operations and the cash flows of its proprietary fund types and nonexpendable trust funds for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 20 to the financial statements, the State is a party to various legal and other actions. The ultimate liability resulting from those matters cannot presently be determined. Accordingly, no provision for any liability that may result on adjudication has been made in the accompanying financial statements.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 16, 1996, on our consideration of the State of Maine's internal control structure and a report dated August 16, 1996 , on its compliance with laws and regulations.

The State of Maine has not presented historical pension information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

August 16, 1996

STATE OF MAINE
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
June 30, 1995
(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)	$ 554	$ 95,969	$ 587	$ 862
Cash with fiscal agent	15,283	2,606	402	
Cash - other (Note 1E, 4)	102	122		
Deposits with U.S. Treasury (Note 1E, 4)				
Investments (Note 1E, 4)				45,333
Receivables (net of allowances for uncollectibles)				
Taxes	107,854	22,778		
Accounts	19,319	33,930		
Loans		1,007		
Accrued interest				
Due from other funds (Note 17)	4,600	39,654	181	266
Due from other governments (Note 7)		84,609		
Advances to other funds (Note 17)	4,191	13,182		
Inventories		23,148		
Other assets	182	121		
Restricted assets (Note 1E)				
Property 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	**$ 152,085**	**$ 317,126**	**$ 1,170**	**$ 46,461**
Liabilities, Fund Equity and Other Credits				
Liabilities:				
Accounts payable	$ 59,425	$ 112,978	$	$ 1,854
Accrued payroll	12,078	14,738		
Workers' compensation benefits payable				
Compensated absences payable (Note 1F)				
Tax refunds payable	7,212			
Claims payable				
Other liabilities	3,377	2,056		
Due to other funds (Note 17)	62,969	9,230		
Due to other governments	36,483	6,045		
Due to program participants and providers				
Deferred revenue (Note 1F)	32,476	34,514		
Advances payable (Note 17)		2,560		
Matured bonds payable			66	
Matured interest payable			336	
Lease/Purchase payable				
Certificates of participation payable (Note 14)				
Bonds payable (Note 15)				
Total Liabilities	214,020	182,121	402	1,854
Fund Equity and Other Credits:				
Contributed capital				
Investment in general fixed assets (Note 9)				
Retained earnings (deficit) (Note 2)				
Fund Balances:				
Reserved for encumbrances	15,925	41,972		16,280
Reserved for advances	4,191	13,182		
Reserved for Rainy Day Fund	5,222			
Reserved for other purposes	9,850	647	768	
Unreserved:				
Designated for subsequent year expenditures				28,327
Undesignated	(97,123)	79,204		
Total Fund Equity and Other Credits	(61,935)	135,005	768	44,607
Total Liabilities, Fund Equity and Other Credits	**$ 152,085**	**$ 317,126**	**$ 1,170**	**$ 46,461**

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

Exhibit 1

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)
$ 4,342	$ 10,627	$ 41,448	$	$	$ 154,389
					18,291
794	21	2,188			3,227
		80,324			80,324
1		138,060			183,394
					130,632
9,958	415	3,419			67,041
9,513	374				10,894
267					267
1,076	12,593	17,928			76,298
					84,609
					17,373
4,315	5,891				33,354
67	392	1,637			2,399
	17,530	33,263			50,793
61,072	102,551	2,574	335,227		501,424
(19,111)	(65,570)				(84,681)
				587	587
				640,334	640,334
$ 72,294	$ 84,824	$ 320,841	$ 335,227	$ 640,921	$ 1,970,949
$ 5,170	$ 9,077	$ 7,143	$	$	$ 195,647
369	570				27,755
	1,786			63,874	65,660
501	1,029			32,077	33,607
					7,212
6,681	2,273				8,954
627	447	2,846			9,353
3,303	796				76,298
2,000					44,528
		176,150			176,150
413	840	3,410			71,653
1,500	13,313				17,373
					66
	186				522
				19,040	19,040
	28,550			9,870	38,420
				516,060	516,060
20,564	58,867	189,549	-	640,921	1,308,298
45,663	4,941				50,604
			335,227		335,227
6,067	21,016	11,333			38,416
					74,177
					17,373
					5,222
		124,837			136,102
					28,327
		(4,878)			(22,797)
51,730	25,957	131,292	335,227	-	662,651
$ 72,294	$ 84,824	$ 320,841	$ 335,227	$ 640,921	$ 1,970,949

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, 1995
(UNAUDITED)
(Dollars in Thousands)

	Governmental Fund Types				Fiduciary Fund Type
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust
Revenues:					
Taxes:					
Sales and use	$ 682,930	$	$	$	$
Individual income	602,108				
Corporate income	50,504				
Cigarette	48,589				
Insurance companies	35,949				
Public utilities	25,785				
Other taxes	51,169	236,962			
Licenses and fees	27,475	196,428			128,440
Intergovernmental revenue	6,262	1,097,719			
Service charges	20,956	83,169			
Investment revenue	7,555	2,127	27	4,112	1,249
Miscellaneous revenue	22,530	71,512	226		936
Total Revenues	1,581,812	1,687,917	253	4,112	130,625
Expenditures:					
General government	134,322	115,523	23,383		108,097
Economic development	27,848	63,042	1,491		
Education and culture	852,500	102,435	2,068		
Human services	534,012	990,196	3,632		
Manpower	6,233	56,156			
Natural resources	36,491	50,506	28,808		
Public protection	11,279	45,175			
Transportation	2,114	266,371	14,686		
Debt service:					
Principal payments				74,575	
Interest payments				38,488	
Total Expenditures	1,604,799	1,689,404	74,068	113,063	108,097
Excess of Revenues over (under) Expenditures	(22,987)	(1,487)	(73,815)	(108,951)	22,528
Other Financing Sources (Uses):					
Operating transfers in (out)	17,792	(8,882)	(66)	107,552	306
Bond proceeds			61,350		
Total Other Financing Sources (Uses)	17,792	(8,882)	61,284	107,552	306
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(5,195)	(10,369)	(12,531)	(1,399)	22,834
Fund Balances (deficits) - July 1 As Restated (Note 22)	(15,089)	113,143	58,209	2,167	104,663
Equity transfer	-	-	-	-	(5,234)
Fund Balances (deficits) - June 30	**$ (20,284)**	**$ 102,774**	**$ 45,678**	**$ 768**	**$ 122,263**

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

STATE OF MAINE

Exhibit 3

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, 1995
(UNAUDITED)
(Dollars in Thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:						
Taxes	$ 1,502,869	$ 1,509,106	$ 6,237	$ 252,270	$ 237,217	$ (15,053)
Fines, forfeits and penalties	22,117	20,728	(1,389)	14,526	8,241	(6,285)
Licenses and fees	27,321	27,475	154	217,785	196,429	(21,356)
Income from investments	5,024	7,555	2,531	955	2,127	1,172
Intergovernmental	6,640	6,262	(378)	1,329,871	1,097,719	(232,152)
Charges for current services	20,475	20,956	481	94,021	83,169	(10,852)
Other revenues	677	8,591	7,914	94,833	64,406	(30,427)
Total Revenues	1,585,123	1,600,673	15,550	2,004,261	1,689,308	(314,953)
Expenditures:						
General government	222,511	216,224	6,287	148,435	122,565	25,870
Economic development	29,249	27,925	1,324	101,156	63,042	38,114
Education and cultural services	861,704	854,864	6,840	119,976	102,435	17,541
Human services	550,495	531,713	18,782	1,138,973	1,001,452	137,521
Manpower	7,884	6,250	1,634	93,548	56,157	37,391
Natural resources	38,808	36,592	2,216	78,297	50,506	27,791
Public protection	11,633	11,310	323	53,141	45,330	7,811
Transportation	2,300	2,120	180	340,501	291,234	49,267
Total Expenditures	1,724,584	1,686,998	37,586	2,074,027	1,732,721	341,306
Excess of Revenues over (under) Expenditures	(139,461)	(86,325)	53,136	(69,766)	(43,413)	26,353
Other Financing Sources (Uses):						
Operating transfers in (out)	82,531	77,922	(4,609)	26,545	9,223	(17,322)
Total Other Financing Sources (Uses)	82,531	77,922	(4,609)	26,545	9,223	(17,322)
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(56,930)	(8,403)	48,527	(43,221)	(34,190)	9,031
Fund Balances - July 1	-	70,441	-	-	197,945	-
Fund Balances - June 30 (Note 3)	$ -	$ 62,038	$ -	$ -	$ 163,755	$ -

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

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, 1995
(UNAUDITED)
(Dollars in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type
	Enterprise	Internal Service	Nonexpendable Trust
Operating Revenues:			
Charges for services	$ 226,071	$ 79,725	$
Investment income	1,436	1,244	291
Other operating revenues	1,669	53	
Total Operating Revenues	229,176	81,022	291
Operating Expenses:			
General operations	78,863	70,462	
Depreciation	2,123	4,799	
Financing expense - interest		726	
Prize expense	88,637		
Claims		2,121	
Total Operating Expenses	169,623	78,108	-
Income (loss) before Operating Transfers	59,553	2,914	291
Operating Transfers			
Transfers in	1,650		
Transfers out	(62,917)		
Total Operating Transfers	(61,267)	-	-
Net Income (Loss)	(1,714)	2,914	291
Retained Earnings/Fund Balances - July 1 (as adjusted) (Note 22)	8,121	21,176	11,042
Retained Earnings/Fund Balances - June 30 (Note 2)	$ 6,407	$ 24,090	$ 11,333

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, 1995
(UNAUDITED)
(Dollars in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type
	Enterprise	Internal Service	Nonexpendable Trust
Sources of Cash and Investments			
Cash Flows from Operating Activities:			
Operating Income	$ 59,753	$ 1,670	$ -
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	2,123	4,799	
Other	13		
Changes in assets and liabilities:			
Change in accounts receivable	(6,276)	521	
Changes in due from other funds	(23)	(2,605)	
Changes in inventory	634	410	
Changes in other assets	417	(332)	443
Changes in accounts payable	1,945	(2,254)	
Changes in due to other funds	1,020	(88)	
Changes in other liabilities	4,023	(1,053)	
Total adjustments to operating income	3,876	(602)	443
Net Cash Provided (Used) by Operating Activities	63,629	1,068	443
Cash Flows from Noncapital Financing Activities:			
Operating transfers in (out)	(62,916)		
Net Cash Provided (Used) by Noncapital Financing Activities	(62,916)	-	-
Cash Flows from Capital and Related Financing Activities:			
Proceeds from issuance of bonds and notes		23,425	
Repayment of bonds and notes		(3,809)	
Acquisition and construction of capital assets	(339)	(6,899)	
Capital contributions		127	
Net Cash Provided (Used) by Capital and Related Financing Activities	(339)	12,844	-
Cash Flows from Investing Activities:			
Interest and dividends on investments	1,436	1,244	
Net Cash Provided (Used) by Investing Activities	1,436	1,244	-
Net Increase (Decrease) in Cash and Cash Equivalents	1,810	15,156	443
Cash and Cash Equivalents - July 1	3,473	16,300	344
Cash and Cash Equivalents - June 30	$ 5,283	$ 31,456	$ 787

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, 1995

1. Summary of Significant Accounting Policies

A. Scope of Reporting Entity

The accompanying financial statements include all funds and account groups of the primary government of the State of Maine. They do not include the financial information of component units of the State of Maine's reporting entity as defined by Governmental Accounting Standards Board (GASB) Statement 14, and, therefore, are not in conformity with generally accepted accounting principles. A primary government is a legal entity or body politic and includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate. Legally separate organizations for which the elected officials of the primary government are financially accountable or for which the nature and significance of their relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete are referred to as component units. Some of the component units not included in the primary government financial statements of the State of Maine are the Maine State Retirement System, Maine Maritime Academy, Maine State Housing Authority, Finance Authority of Maine, Maine Turnpike Authority, Maine Technical College System and the University of Maine System.

B. Basis of Presentation - Fund Accounting

The state uses funds and account groups to record its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts in which cash and other financial resources, all related liabilities and residual equities, or balances, and changes therein, are recorded and segregated to carry on specific activities or attain certain objectives in accordance with special regulations, restrictions or limitations.

The state uses the fund types and account groups described below. Transactions between funds, if any, have not been eliminated.

<u>Governmental Fund Types</u>

General Fund - Used to account for all financial resources, except those required to be accounted for in another fund. It is the general operating fund of the state.

Special Revenue Fund - Used to 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. Special Revenue Funds include the following:

1. Highway Fund - This fund is used to account for revenues derived from registration of motor vehicles, operator 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.

2. Other Special Revenue Funds - A major portion of Other Special Revenue Funds consist of federal funds received by the state. Also included are a grouping of 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. Expenditures of these funds can only be made in accordance with restrictions imposed by the source of the revenues.

Debt Service - Used to account for the accumulation of resources and payment of general obligation bond principal and interest from governmental resources as well as revenues collected from Maine Veteran's Home and Maine Technical Colleges to pay principal and interest on revenue bonds.

Capital Projects - Used to account for financial resources used for the acquisition, construction or improvement of certain capital facilities (other than those financed by proprietary funds). Such resources are derived principally from proceeds of general obligation bond issues and revenue bonds. The state also includes in this fund type proceeds from bond issues for uses other than major capital facilities.

<u>Proprietary Fund Types</u>

These funds are used to account for the state's ongoing activities that are similar to those often found in the private sector. The measurement focus is on the determination of net income rather than the disclosure of expendable financial resources.

Enterprise Funds - Account for transactions related to resources received and used for financing self-supporting activities of the state that offer products and services on a user-charge basis to the general public.

Internal Service Funds - Account for transactions related to the financing and sale of goods or services provided by agencies of the state to other agencies of the state. The goods or services furnished are billed to the recipient agency to recover costs through user charges.

Activities accounted for in the state's proprietary funds follow all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as applicable private sector pronouncements issued on or before November 30, 1989.

<u>Fiduciary Fund Types</u>

Transactions related to assets held in a trust or agency capacity by the state are accounted for in fiduciary funds. These include expendable trust funds, nonexpendable trust funds, and agency funds.

Expendable Trust Funds - Account for assets held by the state in a trustee capacity where the principal and income may be expended in the course of the funds' designated operations.

Nonexpendable Trust Funds - Account for the assets held by the state in a trustee capacity where only income derived from the trust principal may be expended for designated operations. The principal must be preserved intact.

Agency Funds - Account for the receipt and disbursement of various taxes, deposits, deductions, and property collected by the state, acting in the capacity of an agent, for distribution to other governmental units, organizations or individuals.

Account Groups

General Fixed Assets Account Group (Unaudited) - Is used to account 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 - Is used to account for long-term obligations of the state not accounted for in proprietary funds and nonexpendable trust funds. This includes unmatured, long-term obligations related to general obligation bonds, revenue bonds and capital lease obligations. It also accounts for governmental funds' obligations for compensated absences and workers' compensation.

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. Interfund eliminations have not been made in the aggregation of this data.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus, as described below.

Governmental Fund Types and Expendable Trust and Agency Funds

All governmental and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet in that fund. Operating statements for these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets. Agency funds are accounted for and reported in the same manner as governmental funds; however, since they are custodial in nature they do not involve measurement of results of operations.

The modified accrual basis of accounting is used by all governmental, expendable trust, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined. "Available" means then due, or past due and receivable within the current period, and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (within 60 days). Significant revenues that have been determined to be susceptible to accrual include certain taxpayer-assessed taxes. Individual and corporate income taxes, sales taxes, and withholding taxes received in July and August that relate to the prior fiscal year are accrued for that fiscal year ended June 30. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met. Property taxes levied during the current fiscal year for the subsequent period are recorded as deferred revenue during the current year. Excise taxes, motor fuel taxes, and unemployment compensation contributions are considered measurable when the returns are received. Revenues from licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues (except investment earnings) are recognized when received in cash. Investment earnings are recorded as revenue when earned since they are measurable and available.

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 share 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 are recorded as revenue at the time of receipt or earlier if the susceptible to accrual criteria are met. For other such resources, usually grants, expenditures are the prime factor for determining eligibility, and revenues are recognized when the expenditures are made. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

Under modified accrual accounting, expenditures are recognized when the related fund liability is incurred. The major exception to the general rule of expenditure accrual relates to unmatured principal and interest on general long-term debt which are recognized when due.

Proprietary Fund Types and Nonexpendable Trust Funds

All proprietary and nonexpendable trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operations of these funds are included on the balance sheet. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in equity (i.e., net total assets). Equity in proprietary funds is segregated into contributed capital and retained earnings components. Equity for nonexpendable trust funds is shown as fund balance.

All proprietary and nonexpendable trust funds are accounted for using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recognized when incurred.

D. Budgetary Process

In accordance with statute, the Governor presents his proposed budget biennially to the legislature. The legislature enacts the budget through specific appropriations bills for the General Fund and allocation bills for the Highway Fund and Other Special Revenue Funds. Once passed and signed, the budget becomes the financial plan which sets forth proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. It also sets forth the anticipated revenues and any other additional means of financing expenditures proposed for each fiscal year.

Budgetary control is maintained at the account level at which appropriations or allocations are approved by the legislature, principally through a quarterly allotment system. Budget revisions during the year, reflecting program changes or intradepartmental transfers of an administrative nature, may be effected with executive and legislative branch approval. Except in specific instances, only the legislature may transfer appropriations between departments. In order to provide sufficient funding for several programs during the year, supplemental appropriations of $152.5 million were required.

Encumbrance accounting, which requires that purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation or allocation, is employed as an extension of formal budgetary control. Appropriated and allocated balances are available for subsequent expenditure to the extent that encumbrances have been approved by the end of the fiscal year. Since they do not constitute expenditures or liabilities, encumbrances outstanding at year-end are reported as reservations of fund balances, representing those portions of fund balances that are not available for allocation or expenditure or that are legally segregated for specific future uses. Unencumbered appropriations in the General Fund and Highway Fund lapse at year-end unless, by law, they are carried forward to a subsequent year.

The state's budget is prepared primarily on a cash basis. Since the budgetary basis differs from generally accepted accounting principles (GAAP), budget and actual amounts in the accompanying (unaudited) budgetary comparison statement are presented on the budgetary basis. A reconciliation of the differences between the budgetary and GAAP bases is presented in Note 3. The budgetary comparison statement includes the General Fund and all budgeted special revenue funds.

E. Assets, Liabilities and Fund Equity

Equity in Treasurer's Cash Pool

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.

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 and food stamps. Expendable supplies are valued at cost, which approximates market, generally using the first-in, first-out (FIFO) method. They are recorded as expenditures at acquisition. Inventories of food stamps are recorded at their face value, with a corresponding deferred revenue in accordance with GASB Statement 24. Food stamp revenues and expenditures are recorded simultaneously at the time of distribution.

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, $17.5 million, is classified as a restricted asset because its use is limited by construction contracts and bank financing agreements. In addition, $33.3 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

The governmental funds of the state report fixed assets in the General Fixed Assets Account Group at historical cost, estimated historical cost, or estimated fair market value when 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. Depreciation is not recorded for general fixed assets. Infrastructure assets such as highways, curbs, bridges and lighting systems are not capitalized. No interest has been capitalized on self-constructed assets as noncapitalization of interest does not have a material effect on the financial statements.

Fixed assets of proprietary funds are accounted for in the acquiring fund. Depreciation is recorded on a straight-line basis over the assets' estimated useful lives: 2-25 years for equipment and fixtures and 10-40 years for building 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.

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. Designations of equity represent tentative management plans that are subject to change. The proprietary fund's contributed capital represents equity acquired through grants and capital contributions from developers, customers or other funds.

Nonmonetary Federal Assistance

Nonmonetary federal financial assistance consisting primarily of donated commodities and federal surplus property is not reflected in the financial statements. The inventory valuation of such assistance as assigned by the federal government was approximately $1.7 million as of June 30, 1995.

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

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 $32.1 million of accrued compensated absences at June 30, 1995 has been recorded in the General Long-Term Debt Account Group and represents the state's commitment to fund these costs from future operations. Proprietary fund types accrue vacation benefits in the period in which they are earned and report them as fund liabilities. Employees' sick time is not vested; therefore expense for sick time is recorded when paid.

Deferred Revenue

Deferred revenues are recorded when a potential revenue does not meet the "available" criterion for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them. In subsequent periods, when the revenue recognition criterion is met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and revenue is recognized.

Taxes receivable of $47.3 million are classified as deferred revenue as they are not expected to be collected in time to finance expenditures of the current period. Also classified as deferred revenue are $23.1 million of food stamps held by the state pending distribution. In addition, $1.3 million of revenue received for advance sales of lottery tickets and Risk Management Fund insurance premiums are classified as deferred.

2. Stewardship, Compliance and Accountability

At June 30, 1995 the following funds had deficit fund balances/retained earnings as follows: General Fund $61.9 million; Alcoholic Beverages enterprise fund $241 thousand; Lottery enterprise fund $87 thousand; Telecommunications internal service fund $4 million and Real Property Lease internal service fund $16 thousand.

3. Budget to GAAP Reconciliation (Unaudited)

Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of resulting differences in the Fund Balances between budgetary and GAAP presentations for the year ended June 30, 1995, is presented below:

(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balance - Budgetary/Legal	$ 62,038	$ 163,755
Basis of Accounting Differences:		
Taxes receivable	(7,856)	
Prepaid expenditures	(5,429)	3,922
Due from other funds	(522)	(536)
Payroll accrual	(12,078)	(14,738)
Medicaid payable	(21,683)	(35,193)
Deferred revenue	(27,200)	
Other accounts	(7,554)	(14,436)
Total Fund Balance - GAAP Basis	$ (20,284)	$ 102,774

4. Deposits and Investments

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 §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.

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 amount of state 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 amount of state deposits which are not collateralized or are collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the entity's name. Although depositories held collateral totaling $23.8 million for the state on deposits in excess of FDIC coverage at June 30, 1995 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 $8.3 million held in Equity in Treasurer's Cash Pool. At year-end, the carrying amount of the state's deposits was $91.9 million and the bank balance was $126.6 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	$ 16,035	$ -	$ 30,277	$ 46,312	$ 11,536
Maine Employment Security Commission deposits with U.S. Government	80,324			80,324	80,324
Total	$ 96,359	$ -	$ 30,277	$126,636	$ 91,860

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 Deferred Compensation Plan participates. Investments consist of Investments and $146.1 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	$	$ 59,333	$	$ 59,333	$ 59,378
Cash Equivalents		3,853	677	4,530	4,530
Government Securities		93,350	6,567	99,917	100,955
Corporate Obligations		44,535	4,397	48,932	49,135
Equity Securities		4,899	15,748	20,647	24,353
Subtotal	-	205,970	27,389	233,359	238,351
Add amounts not categorized because securities are not used as evidence of the investments:					
Other				126	126
Deferred Compensation Plan investments				95,989	95,989
Total Investments	$ -	$ 205,970	$ 27,389	$ 329,474	$ 334,466

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, 1995 allowances for uncollectible accounts were approximately $145.8 million, $7.7 million and $1.7 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/To Other Governments

Due from other governments represents federal grants receivable, which is comprised primarily of $83.2 million due for Medicaid claims. Due to other governments is comprised of $36.5 million due for deferred scheduled payments for aid to local schools, $6 million due for municipal revenue sharing distributions and $2 million due to the Finance Authority of Maine for financing Potato Market Improvement Fund loans.

8. Joint Venture

Tri-State Lotto Commission

The Tri-State Lotto 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 Lotto 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.

Complete separate financial statements of the Tri-State Lotto Commission may be obtained at the:

Bureau of Alcoholic Beverages and Lottery Operations
8 State House Station
Augusta, Maine 04333-0008.

As of and for the year ended June 30, 1995 (the Commission has adopted a 52-53 week year, ending on the Saturday closest to June 30) the following selected financial information was reported in audited financial statements of the Tri-State Lotto Commission:

(Dollars in Thousands)

Current assets	$ 41,648
Noncurrent assets	207,931
TOTAL ASSETS	$ 249,579
Current liabilities	$ 37,328
Noncurrent liabilities	207,256
TOTAL LIABILITIES	244,584
Retained earnings	4,995
TOTAL LIABILITIES and RETAINED EARNINGS	$ 249,579
Total revenue	$ 99,373
Total expenses	64,780
Allocation of funds to member states	34,593
Increase in retained earnings	101

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	$ 37,215	$ 940	$ 243	$ 2,574
Buildings and improvements	178,674	19,951	5,041	
Equipment, fixtures and other	119,338	40,181	97,267	
	335,227	61,072	102,551	2,574
Less: Accumulated depreciation		(19,111)	(65,570)	
	$ 335,227	$ 41,961	$ 36,981	$ 2,574

10. Maine State Retirement System (Unaudited)

The Maine State Retirement System (MSRS) is a body corporate and politic and an incorporated public instrumentality of the State. It is established by Title 5 MRSA, C. 421, 423 and 425. It is an agent multiple-employer defined benefit pension plan which administers over two hundred retirement systems. These include the Legislative Retirement System, the Judicial Retirement System, the system that covers both public school teachers and State employees, and approximately 250 separate systems covering various political subdivisions that choose to participate in the MSRS, which under MSRS law are called participating local districts (PLD's). MSRS provides retirement, disability, and death benefits to plan members and their beneficiaries. Cost of living adjustments (COLA) are provided as determined by the percentage increase or decrease of the Consumer Price Index.

In addition to administering these public pension systems, the MSRS is also responsible for administering the State Group Life Insurance Program. This program provides life insurance benefits for both active and retired State employees, public school teachers, and many PLD employees, and for members and retirees of the Legislative and Judicial Retirement Systems.

The responsibility for the operation of the Maine State Retirement System, including all the various retirement systems and the State Group Life Insurance Program, is held by the MSRS Board of Trustees, which is composed of eight members. State law specifies the Board's composition. The State Treasurer fills the one non-voting position. The seven voting positions include three positions that are to be filled by MSRS members. One of these three is to be a teacher member elected by the Maine Education Association and one is to be a PLD member appointed by the Maine Municipal Association. The remaining four voting Board members are all appointed by the Governor.

The MSRS Board of Trustees contracts with fiduciaries or registered investment advisors to direct the investment portfolios. This is overseen by a master trustee and subject to periodic review by the Board. Investments of the System are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

Retirement benefits are specified by Title 5 MRSA, Chapter 423, subchapter V for state employees and teachers and Chapter 425, subchapter V for PLD's. Various plan options within the system may be selected by retiring members. Some of the options require actual reductions based on attained age, age of spouse, and similar actuarial factors.

Qualifications for benefits

1) In service with 10 years of creditable service on July 1, 1993. A member who is in service when reaching 60 years of age, or is in service after reaching 60 years of age, qualifies for a service retirement benefit if the member retires upon or after reaching 60 years of age and has been in service for a minimum of one year immediately before retirement or has at least 10 years of creditable service, which may include creditable service as a member of the Maine Legislative Retirement System (LRS).

2) In service with less than 10 years of creditable service on July 1, 1993. A member who is in service when reaching 62 years of age, or is in service after reaching 62 years of age, qualifies for a service retirement benefit if the member retires upon or after reaching 62 years of age and has been in service for a minimum of one year immediately before retirement or has at least 10 years of creditable service, which may include creditable service as a member of the LRS.

3) Not in service with 10 years of creditable service on July 1, 1993. A member who is not in service when reaching 60 years of age qualifies for a service retirement benefit if the member retires upon or after reaching 60 years of age and has at least 10 years of creditable service or 5 full terms as a Legislator, which may include creditable service as a member of the LRS.

4) Not in service with less than 10 years creditable service on July 1, 1993. A member who is not in service when reaching 62 years of age qualifies for a service retirement benefit if the member retires upon or after reaching 62 years of age and has at least 10 years of creditable service or 5 full terms as a Legislator, which may include creditable service as a member of the LRS.

5) Special groups of State employees may have plans with different qualifications for benefits.

Contributions

Plan members are required by statute to contribute 7.65% of earnable compensation or have "pick-up" contributions made at a rate of 7.65% of earnable compensation. "Pick-up" contributions are defined by statute as member contributions which are assumed and paid by the employer through a reduction of member's salaries for services rendered in lieu of employee contributions. The contribution rate differs for special groups of state employees. The employer is required to contribute at a rate predetermined by the actuary.

11. Other Employee Benefits

A. Postretirement Health Care Benefits

In addition to providing pension benefits and in accordance with statutory authority, the State of Maine pays for a varying percentage of the costs for certain health care benefits for most retired state employees and 25% of the cost for certain retired teachers, although they are not employees of the state. For persons who were first employed before July 1, 1991 the State of Maine, through the Maine State Retirement System (MSRS), pays 100% of the state retiree's health insurance premiums. For persons first employed after July 1, 1991 the State of Maine, through the MSRS, pays a pro rata portion of the state retirees' health insurance premiums, ranging from 0% for retirees with less than 5 years participation to 100% for retirees with 10 or more years of participation. 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 by the state as part of its employer contribution to the MSRS which is paid weekly. Expenditures paid to the MSRS are based on actuarially determined rates. Expenditures for postretirement health care benefits are recognized by the MSRS as premiums are paid, using funds generated from current employer contributions. MSRS financial records are not part of the state's primary government financial statements. For the fiscal year ended June 30, 1995 there were 7,802 retired state employees and 8,477 retired teachers. During the 1995 fiscal year, health care expenditures paid to the MSRS by the state were approximately $17.2 million and expenditures recognized by the MSRS for retirees were approximately $14.6 million.

B. Postretirement Life Insurance Benefits

In addition to providing pension and health care benefits and in accordance with statutory authority the State of Maine through the MSRS provides certain life insurance benefits for retired employees who, as active employees, participated in the Group Life Insurance Program for a minimum of 10 years. Payments of claims are made by MSRS from a fund containing a percentage of the monthly state paid basic life insurance premiums of active state employees, basic life insurance premiums of active teachers and earnings on the investments of the fund. In addition to the cost of claims, the state pays a monthly retention fee to a life insurance company. Retired state employee and retired teacher life insurance claims totaled $2.3 million for the fiscal year ended June 30, 1995. The number of participants eligible to receive benefits at fiscal year ended 1995 cannot be determined.

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 87 participants as of June 30, 1995.

Disability

State law allows confidential employees who become temporarily disabled to receive 66.67% of their salary for up to 335 calendar days. There were 399 confidential employees at June 30, 1995. The expenditure amount for this benefit cannot be determined.

D. Deferred Compensation

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code § 457. The plan, available to all state employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until the employee retires, resigns, or otherwise leaves state employment; becomes disabled, and his claim is approved by the Advisory Council; or suffers an unforeseen financial 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 (until paid or made available to the employee or other beneficiary) solely the property and rights of the state (without being restricted to the provisions of benefits under the plan), subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of the general creditors of the state in an amount equal to the fair market value of the deferred account for each participant.

The financial liability of the state is limited in each instance to the payment of premiums and the purchase of shares under the deferred compensation program while the enrolled remains an employee of the state, and only to the amount of the compensation or portion of compensation held for payment of such premiums or shares. 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 in the future.

12. Construction and Other Significant Commitments

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. This portion represents the subsidy for debt service resulting from local outstanding indebtedness for school construction and renovation projects. As of June 30, 1995 outstanding commitments by municipalities for school construction projects totaled $651 million.

At June 30, 1995 the Department of Transportation had contractual commitments of approximately $120.5 million for construction of various highway projects. Funding for these future expenditures is expected to be provided from federal funds, state funds, and bond proceeds.

At June 30, 1995 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

Capital leases (Unaudited)

The State has entered into lease/purchase agreements with the Maine Court Facilities Authority for the financing of court facilities in South Portland, West Bath, and Presque Isle. Under these agreements, revenue bonds were issued by the Authority for the financing and the courts became the tenant of the facilities under a lease/purchase agreement which provides for the payment of rentals sufficient to cover the related bond debt service.

Following is a summary of the future minimum rental payments for lease/purchase agreements for the financing of court facilities including interest at rates of 2.65% to 7.70%:

(Dollars in Thousands)

Fiscal Year	Principal	Interest	Total
1996	$ 965	$ 926	$ 1,891
1997	995	884	1,879
1998	1,035	839	1,874
1999	1,065	791	1,856
2000	1,100	741	1,841
Thereafter	13,880	4,026	17,906
Total	$ 19,040	$ 8,207	$ 27,247

Operating leases

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 recorded in the internal service funds are:

(Dollars in Thousands)

Year Ending June 30	Minimum Operating Lease Payments
1996	$ 1,015
1997	1,015
1998	1,015
1999	931
2000	459
Thereafter	-
Total	$ 4,435

Rental expense for the year ended June 30, 1995 was approximately $649 thousand.

Commitments for noncancelable operating leases recorded in the governmental and enterprise funds are (unaudited):

(Dollars in Thousands)

Year Ending June 30	Minimum Operating Lease Payments
1996	$ 10,628
1997	9,636
1998	8,433
1999	6,739
2000	9,489
Thereafter	15,681
Total	$ 60,606

Rental expense for the year ended June 30, 1995 was approximately $11.8 million.

14. Certificates of Participation

The State of Maine entered into several lease/purchase agreements between 1988 and 1995 with principal totaling $76.9 million for the construction of buildings and the rental and purchase of equipment, of which $28.5 million was outstanding in the internal service funds and $9.9 million was outstanding in the General Long Term Debt Account Group at June 30, 1995. A portion of one certificate of participation 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 internal service funds have recorded the liability under capital leases directly in the fund from which payment will be made at the value of the minimum lease payments. The liability for certificates of participation which are paid for from governmental funds are recorded in the General Long Term Debt Account Group. 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 or 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, 1995 are:

(Dollars in Thousands)

Year Ending June 30	Minimum Operating Lease Payments
1996	$ 11,028
1997	10,200
1998	9,092
1999	6,191
2000	5,870
Thereafter	1,561
Total Minimum Payments	43,942
Less: Interest	(5,522)
Present Value of Minimum Payments	$38,420

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, from Highway Fund revenue for highway bonds, and by transfers from the Maine Veterans Home, state colleges and vocational institutions for self-liquidating bonds.

As of June 30, 1995, the state had $36.8 million of authorized but unissued general obligation bonds. In November 1995, $91.9 million in general purpose and highway bonds were authorized by the voters. In April 1996, $76.7 million in general purpose and highway bonds were issued.

Changes in general obligation bonds outstanding for the year ended June 30, 1995 are:

(Dollars in Thousands)

Bond Type	Rate Range/ Maturity Dates	Unaudited Outstanding July 1	Unaudited Additions	Unaudited Reductions	Outstanding June 30
General Purpose	(0.1% to 10.00%) 7/1995 to 7/2006	$ 383,618	$51,350	$57,913	$ 377,055
(Taxable and Nontaxable) Highway	(1.75% to 10.5%) 7/1995 to 5/2004	143,355	10,000	16,405	136,950
Self-Liquidating	(3.0% to 10.5%) 12/1995 to 12/2008	2,312	-	257	2,055
Total		$ 529,285	$61,350	$74,575	$ 516,060

The requirements to amortize all bonds outstanding as of June 30, 1995 are:

(Dollars in Thousands)

Fiscal Year	Principal	Interest
1996	$ 77,070	$ 26,979
1997	79,590	23,429
1998	62,715	19,400
1999	57,145	16,070
2000	51,115	13,013
Thereafter	188,425	26,931
Totals	$ 516,060	$ 125,822

B. Bond and Tax Anticipation Notes

In July 1994, the state issued $175 million of general obligation tax anticipation notes at 4.5% with a maturity date of June 30, 1995. The July 1994 TANs were issued to improve the state's cash position. General obligation tax anticipation notes are authorized by Article 9 §14 of the Constitution of Maine. The notes are backed by the full faith and credit of the state.

During fiscal year 1995, bond anticipation notes (BANs) totaling $31.9 million were issued by the state. The BANs are backed by the full faith and credit of the state. As of June 30, 1995 there are no BANs outstanding.

16. Self-Insurance

A. Risk Management

The State of Maine is self-insured for property damage, vehicle liability, tort claim liability, civil rights liability, professional liability and foster parent liability. The state's management believes it is more economical to manage these risks internally and set aside assets for claim settlements in its Risk Management internal service fund. Although the state is the predominant participant in the Risk Management Fund, accounting for approximately 50% of the fund, several quasi-governmental agencies and non-governmental agencies also participate. Costs of providing risk management activities are recovered by charging each agency a premium based on its estimated current year liability, property values and recent trends in actual claims experience.

The state purchases commercial insurance for claims in excess of coverage provided by the Risk Management Fund in several categories. A summary of the insurance coverage and risk retained by the state follows:

Property	Losses in excess of an annual aggregate of $2 million or $1 million per occurrence, after which the state retains the risk for $100,000 per occurrence.
Liability	Losses in excess of an annual aggregate of $2.5 million. The state retains risk up to a maximum of $300,000 per occurrence.
Aircraft	Hull damage in excess of $50,000 per occurrence and liability coverage beginning at the first dollar of loss.
Ocean Marine	Hull damage in excess of $100,000 per occurrence and liability coverage in excess of $10,000 per occurrence.
Boiler and Machinery	Losses in excess of $5,000 per occurrence.
Employee Bonding	The state retains risk up to a maximum of $500,000 per occurrence.
Inland Marine	The state retains all risk. Inland Marine insurance coverage includes items such as fine art, specialized equipment, and liability coverage for volunteers and the state sponsored network of recreational trails.

Liabilities of the fund are recorded when it is probable that a loss has occurred and the amount can be reasonably estimated. Claims liabilities are based on actual claims submitted and claims incurred but not reported. Liabilities for claims incurred but not reported are estimated based on historical experience and do not necessarily result in exact amounts. Estimates are reviewed and revised periodically and revisions are reflected in current operations. Estimated claims liabilities of $2.3 million have been accrued in the internal service fund.

Changes in the claims liabilities balance during fiscal year 1995 are as follows:

(Dollars in Thousands)

	Unaudited			
	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
1994-95	$ 2,379	$ 1,633	$ 1,739	$ 2,273

B. Other Insurances

The state is self-insured for unemployment 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 $1.48 million for the fiscal year ended June 30, 1995.

The state is also self-insured for workers' compensation. The state assumes the full risk of claims filed. State agencies fund workers' compensation based on cash flow needs to meet claims disbursements. Liabilities for unfunded claims and incurred but not reported claims are based on actuarial calculations. The state is liable for unfunded claims and incurred but not reported claims totaling approximately $84.3 million as of June 30, 1995. The discounted amount is $65.7 million using an annual interest rate of five percent. Claim liabilities of $63.9 and $1.8 million have been recorded in the General Long-Term Debt Account Group and proprietary funds, respectively, at their discounted values.

Changes in the claims liabilities balance during fiscal year 1995 are as follows:

(Dollars in Thousands)

	Unaudited			
	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
1994-95	$ 82,716	$ 13,736	$ 12,172	$ 84,280

17. Interfund Assets and Liabilities

Interfund assets and liabilities for each individual fund at June 30, 1995 are:

(Dollars in Thousands)

	Interfund Assets		Interfund Liabilities	
Fund Types/Fund	Due From	Advances To	Due To	Advances Payable
General Fund	$ 4,600	$ 4,191	$ 62,969	$ -
Special Revenue Fund				
Highway	146	13,182	2,280	
Federal Expenditures	2,927		1,969	35
Other Special Revenue	36,581		4,981	2,525
Total Special Revenue Fund	39,654	13,182	9,230	2,560
Debt Service	181	-	-	-
Capital Projects	266	-	-	-
Enterprise Funds				
Dept. of Transportation	9		241	
Alcoholic Beverages	1,061		48	1,500
State Lottery Fund	2		2,996	
Other Enterprise Funds	4		18	
Total Enterprise Funds	1,076	-	3,303	1,500
Internal Service Funds				
Highway Garage	1,678		8	13,182
Postal, Printing & Supply	1,240		274	111
Telecommunications Division	1,809		201	
Risk Management	3,744		7	
Division of Data Processing	3,466		7	
Central Fleet Management	545		182	20
Other Internal Service Funds	111		117	
Total Internal Service Funds	12,593	-	796	13,313
Trust and Agency Funds				
Employment Security	13,928			
Payroll Withholding	4,000			
Total Trust and Agency Funds	17,928	-	-	-
Total All Funds	$ 76,298	$ 17,373	$ 76,298	$ 17,373

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

18. Segment Information for Enterprise Funds (Unaudited)

The State has the following enterprise funds which have been created to provide various services to the general public:

Alcoholic Beverages Fund - Established to account for the operations of state liquor stores.

Lottery Fund - Established to account for the operations of Maine State Lottery.

Airport, Marine Ports, & Ferry Services - Established to account for transportation services for the Department of Transportation.

Other - Prison Industries, Community Industrial Building, Potato Marketing Improvement, Seed Potato Board, State Osteopathic Loan and the State Forest Nursery Funds have been established to account for various other services provided to the public.

Financial segment information as of and for the year ended June 30, 1995 is shown below.

	Bureau of Alcoholic Beverages	Bureau of Lottery	Department of Transportation	Agriculture	Other Enterprise Funds	Total Enterprise Funds
Operating revenue	$71,133	$153,725	$2,415	$1,069	$834	$229,176
Depreciation expense	119	10	1,911	68	15	2,123
Operating income (loss)	21,731	41,198	(3,614)	126	112	59,553
Operating transfer in (out)	(21,731)	(41,185)	1,345	304	-	(61,267)
Tax Revenues	1,079	-	-	-	-	1,079
Net income (loss)	-	13	(2,270)	431	112	(1,714)
Fixed asset additions (deletions)	58	8	11	260	2	339
Net working capital	1,604	(247)	(106)	131	488	1,870
Total Assets	7,431	11,119	40,801	12,368	1,267	72,986
Long-term liabilities	1,500	-	-	-	-	1,500
Contributed capital	524	-	39,935	5,000	204	45,663
Total Equity	524	13	40,186	10,216	1,132	52,071

19. Related Party Transaction

The Maine Department of Transportation's Bureau of Maintenance and Operations (the Bureau) is responsible for management of the Motor Transport Services internal service fund (MTS). MTS derives 87% of its revenues from the rental of heavy equipment to the Bureau. In the 1995 fiscal year, MTS refunded $4.2 million to the Bureau because equipment rental charges were higher than anticipated.

As of June 30, 1995, the Department of Transportation owed approximately $377 thousand to MTS for current billings and MTS owed the Department of Transportation $13.2 million for working capital advances made between 1947 and 1987. Payables and receivables are recorded in the Highway Fund and the internal service fund accordingly.

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. Disallowances and sanctions as a result of these audits 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.

Closure of Solid Waste Landfills

Title 38 MRSA §1310-F requires the state to provide reimbursement to municipalities for costs associated with the closure of solid waste landfills. The reimbursement requirement is subject to the availability of funds resulting from the approval of general obligation bonds.

Pending Disallowance

The Health Care Financing Administration (HCFA) has developed a pending disallowance in the amount of $7.7 million in federal financial participation on behalf of the Medical Assistance Program. This amount represents the seven percent gross receipts tax imposed on nursing facilities during the period July 1, 1993 through December 31, 1993. The State of Maine has appropriated $4.7 million in General Fund monies as a contingency set-aside as part of its 1995 supplemental budget in anticipation of the pending disallowance. To date, the disallowance is still pending and no formal decision has been rendered by HCFA.

Finance Authority of Maine

The legislature is authorized under Article 9 §14-A and 14-D of the Constitution of Maine to guarantee insurance obligations of the Finance Authority of Maine (the Authority) not to exceed in the aggregate at any one time outstanding the principal amount of $90 million for industrial, manufacturing, fishing, agricultural and recreational enterprises plus an additional $4 million with respect to veterans' mortgage loans. As of June 30, 1995, amounts committed pursuant to these authorizations were $69 million and $1.2 million, respectively.

Article 8, Part 1 §2 of the Maine Constitution allows the Legislature to authorize the issuance of state bonds not to exceed in the aggregate at any one time outstanding the amount of $4 million to secure funds for Maine students attending institutions of higher education. As of June 30, 1995, there were no outstanding bonds of the state issued to fund such student loan obligations.

In addition, State's legal counsel advises that Title 10 MRSA §1032 and 1053 provide for state capital reserve fund restoration commitments to the Authority for obligations not to exceed in the aggregate at any one time outstanding the principal amount of $591 million for mortgage insurance and revenue obligation securities programs. The statutes provide that the Authority annually certify to the Governor the amount, to which the state commitment applies, necessary to restore the capital reserve fund. The Governor will first fund the requirement from funds available in the State Contingent Account; any remaining requirement may be appropriated by the legislature. As of June 30, 1995, the aggregate principal amount outstanding of the Authority's obligations undertaken pursuant to §1032 and 1053 was $242.4 million. The state has not been required to restore the reserve fund.

Maine Educational Loan Authority

The state has a reserve fund restoration commitment with the Maine Educational Loan Authority under Title 20-A MRSA §11424 to an amount equal to the required debt service reserve for the capital reserve fund. At June 30, 1995, the required debt service reserve was approximately $6 million. The state has not been required to restore the reserve fund.

Maine Health and Higher Educational Facilities Authority

The state has a reserve fund restoration commitment with the Maine Health and Higher Educational Facilities Authority under Title 22 MRSA §2075 to an amount equal to the required debt service reserve for the capital reserve fund. At June 30, 1995, the required debt service reserve was approximately $49.1 million. The state has not been required to restore the reserve fund.

Maine School Building Authority

The state is authorized under Article 9, §14b of the Maine Constitution 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. The statutory authorization for insurance of MSBA revenue bonds has been repealed.

Maine State Housing Authority

The state has a reserve fund restoration commitment with the Maine State Housing Authority under Title 30-A MRSA §4906 to an amount equal to the required debt service reserve for the capital reserve fund and the housing reserve fund. At June 30, 1995, the required debt service reserve was approximately $69 million and $4.7 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 under Title 30-A MRSA §6006 to an amount equal to the required debt service reserve of the capital reserve fund. At June 30, 1995 the required debt service reserve was approximately $98.5 million. The state has not been required to restore the reserve fund.

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, 1995 there were no bonds issued pursuant to this section of the constitution.

Contingent Receivable

At June 30, 1995 the Maine Department of Transportation (MDOT) had $11 million in unreimbursed expenditures paid from the Highway Fund in fiscal year 1995 and prior fiscal years. Based on historical experience, these expenditures are potentially reimbursable, in whole or in part, by the federal highway program through project modifications. The MDOT has not determined the probability or estimated the amount of any reimbursement.

Litigation

The state is a defendant in various lawsuits. In all of the individually identified cases, except the Consent Decrees, the Attorney General, chief legal counsel for the state who represents some but not all agencies, believes the state or its agencies or employees have valid defenses, although, in any given case, it is possible that the state could incur a large verdict against it. No accrual for these amounts has been made in the primary government financial statements.

A class action suit brought against a state hospital was settled by a Consent Decree in 1990. In September 1994, the state was found in contempt for failure to live up to certain of the obligations contained in the Decree. On March 8, 1996, the Court found that the defendants were in contempt and had not purged themselves of the contempt previously found in the September 1994 order. Further sanctions have been stayed to determine if defendants can meet certain milestones. If certain additional relief is ordered, this could have some cost to the State that cannot be determined at this time.

The Department of Mental Health and Mental Retardation entered into a Consent Decree on September 28, 1979. It currently expects to be able to comply with terms of the Decree under its existing budget but possible additional funds could be required as a result of further court orders.

The Maine Department of Transportation has entered into a preliminary settlement agreement with the U.S. Environmental Protection Agency and two environmental groups to resolve a case arising out of an alleged illegal alteration and filling of wetlands by the Department at Sears Island between February and November of 1985. The settlement is subject to public comment and review, and either the federal government or state department may withdraw from the settlement based upon public comments received. If the settlement is not finalized, and if litigation ensues, the state believes that it has strong legal and equitable defenses. The Federal Clean Water Act authorizes penalties of up to $25,000 per day with each day potentially constituting a separate offense. Legal counsel for the Department cannot express any opinion regarding the probable outcome of any such litigation in the event that the preliminary settlement agreement is not finalized.

In another lawsuit, the company that contracted with the state to do auto emissions testing is suing for $42 million after the state repealed legislation requiring autos to be tested before they could be registered. The state prevailed on a motion for summary judgment in the trial court and the case is now on appeal.

Another lawsuit seeks declaratory judgment that certain legislative changes made to save money in the State Retirement System are unconstitutional. The state lost on certain significant issues before the U.S. District Court, and an appeal is pending. If the decision is not reversed on appeal, the Legislature will be required to increase the funding for the Retirement Plan in an annual amount that has been estimated at $16 million dollars for 1997, a sum that will increase over time. Plaintiffs have cross appealed and if they prevail, the annual cost to the state has been estimated at an additional $22 million, a figure that will also increase over time.

Various agencies of the state have been audited by the Internal Revenue Service, which has taken the position that those agencies owe employment taxes on independent contractors who the IRS believes qualify as employees under federal tax law. This dispute is currently pending before the IRS at the administrative level. It has been estimated that approximately $1 million is at stake for tax year 1993, and the outcome of the dispute might have an effect on other open tax years.

An additional case involves the proper allocation of pension contribution costs between the state and federal governments. The case, which arose out of a federal audit for fiscal years 1991-92, is pending before the federal HHS Departmental Appeals Board. Approximately $7 million is claimed against the state. An effort to settle the case is ongoing. If this effort is unsuccessful, litigation could follow.

A State Tax Assessor's decision denying an abatement with respect to Maine income taxes was appealed by a New Hampshire resident working at the Kittery Shipyard. The resident has raised a number of constitutional issues as well as asserted that the shipyard is in New Hampshire rather than Maine, preventing Maine from taxing his income. This is a test case, and the potential loss of income taxes if the state loses could run in excess of several million dollars.

There is a civil rights action rising out of a death at Augusta Mental Health Institute. The lawsuit seeks $7 million in damages and is pending in federal court. Defendants have filed a motion for summary judgment on all counts.

A second civil rights case in federal court involves the death of a patient at Bangor Mental Health Institute. Unspecified damages are sought. The defendants have filed a motion to dismiss, which is pending.

In addition to the foregoing, there are various other suits pending against the state, state agencies and state officials involving damages or other potential costs. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Attorney General, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

21. Fund Equity Restatement (Unaudited)

Fund Equity at June 30, 1994 has been restated as follows:

An internal service fund, Data Processing has been reducing its retained earnings by giving rebates to user departments. In 1995 the rebates given were $3,155,691. These were shown as an adjustment of beginning fund balance. Three enterprise funds, Ferry Services, Marine Ports and Airport, received the results of a project which updated and corrected errors in fixed asset accounts. This project resulted in additions to beginning fund balances as follows:

Ferry Services	$3,075,937
Marine Ports	4,185,423
Airport	249,824

A prior period correction of $12,500,000 was made to beginning fund balance of the general fund. Two tax assessments on telecommunication property should have been deferred instead of one. If the second assessment had been deferred in 1994, the fund balance at June 30, 1994 would have been ($15,088,944) instead of ($2,588,944).

22. Subsequent Events

New Bond Issues and Authorizations

On April 1, 1996 the State of Maine issued $76.7 million in general obligation bonds which carry interest rates of 4.1% to 7.0% and mature from May 15, 1997 through May 15, 2006. Of the $76.7 million issued, $46.2 million was issued to finance the acquisition, construction and improvement of certain public properties; $25 million was issued to finance transportation projects; and $5.5 million was issued to provide for housing facilities for people with mental illness and job creation through state business financing programs.

On November 7, 1995 voters authorized additional bond issues of $91.9 million to provide funds for transportation projects, pollution control projects, housing facilities for people with mental illness, and improvement of telecommunications infrastructure in schools.

Tax Anticipation Notes

On July 2, 1996 the State of Maine issued $150 million in general obligation tax anticipation notes (TANs) at 4.5% to improve the state's cash flow position. The TANs will mature on June 27, 1997.

Maine Turnpike Authority

On July 1, 1996, the Maine Turnpike Authority (the Authority), a component unit of the State of Maine, issued $35.3 million in special obligation bonds as authorized by PL 1995, C. 504, §C-5, which carry interest rates of 4.25% to 5% and mature from July 1, 1997 through July 1, 2006. Bond proceeds were conveyed to the Maine Department of Transportation (MDOT) and used to pay a portion of project costs. The bonds are payable solely from special obligation revenues derived in part from annual transfers of $4.7 million from the Authority's MDOT Provision Account. The MDOT will forego annual payments from this account, not to exceed $4.7 million annually, for a period of ten years. The bonds do not constitute a pledge of faith and credit of the State of Maine or a debt of the State of Maine or any agency of the state.

Repeal of Gross Receipts Tax

Effective January 1, 1997, legislation repealed the seven percent gross receipts tax charged to consumers for nursing home care. For fiscal year 1995, these taxes resulted in approximately $25.7 million in General Fund revenues.

Revised Hospital Tax

During fiscal year 1995, all hospitals licensed under state law, excluding state hospitals, were assessed a tax of six percent of their final gross patient service revenue limit. Recently enacted legislation reduced the tax assessment to approximately three and one-half percent for hospital payment years ending in fiscal years 1997 to 1998. For fiscal year 1995, hospital excise taxes resulted in approximately $118.4 million in Special Revenue Fund revenues.

Lease Commitments

On February 15, 1996 the State of Maine entered into a master lease/purchase agreement with GE Public Finance, Inc. for $1.6 million to finance the acquisition of motor vehicles. The state is required to make six semi-annual lease payments. 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 lease carries an interest rate of 4.99% and expires on February 15, 1999.

Risk Management Fund

Effective July 1, 1995, the Risk Management internal service fund separated into two funds, the Risk Management Fund and the State Administered Fund in accordance with Title 5 MRSA § 1737. The Risk Management Fund will account for the State of Maine's risk management activities, while the State Administered Fund will account for quasi-state agency risk pool activity. The fund balance was allocated based on an analysis of the contributions and claims activity of the two groups since 1984. The Risk Management Fund retained 52% of the fund's equity and the remaining 48% was allocated to the State Administered Fund. The State of Maine will retain no risk for the State Administered Fund.

Telecommunications Fund

During August 1995, the Telecommunications internal service fund accounts payable balance of $7 million at June 30, 1995 was reduced by approximately $4 million. The reduction was the result of approximately $500 thousand in credits negotiated with the service provider and a loan of $3.5 million by the state's General Fund. The loan from the General Fund was authorized by PL 1995, Chapter 368, §U-1. Chapter 368 requires that repayment be made from the Telecommunications Fund, at an interest rate of 5%, no later than February 1, 1997.

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Schedule of Federal Financial Assistance

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

Tel: (207) 624-6250
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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 primary government financial statements of the State of Maine, as of and for the year ended June 30, 1995, and have issued our qualified report thereon dated August 16, 1996. These primary government financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these primary government 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 primary government financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the primary government 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.

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 primary government 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 primary government financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the primary government financial statements and, in our opinion, is fairly presented in all material respects in relation to the primary government financial statements taken as a whole.

Rodney L. Scribner, CPA

Rodney L. Scribner, CPA
State Auditor

August 16, 1996

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State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1995

Schedule A

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1995
		Major Federal Programs	
			$
Department of Defense and Veterans Services			
Federal Emergency Management Agency	83.516	Disaster Assistance	4,276,078
		Total Department of Defense and Veterans Services	**4,276,078**
Department of Economic and Community Development			
U.S. Department of Housing and Urban Development	14.228	Community Development Block Grants /State's Program	15,614,976
		Total Department of Economic and Community Development	**15,614,976**
Department of Education			
U.S. Department of Agriculture	10.555	National School Lunch Program	15,598,768
U.S. Department of Education	84.010	Chapter I - Programs - LEA's	25,768,401
	84.011	Migrant Education - Basic State Formula Grant Program	4,440,816
	84.027	Special Education - State Grants	12,513,705
	84.048	Vocational Education - Basic Grants to States	4,737,864
	84.126	Vocational Rehabilitation Services Program	12,096,797
		Total Department of Education	**75,156,351**
Department of Human Services			
U.S. Department of Agriculture	10.551	Food Stamps (Note 3B)	112,539,721
	10.557	Special Supplemental Food Program - Women, Infants, Children	12,467,649
	10.558	Child and Adult Care Food Program	10,968,794
	10.561	State Administrative Matching Grants for Food Stamp Program	6,829,357
U.S. Department of Health and Human Services	93.560	Family Support Payments to States - Assistance Payments	62,793,594
	93.561	Job Opportunities and Basic Skills Training	5,203,086
	93.563	Child Support Enforcement	9,030,765
	93.575	Payments to States for Child Care Assistance	4,110,983
	93.658	Foster Care - Title IV-E	13,610,242
	93.667	Social Services Block Grant	12,466,389
	93.778	Medical Assistance Program	622,156,016
	93.802	Social Security - Disability Insurance	4,524,369
		Total Department of Human Services	**876,700,965**
Department of Labor			
U.S. Department of Labor	17.207	Employment Service	4,681,279
	17.225	Unemployment Insurance (Note 3F)	22,963,270
	17.246	Employment & Training Assistance - Dislocated Workers	7,872,711
	17.250	Job Training Partnership Act	11,550,471
		Total Department of Labor	**47,067,731**
Department of Transportation			
U.S. Department of Transportation	20.205	Highway Planning and Construction	97,049,884
		Total Department of Transportation	**97,049,884**
Total Federal Assistance - Major Programs:			**$ 1,115,865,985**

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1995
		Non-Major Federal Programs	$
Department of Administration and Financial Services			
General Services Administration	39.003	Donated Federal Surplus Property (Note 3E)	213,285
		Total Department of Administration and Financial Services	**213,285**
Department of Agriculture			
U.S. Department of Agriculture	10.025	Plant and Animal Disease, Pest Control and Animal Care	60,015
	10.162	Inspection Grading and Standardization	534,537
	10.569	Temp. Emergency Food Assistance - Commodities (Note 3D)	343,890
	10.571	Food Commodities for Soup Kitchens (Note 3D)	360,472
U.S. Environmental Protection Agency	66.461	Wetlands Protection - State Development Grants	19,096
	66.700	Cons. Pesticide Compliance Monitoring and Prog. Coop. Agts.	252,596
	OFA	Aroostook Water/Soil Improvement Fund	48,365
U.S. Food & Drug Administration	OFA	Federal & State Inspection Program	15,267
		Total Department of Agriculture	**1,634,238**
Maine Arts Commission			
National Foundation on the Arts and the Humanities	45.002	Promotion of the Arts - Arts in Education	10,000
	45.003	Promotion of the Arts - Arts in Education	121,337
	45.007	Promotion of the Arts - State and Regional Program	552,967
	45.010	Promotion of the Arts - Expansion Arts	29,999
	45.015	Promotion of the Arts - Folk Arts	25,335
	45.023	Promotion of the Arts - Local Arts Agencies Programs	79,850
		Total Maine Arts Commission	**819,488**
Atlantic Sea Run Salmon Commission			
National Oceanic & Atmospheric Administration	11.472	National Marine Fisheries Service (Salmon Studies Award)	232,191
U.S. Department of the Interior	15.600	Anadromous Fish Conservation	154,092
		Total Atlantic Sea Run Salmon Commission	**386,283**
Department of Attorney General			
U.S. Department of Health and Human Services	93.775	State Medicaid Fraud Control Units	232,633
		Total Department of Attorney General	**232,633**
Department of Conservation			
U.S. Department of Agriculture	10.025	Plant and Animal Disease, Pest Control and Animal Care	8,026
	10.063	Agricultural Conservation Program	20,892
	10.652	Forestry Research	81,231
	10.664	Cooperative Forestry Assistance	899,472
U.S. Department of the Interior	15.808	Geological Survey-Research and Data Acquisition	37,299
	15.916	Outdoor Recreation-Acquisition ,Development & Planning	133,371
U.S. Department of Transportation	20.219	National Recreational Trails Fund Program	34,016
National Science Foundation	47.050	Geosciences	20,663
	47.076	Teacher Prep & Enhancement	6,968
Small Business Administration	59.045	Forest Management Division	142,333
Federal Emergency Management Agency	87.516	Forest Fire Control	57,297
		Total Department of Conservation	**1,441,568**
Department of Corrections			
U.S. Department of Justice	16.540	Juvenile Justice & Delinquency Prevention - Alloc to States	289,895
	16.603	Corrections - Technical Assistance/Clearinghouse	50,510
U.S. Department of Education	84.255	Literacy for Incarcerated Adults	192,558

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1995

Schedule A (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1995
		Non-Major Federal Programs	$
		Total Department of Corrections	**532,963**
Department of Defense and Veterans Services			
U.S. Department of Veterans Affairs	64.101	Burial Expenses Allowance for Veterans	64,307
Federal Emergency Management Agency	83.011	Hazardous Materials Training Program	17,826
	83.503	Civil Defense - Emergency Management Assistance	662,149
	83.505	State Disaster Preparedness Grants	25,958
	83.520	Hurricane Program	61,269
	83.528	Emergency Management Institute - Field Training Program	80,841
	83.531	State and Local Emergency Management Assistance - Other	242,518
		Total Department of Defense and Veterans Services	**1,154,868**
Department of Economic and Community Development			
U.S. Department of Commerce	11.305	Econ. Devel. S/L Econ. Devel. Planning	70,879
	11.307	Special Econ. Develop. and Adj. Assist. Program	160,271
Department of Defense	12.607	Community Economic Adjustment Planning Assistance	72,128
U.S. Environmental Protection Agency	66.461	Wetlands Protection State Development Grant	53,290
U.S. Department of Energy	81.052	Energy Conservation for Institutional Buildings	236,036
Federal Emergency Management Agency	83.100	Flood Insurance	107,854
U.S. Environmental Protection Agency	OFA	Marine Sewerage Management Grant	35,764
		Total Department of Economic and Community Development	**736,222**
Department of Education			
U.S. Department of Agriculture	10.550	Food Distribution Program (Note 3A)	3,427,069
	10.553	School Breakfast Program	2,725,306
	10.556	Special Milk Program for Children	119,170
	10.559	Summer Food Service Program for Children	702,572
	10.560	State Admin. Expenses for Child Nutrition	264,923
	10.564	Nutrition Education and Training Program	50,293
U.S. Department of Education	84.002	Adult Education-State-Administered Basic Grant Program	1,418,767
	84.004	Desegregation Assist. Civil Rights Training and Advisory Svs	127,278
	84.009	Education of Handicapped Children in State Schools	425,010
	84.012	Educationally Deprived Children-State Admin.	428,045
	84.013	Chapter 1 Program for Neglected and Delinquent Children	309,606
	84.029	Special Ed. Personnel Development and Parent Training	70,338
	84.049	Vocational Education - Consumer and Homemaker Education	252,422
	84.086	Special Education - Severly Disabled Program	148,675
	84.128	Rehabilitation Services - Service Projects	421,709
	84.151	Fed., State and Local Partnerships for Educ. Improvement	2,024,578
	84.158	Sec. Educ. and Transitional Svcs. for Youth w/Disabilities	787,767
	84.159	Disabled-Special Studies & Evaluation	21,867
	84.161	Rehabilitation Services - Client Assistance Program	127,800
	84.162	Emergency Immigration Education	8,289
	84.164	Eisenhower Mathamatics and Science Education - State Gts.	1,240,467
	84.168	Dwight D. Eisenhower National Program for Math. & Sci. Ed	135,895
	84.169	Independent Living - State Grants	299,860
	84.173	Special Education - Preschool Grants	2,018,320
	84.174	Vocational Education-Community Based Organizations	58,925
	84.177	Rehabilitation Servicss - Indep Living for Older Blind Indiv	137,555
	84.181	Infants & Toodlers w/ Disabilities - Part H	987,725

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1995

Schedule A (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1995
		Non-Major Federal Programs	$
Department of Education - continued			
	84.185	Robert C. Byrd Honors Scholarships	87,000
	84.186	Drug-Free Schools and Comm - State Grants	1,687,656
	84.187	Supported Employ. Svs. for Individuals w/Severe Disabilities	277,324
	84.190	Christa McAuliff Fellowships	348
	84.192	Adult Education for the Homeless	230,732
	84.194	Bilingual Education Support Services	71,967
	84.196	Education of Homeless Children and Youth - State/Local	91,557
U.S. Department of Labor	84.199	Employment Services and Job Training	1,546,832
U.S. Department of Education	84.207	Drug-Free Schools and Comm - School Personnel Training	239,880
	84.213	Even Start-State Educ. Agencies	382,344
	84.216	Capital Expenses	29,071
	84.218	State Program Improvement Grants	253,629
	84.224	State Grants for Technology/Assist.- Disabled	542,673
	84.243	Tech-Prep Education	521,375
	84.249	Foreign Language Assistance	29,820
	84.255	Literacy for Incarcerated Adults	414,114
	84.265	Rehab.-Voc Rehab In-Service Training	53,972
	84.267	State Postsecondary Review	30,479
	84.276	Goals 2000 Educate America Act	224,635
U.S. Department of Health and Human Services	93.938	Coop. Agree. School Health Education - HIV/AIDS	246,989
Commission on National & Community Service	94.004	Learn and Serve America - School and Comm Based Prgms	55,530
U.S. Department of Education	OFA	School Finance and Enrollment	11,480
U.S. Department of Health and Human Services	OFA	Veterans Education	146,369
		Total Department of Education	**25,916,007**
Department of Environmental Protection			
Department of Defense	12.113	St. Memo. of Agree. for Reimb. of Technical Services	597,341
U.S. Environmental Protection Agency	66.001	Air Pollution Control Program Support	1,653,090
	66.419	Water Pollution Control - State/Interstate Program Support	802,507
	66.420	Small Community Outreach & Education Program	42,702
	66.433	State Underground Water Source Protection	85,455
	66.435	Water Pollution Control-Lake Restoration Coop. Agreements	89,582
	66.438	Construction Management Assistance	352,904
	66.454	Water Quality Management Planning	120,909
	66.460	Nonpoint Source Implementation Grants	640,183
	66.461	Wetlands Protection - State Development Grants	90,414
	66.463	Nat'l Pollutant Disch. Elimination System Rel. St. Prog. Gt	309,402
	66.464	Near Coastal Waters Program	13,928
	66.505	Water Pollution Control - R & D and Demonstration	264,498
	66.701	Toxic Substances Compliance Monitoring Program	201,384
	66.706	Enhancement Grants for State Asbestos Programs	12,174
	66.801	Hazardous Waste Management State Program Support	456,606
	66.802	Hazardous Substance Response Trust Fund (Superfund)	354,203
	66.804	State Underground Storage Tanks Program	139,072
	66.805	Underground Storage Tank Trust Fund Program	582,566
	66.809	Core Program Cooperative Agreements	180,344
	66.900	Pollution Prevention Grants Program	141,151
	66.951	Environmental Education Grants	3,600

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1995

Schedule A (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1995
		Non-Major Federal Programs	$
Department of Environmental Protection - continued			
	OFA	Maine Marine Monitoring Baseline	12,600
	OFA	Maine Comparative Risk Project Grant	57,343
		Total Department of Environmental Protection	**7,203,958**
Executive Department - State Planning Office			
U.S. Department of Commerce	11.419	Coastal Zone Management Administration Awards	2,184,546
U.S. Environmental Protection Agency	66.461	Wetlands Protection - State Development Grants	83,841
	66.501	Clean Air Research	13,352
Corporation for National and Community Service	94.003	Maine Commission for Community Services	154,846
	94.006	AmeriCorps Grant for ME College Conservation Corps	116,147
U.S. Department of Energy	OFA	Petroleum Violation Escrow Funds	1,851,487
		Total Executive Department - State Planning Office	**4,404,219**
Executive Department - Substance Abuse			
U.S. Department of Education	84.186	Drug Free Schools and Community Act	251,733
U.S. Department of Health and Human Services	93.902	Model Comp. Drug Abuse Treatment Prog. for Critical Pop.	824,290
	93.950	Capacity Expansion Program	311,750
	93.959	Blk Gts for Prevent. & Treat. of Substance Abuse	3,800,007
Substance Abuse & Mental Health Services Adm.	OFA	Implementation of Uniform Alcohol & Drug Abuse Data	38,582
U.S. Department of Health and Human Services	OFA	State Prevention Needs Assessment	43,945
U.S. Department of Housing and Urban Development	OFA	Innovative Homeless Program	232,452
		Total Executive Department - Substance Abuse	**5,502,759**
Maine Health Care Finance Commission			
U.S. Department of Health and Human Services	93.779	Health Care Financing Research, Demo. And Evaluations	78,908
		Total Maine Health Care Finance Commission	**78,908**
Maine Historic Preservation Commission			
U.S. Department of the Interior	15.904	Historic Preservation Fund Grants In Aid	458,348
		Total Maine Historic Preservation Commission	**458,348**
Maine Historical Records Advisory Council			
National Historical Publications Records Commission	89.003	National Historical Publications and Records Grants	1,411
National Archives Reference Service	94.090	Advisory Council Training Regrant Project	33,767
		Total Maine Historical Records Advisory Council	**35,178**
Maine Human Rights Commission			
Equal Employment Opportunity Commission	30.002	Employment Discrimination - State/Local Fair Employ. Pract.	170,385
		Total Maine Human Rights Commission	**170,385**
Department of Human Services			
U.S. Department of Agriculture	10.570	Nutrition Program for the Elderly (Commodities) (Note 3C)	639,799
U.S. Department of Justice	16.575	Crime Victim Assistance	37,797
U.S. Department of Labor	17.235	Senior Community Service Employment Program	454,434
U.S. Environmental Protection Agency	66.032	State Indoor Radon Grants	142,074
	66.419	Water Pollution Control - State/Interstate Program Support	59,728
	66.432	State Public Water System Supervision	800,039
Nuclear Regulatory Commission	77.001	Radiation Control-Training Assistance & Advisory Counsel'g.	14,622
U.S. Department of Health and Human Services	93.041	Special Programs for the Aging - Title III, Part G	17,057
	93.042	Special Programs for the Aging - Title III, Part A	16,496
	93.043	Special Programs for the Aging - Title III, Part F	63,468

Recipient/Grantor Agency	Federal Catalog Number	Program Title		Expenditures 1995
		Non-Major Federal Programs	$	
Department of Human Services - continued				
	93.044	Special Programs for the Aging - Title III, Part B		1,305,790
	93.045	Special Programs for the Aging - Title III, Part C		1,961,487
	93.046	Special Programs for the Aging - Title III, Part D		28,501
	93.049	Special Programs for the Aging - Title VII, Chapter 6		10,073
	93.050	NO TITLE PROVIDED		8,867
	93.110	Maternal & Child Health Federal Consolidated Programs		68,809
	93.116	Project Grants & Agreements for TB Control Programs		161,175
	93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity		807,675
	93.130	Primary Care Services - Rescourse Coordination & Dev'l		105,653
	93.165	AIDS Drug Reimbursement Program		21,965
	93.184	Disabilities Prevention		3,881
	93.197	Childhood Lead Poisoning Prevention Projects		300,291
	93.268	Childhood Immunization Grants		833,304
	93.283	Centers for Disease Control-Investigations and Tech. Assist.		638,937
	93.393	Cancer Cause and Prevention Research		686,958
	93.399	Cancer Control		135,087
	93.556	Family Preservation and Support Services		86,858
	93.562	Assistance Payments - Research		60,142
	93.566	Refugee and Entrant Assist. - ST. Administered Programs		430,193
	93.569	Comm. Svs. B/G - Discret. Awards - Food & Nutrition		2,220,569
	93.576	Refugee and Entrant Assistance - Discretionary Grants		43,802
	93.600	Head Start		108,457
	93.614	Child Development Associate Scholarships		8,250
	93.643	Children's Justice Grants to States		10,214
	93.645	Child Welfare Services - State Grants		1,442,056
	93.659	Adoption Assistance		2,811,886
	93.669	Child Abuse and Neglect State Grants		183,391
	93.671	Family Violence Prevention and Services		39,695
	93.673	Grts. to States for Plan. and Develop. of Depend. Care Prog.		83,545
	93.674	Independent Living		535,788
	93.679	Child Abuse Challange Grants		41,988
	93.777	State Survey & Cert. of Health Care Providers and Suppliers		1,867,513
	93.779	Health Care Financing Research ,Demo. And Evaluations		535,397
	93.913	Grants to States for Operation of Offices of Rural Health		65,312
	93.917	HIV Care Formula Grants		47,228
	93.919	Coop. Ag. for St. Based Compr. Cancer Early Detect'n Prog.		239,304
	93.951	Demonstration Grant to States with Respect to Alzheimers		195,999
	93.977	Preventive Health Services - Sexually Transmitted Diseases		240,445
	93.987	Health Programs for Refugees		10,867
	93.988	Coop. Agreements for State Based Diabetes Control Programs		271,505
	93.991	Preventive Health and Health Services Block Grant		1,399,116
	93.994	Maternal & Child Health Services Block Grant to States		3,991,989
	OFA	Vital Statistics Cooperative Program		128,207
U.S. Environmental Protection Agency	OFA	NO TITLE PROVIDED		18,986
		Total Department of Human Services		**26,442,669**
Department of Inland Fisheries and Wildlife				
U.S. Department of the Interior	15.605	Sport Fish Restoration		1,773,795

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1995

Schedule A (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1995
		Non-Major Federal Programs	$
Department of Inland Fisheries and Wildlife - continued			
	15.611	Wildlife Restoration	2,563,760
	15.615	Cooperative Endangered Species Conservation Fund	164,700
U.S. Department of Transportation	20.005	Boating Safety Financial Assistance	624,605
U.S. Environmental Protection Agency	66.461	Wetlands Protection - State Development Grants	36,027
		Total Department of Inland Fisheries and Wildlife	**5,162,887**
Department of Labor			
U.S. Department of Labor	17.002	Labor Force Statistics	806,518
	17.005	Occupational Safety and Health	93,294
	17.202	Certification of Foreign Workers for Temp. Employment	946,702
	17.245	Trade Adjustment Assistance - Workers	1,821,118
	17.249	Employment Services and Job Training - Pilot Programs	45,366
	17.500	Occupational Safety and Health - 7c1 Agreement	317,970
	17.801	Disabled Veterans Outreach Program	955,149
	17.802	Veterans Employment Program	452,599
Commission on National & Community Service	94.001	American Conservation & Youth Service Corps	288,149
	94.008	Community Youth Garden	48,743
U.S. Department of Labor	OFA	Basic Assistance Grant	119,106
	OFA	Special Purpose Grant	24,000
		Total Department of Labor	**5,918,714**
Maine State Library			
National Foundation on the Arts and the Humanities	45.149	Promotion of the Humanities - Div of Preservation and Acess	34,621
U.S. Department of Education	84.034	Public Library Services	689,272
	84.035	Interlibrary Cooperation and Resource Sharing	129,624
	84.154	Public Library Construction & Technology Enhancement	108,801
	84.167	Library Literacy (LSCA Title VI)	5,927
		Total Maine State Library	**968,245**
Maine State Museum			
U.S. Department of the Interior	15.904	Historic Preservation Fund Grants in Aid	22,067
		Total Maine State Museum	**22,067**
Maine Waste Management Commission			
U.S. Environmental Protection Agency	66.808	Solid Waste Management Assistance	24,102
		Total Maine Waste Management Commission	**24,102**
Department of Marine Resources			
U.S. Department of Commerce	11.307	Project Grants for Sudden and Severe Economic Dislocation	4,917
	11.405	Anadromous Fish Conservation Act Program	35,000
	11.407	Interjurisdictional Fisheries Act of 1986	206,702
	11.427	Fisheries Development & Research & Develop./Coop. Agreemen	61,552
	11.474	Atlantic Coastal Fisheries Cooperative Management Act	13,590
U.S. Department of Interior	15.605	Sport Fish Restoration	468,174
U.S. Environmental Protection Agency	66.464	Near Coastal Waters Program	35,587
U.S. Department of Commerce	OFA	NEFSC - Bio Data Collection Maine Groundfish	1,318
	OFA	NURP - Patch Dynamics & Reproductive Biology	7,767
U.S. Department of Health and Human Services	OFA	FDA Sampling Plan Soft Shell Clams	825
	OFA	FDA - PSP in Tomalley of Maine Lobsters	12,392

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1995

Schedule A (Continued)

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures 1995
		Non-Major Federal Programs	$
		Total Department of Marine Resources	**847,824**
Department of Mental Health and Mental Retardation			
U.S. Department of Housing and Urban Development	14.179	Nehemiah Housing Opportunity Grant Program	282,830
	14.238	Shelter Plus Care	93,698
U.S. Department of Education	84.181	Grants for Infants & Toddlers with Disabilities	4,419
U.S. Department of Health and Human Services	93.104	Comp. Comm. MH Svs for Child. w/ Serious Emot. Disturb.	827,145
	93.119	ME SHSIP	29,325
	93.125	Mental Health Planning and Demonstration Projects	258,856
	93.150	Projects for Assistance in Transition from Homelessness	308,048
	93.242	Mental Health Research Grants	70,560
	93.630	Development Disabilities BasicSupp.& Advocacy Grants	480,261
	93.958	Blk Gts for Community Mental Health Services	1,160,788
		Total Department of Mental Health and Mental Retardation	**3,515,930**
Department of Public Safety			
U.S. Department of Justice	16.005	Public Education on Drug Abuse - Information	74,377
	16.550	Criminal Justice Statistics Development	43
	16.579	Drug Control and System Improvement - Formula Grant	2,231,956
	16.580	Drug Control and System Improvement - Discretionary Grant	150,154
U.S. Department of Transportation	20.218	Motor Carrier Safety Assistance Program	285,757
	20.600	State and Community Highway Safety	642,980
Federal Emergency Management Agency	OFA	Presidential Detail	2,424
	OFA	National Fire Incident Reporting System	11,476
		Total Department of Public Safety	**3,399,167**
Department of State			
U.S. Department of Transportation	20.218	Motor Carrier Safety Assistance Program	43,929
	20.600	State and Community Highway Safety	88,699
		Total Department of State	**132,628**
Department of Transportation			
U.S. Department of Defense, Office of Army Engineers	12.105	To Provide Bank Protection of Highways , Highway Bridges	-8,530
U.S. Department of Transportation	20.106	Airport Improvement Program	345,252
	20.308	Local Rail Service Assistance	1,039,457
	20.500	Federal Transit Capital Improvement Grants	967,884
	20.505	Federal Transit Technical Studies Grants	140,037
	20.507	Federal Transit Capital and Operating Assistance Formula Gt	1,443,453
	20.509	Public Transportation for Nonurbanized Areas	1,432,828
	20.514	Transit Planning and Research	23,180
U.S. Department of Interior	OFA	Indian Grnts - Economic Development- Bridge Repl. Houlton	49,349
		Total Department of Transportation	**5,432,910**
Total Federal Assistance - Nonmajor Programs:			**102,788,453**
Total Federal Assistance - Major Programs:			**1,115,865,985**
Total Federal Financial Assistance:		$	**1,218,654,438**

See accompanying notes to the Schedule of Federal Financial Assistance

STATE OF MAINE

NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

June 30, 1995

1. **Purpose of the Schedule**

   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), has been included for supplementary information. Significant federal financial assistance programs which have not been assigned a CFDA number have been identified as *Other Federal Assistance (OFA).*

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, 1995. The reporting entity is defined in Note 1A of the financial statements.

   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, 1995.

   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 primary government financial statemensts are reported on the modified accrual basis of accounting and, therefore, the schedule's data may not be directly traceable to the 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 as of June 30, 1995 was $473,462.

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 as of June 30, 1995 was $23,148,130.

C. Department of Human Services - Nutrition Program for the Elderly (CFDA 10.570): The amount reported of $639,799 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 administrative costs of $159,782 and $184,108 the value of food commodities distributed under the Temporary Food Assistance Program (TEFAP). The value of inventory at June 30, 1995 was $87,581.

Food Commodities for Soup Kitchens (CFDA 10.571): The reported total of federal financial assistance consists of $360,472 the value of food commodities distributed under the Food Commodities for Soup Kitchens Program. The value of inventory at June 30, 1995 was $295,416.

E. Department of Administrative and Financial Services - Donated Federal Surplus Property (CFDA 39.003): Distributions are reported at fair market value. The value of inventory as of June 30, 1995 was $823,732.

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

Emergency Unemployment Compensation	$ 1,563,774
U.I. Administrative Grant	15,688,640
Extended Benefits	32,811
Unemployment Compensation for Ex-service Personnel	1,576,819
Unemployment Compensation for Federal Employees	2,186,918
Trade Readjustment Act (FUBA)	1,666,674
Unemployment Compensation for Ex-postal Workers	220,658
NAFTA Trade Training	6,093
Disaster Unemployment Assistance	11,787
Unemployment Insurance - Reemployment	9,096
Total	$ 22,963,270

Reports on Internal Control

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Internal Control Structure Based on an Audit of Primary Government 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 primary government financial statements of the State of Maine, as of and for the year ended June 30, 1995, and have issued our qualified report thereon dated August 16, 1996.

We have conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the primary government financial statements are free of material misstatement.

The management of the State of Maine is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments 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.

In planning and performing our audit of the primary government financial statements of the State of Maine for the year ended June 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the primary government financial statements and not to provide an opinion on the internal control structure. 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 judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the primary government 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 primary government 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 matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the financial statements of the State of Maine, for the year ended June 30, 1995.

(A) Department of Administrative and Financial Services

Finding: Accounting system does not comply with Governmental Accounting Standards Board (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.

As indicated by the situations described below, the State of Maine accounting system does not make it possible to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the State of Maine in conformity with generally accepted accounting principles.

- The General Fixed Assets Account Group cannot be audited due to the absence of supporting documentation.

- The state does not maintain adequate systems to identify, classify and report capital leases.

- The process for identifying all accounting adjustments necessary to properly present financial information on a basis consistent with generally accepted accounting principles (GAAP) is incomplete. For example, the General Fund fund balance was reduced by $41.6 million and the Special Revenue Fund fund balance was increased by $32.2 million, respectively to reflect the cumulative effect of these adjustments in the audited financial statements. (While we recognize that there have been significant improvements in this area we believe the process for making year-end financial statement adjusting entries needs to be enhanced.)

- Although state agency personnel are generally knowledgeable about accounting on the budgetary basis, there is limited understanding of generally accepted accounting principles. Accounting personnel are therefore not able to readily identify accounting issues for annual financial statement reporting purposes.

- In some instances it is unclear as to who has the responsibility for obtaining and reporting information on a timely basis to the State Controller's office so that complete and accurate financial information can be included in the GAAP financial statements.

Recommendation:

We recommend that the Commissioner of Administrative and Financial Services establish procedures, and provide accounting guidance, training and 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.

Auditee Response:

Fixed Assets: *The MFASIS software vendor, AMS, completed the install of the core fixed asset module on 11/1/96. Other major tasks before completion and compliance include: the conversion of agency in-house systems; data entry/updates from agencies; bar coding and electronic read procedures; physical inventory (electronic read) and reconciliation to database; documented procedures and ongoing enforcement. Estimated time to complete is twelve months.*

Capital Leases: *Identifying capital leases is a major project, estimated at 400 hours. A RFP will be issued for this work, which will involve the categorizing of existing leases and documenting policy, procedures and automation around leases going forward. Estimated time to complete is twelve months.*

Accruals: *The Medicaid accruals for GF payments owed to nursing homes, hospitals, and intensive care units and Medicaid accruals for receivables from and payables to the Federal Government, from providers, nursing homes, hospitals and intensive care units will be completed* *as required for FY96 and in subsequent years. We agree that the accrual should be made for GPA and Municipal Revenue Sharing; will be following through with that piece. We will also be deferring the tax on hospitals as recommended.*

Education/Training: *We recognize and support the need to work with agency staffs to enhance understanding of GAAP financial reporting and their responsibilities in the area of timely, accurate financial information. In our efforts to deliver education and training, we will work closely with State Audit staff.*

(B) Department of Administrative and Financial Services

Finding: Inadequate understanding of internal controls over data processing by service centers

The Bureau of Alcoholic Beverages and Lottery Operations (BABLO) contracts with two vendors for specialized services relating to instant ticket and on-line sales. During the fiscal year ending June 30, 1995, instant ticket sales totaled $97 million and on-line ticket sales totaled $56 million; 63 percent and 37 percent of lottery revenue, respectively. BABLO relies almost entirely on information provided by the vendors to record sales, prize expense, commissions expense, accounts receivable and prizes payable. In addition, Lottery uses vendor reports to advise the bank of the amount of cash to be swept from agents' accounts for deposit to the State Treasury.

Lottery operations are dependent on the vendors' computer systems both for data processing and ticket validation. Financial statements are derived almost entirely from vendor reports. Lottery has not independently verified whether the vendor systems correctly record, process, summarize and report financial data.

Recommendation:

We recommend that the Bureau of Alcoholic Beverages and Lottery Operations require the vendors to obtain and provide SAS 70 *Reports on the Processing of Transactions by Service Organizations*. This will provide independent assurance that the vendors control systems include properly designed policies, procedures, and records placed in operation to produce reliable data.

Auditee Response:

We agree with the auditors assessment of the current relationship with our instant ticket vendor. We will work with the lottery to ensure that a SAS 70 audit is conducted by an auditor with the proper qualifications.

(C) Department of Administrative and Financial Services

Finding: Fixed asset records incomplete (Prior Year Finding)

The Bureau of General Services does not have detailed records of all land, buildings and equipment owned by the state. As a result, the General Fixed Assets Account Group included in the financial statements of the State of Maine are unaudited. Also, the bureau does not follow state law governing record keeping activities over state-owned general fixed assets.

Accurate records for the General Fixed Asset Account Group are necessary for financial reporting and reducing the risk of misappropriated state property. In addition, Title 5, MRSA § 1742, requires the Bureau of General Services to maintain a current inventory of all land, buildings and equipment.

Recommendation:

We recommend that Department of Administrative and Financial Services implement procedures to ensure that inventories are current as required by state law. Upon completion of a state-wide inventory, fixed asset records can be established for financial reporting and control purposes.

Auditee Response:

We agree with the auditor's recommendation. The Bureau of Accounts and Control is in the process of bringing an automated inventory system on-line. The Bureau is also in the process of assessing what records and procedures need to be updated to support the conversion to an automated system.

(D) Department of Administrative and Financial Services

Finding: Inadequate internal control system in place to identify capital leases

The *Governmental Accounting and Financial Reporting Standards* (GASB) Codification, Section L20.107 states the following:

> Subject to the accounting and financial reporting distinctions of governmental funds and expendable trust funds, the criteria of FASB Statement No.13, *Accounting for Leases* , as amended and interpreted, should be the guidelines for accounting and reporting for lease agreements . . . .

The Financial Accounting Standards Board (FASB) *Statement of Financial Accounting Standards* (SFAS) No. 13, *Accounting for Leases,* defines capital and operating leases, the criteria for classifying each type of lease, and the accounting, reporting and financial statement disclosures required by lessees and lessors.

The Department of Administrative and Financial Services does not evaluate and report leases in accordance with SFAS No. 13. Centralized information is not sufficient to prepare all necessary financial adjustments and required note disclosures. Although the department can obtain the information necessary to evaluate and report the leases, they have not. The department classifies all leases entered into by the state as operating leases without any documented basis to support the classification.

Rental Property Leases

We were unable to evaluate rental property leases in accordance with SFAS No. 13 due to insufficient records maintained by the state. Future minimum lease payments for these leases are approximately $44 million in the Governmental Funds and $2.7 million in the Enterprise Fund. The amount of the adjustments that would be necessary if these leases were evaluated is not known. In our opinion it is material.

Office Equipment Leases

We evaluated eleven office equipment lease agreements using the capital lease criteria cited in SFAS No. 13. Nine out of eleven leases met the criteria for capital leases and should have been recorded as such on the state's official accounting records. Consequently, liabilities in the General Long Term Debt Account Group and assets in the General Fixed Assets Account Group were understated by $3 million at June 30, 1995. We did not evaluate the remaining fifty-seven leases in the Governmental Funds. Future minimum lease payments for these leases are approximately $3.8 million. The amount of the adjustments that would be necessary if these leases were evaluated is not known.

Recommendation:

We recommend that the Department of Administrative and Financial Services develop and implement procedures to evaluate and record all leases in accordance with *Statement of Financial Accounting Standards* No. 13.

Auditee Response:

We agree with the auditor's recommendation. We are developing control procedures as a part of our GAAP conversion project.

(E) Department of Transportation

Finding: Incorrect rates charged for equipment attachment rentals/Related party refund

The Motor Transport Services (MTS) fund of the Department of Transportation (MDOT) charged incorrect fixed rates for the rental of equipment attachments such as trailers, plows and sanders. The use of the incorrect rates resulted from new annual rates entered in the wrong table of the computer system. According to our projections, the Highway Fund was overcharged approximately $1.5 million during fiscal year 1995 because of the use of the incorrect attachment rates. However, during the same period, MTS refunded $4.2 million to the Bureau of Maintenance and Operations. MDOT officials stated that the refunds were made primarily because of higher than anticipated collections. Because of the refund, MTS revenue is not overstated despite the incorrect rates.

Recommendation:

We recommend that the department develop procedures to verify that correct rates are entered into the computer system any time that a rate change occurs. We also recommend that the rates charged be reasonable enough to cover the costs of operations.

Auditee Response:

We concur. The rate structure of MTS requires entry of information into multiple tables. Those entries will be verified.

(F) Department of Transportation

Finding: Inadequate revenue recognition procedures

Motor Transport Services (MTS) records revenue for equipment rental at the time that the department's Bureau of Maintenance and Operations makes payment. During our review of equipment rentals we noted that three weeks of revenue, totaling approximately $1.2 million earned in June 1995, was not recorded until July 1995. The *Codification of Governmental Accounting and Financial Reporting Standards*, section 1600(b) states, "Proprietary fund revenues. . .should be recognized on the accrual basis. Revenues should be recognized when they are earned and become measurable". Because of the failure to accrue equipment rental revenues, Internal Service Fund receivables and Highway Fund payables are misstated by $1.2 million.

Recommendation:

We recommend that MTS establish fiscal year-end closing procedures to ensure fairly stated financial statements.

Auditee Response:

We concur. Motor Transport Service will accrue revenues for FY 1997.

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 August 16, 1996.

This report is intended for the information of management, the Legislature, and those federal agencies that provided financial assistance. 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

August 16, 1996

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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 primary government financial statements of the State of Maine, for the year ended June 30, 1995, and have issued our qualified report thereon dated August 16, 1996. We have also audited the compliance of the State of Maine with requirements applicable to major federal financial assistance programs and have issued our report thereon dated August 16, 1996.

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 primary government 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, 1995, we considered the internal control structure of the State of Maine in order to determine our auditing procedures for the purpose of expressing our opinions on the primary government 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 primary government financial statements in a separate report dated August 16, 1996.

The management of the State of Maine is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments 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 primary government financial statements in accordance with generally accepted accounting principles, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

Accounting Controls

- Budget
- Cash/cash receipts
- Revenue and receivables
- Expenditures for goods and services and accounts payable
- Payroll and related liabilities
- Inventories
- Property, equipment, and capital expenditures

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
- 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 subrecipients

Claims for advances and reimbursements

Amounts claimed or used for matching

For all of the major programs and for nonmajor programs on a cyclical basis as described in the following paragraph, we obtained an understanding of the design of relevant policies and procedures for all of the internal control structure categories listed in the preceding paragraph, we 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 55 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, 1995, the State of Maine expended 92 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 judgment, 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 noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the compliance of the State of Maine with requirements applicable to its major federal financial assistance programs for the year ended June 30, 1995, and this report does not affect our report thereon dated August 16, 1996.

Material Weakness:

(G) Department of Human Services

CFDA # Various **Questioned Costs:** None

Finding: Federal financial data incorrectly reported (Prior Year Finding)

The Department of Human Services (DHS) incorrectly reported the following program outlays on its Schedule of Federal Financial Assistance (SFFA) and on the department's individual Federal Financial Reports:

CFDA#	**Program Title**	**Total Expenditures Per Federal Financial Reports**	**Total Expenditures Per Schedule of Federal Financial Assistance**	**Variance**
10.558	Child & Adult Care Food	$10,968,794	$ 9,110,385	$1,858,409
93.560	AFDC	62,793,594	62,819,790	(26,196)
93.561	JOBS	5,203,086	5,253,654	(50,568)
93.658	Foster Care IVE	16,422,128	16,420,213	1,915

Differences in reported amounts were due to unintentional accounting errors that were identified after the SFFA was prepared, and to errors in accumulating data that was used when preparing the SFFA. The result of these errors was that inaccurate amounts were reported on quarterly and yearly Federal Financial Reports.

Immediately after the auditor notified the accountants of the errors, the accountants made the corrections and issued adjustments/amendments to the individual Federal Financial Reports.

The error noted in the above table for the Child and Adult Care Food Program, CFDA# 10.558, represents an amount material to that program. It appears that the SF 269 Report of Federal Expenditures for the quarter ending June 30, 1995 was prepared using current expenditures for the month ending June 30, 1995 rather than expenditures for the quarter ended June 30, 1995. This error, although unintentional, indicates a weakness in the internal control system over the reporting of federal expenditures.

Recommendation:

We recommend that the department exercise more care when preparing the Schedule of Federal Financial Assistance as well as when preparing the individual Federal Financial Reports and review the internal controls over federal financial reporting to insure that material errors do not occur.

Auditee Response:

The Department of Human Services concurs with the above finding and will strive to ensure that material errors do not occur. The Financial Data Warehouse should help in ensuring that these types of situations will not happen in the future.

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 August 16, 1996.

This report is intended for the information of management, the legislature, and those federal agencies that provided financial assistance. 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

August 16, 1996

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State of Maine
Schedule of Reportable Conditions
For the Year Ended June 30, 1995

Department of Administrative and Financial Services

(1) Bureau of Accounts and Control

Finding: General Fund Unappropriated Surplus understated by $1.8 million

Once a year, in accordance with 5 M.R.S.A. § 1513 and 1517, the Bureau of Accounts and Control calculates the amount of the Rainy Day Fund and Retirement Allowance Fund transfer using the final budgeted revenue amounts. Accounts and Control erroneously used preliminary budgeted revenue amounts from the Bureau of the Budget which resulted in excessive transfers. The bureau transferred $1,200,000 and $600,000 too much from the General Fund unappropriated surplus to the Rainy Day Fund and Retirement Allowance Fund.

Recommendation:

We recommend that the Bureau of Accounts and Control confer with the Bureau of the Budget to ensure that General Fund budgeted revenue figures used for the calculations are the final amounts. We also recommend that the bureau restore the monies to unappropriated surplus.

Auditee Response:

We have corrected our error.

Department of Administrative and Financial Services

(2) Bureau of Accounts and Control

Finding: State bank accounts of $2.1 million not recorded (Prior Year Finding)

Various state agencies held over $2.1 million in bank accounts that were not recorded on the Controller's records as of June 30, 1995. Over a million dollars comprised bail payments that would be returned to the payee (or forfeited in instances when court appearances would not be kept) and just under a million dollars was in a Probation and Parole Restitution Account that is administered by the Treasury Department.

Funds, held in custody by the State of Maine, should be recorded by the Controller. Generally Accepted Accounting Principles (GAAP) require assets and liabilities to be recognized in accounts and reported in the financial statements.

Recommendation:

We recommend that the Controller establish procedures to ensure all authorized state accounts, including funds held in custody by the State, are included in the State's fiscal year-end financial report in accordance with generally accepted accounting principles.

Auditee Response:

We agree that the asset and corresponding liability should be recorded by the Controller's Office and have established procedures to do so starting with FY 1996.

---

(3) Bureau of Accounts and Control

Finding: Additional instructions and training needed to ensure all significant expenditures/ accounts payables are recorded

In accordance with the Controller's year end financial closing procedures, state agencies should review invoices at year end to determine in which fiscal year the transactions should be recorded.

Department of Administrative and Financial Services

During our review of Capital Projects expenditures recorded in July and August of the subsequent fiscal year, we noted three transactions that totaled $1.1 million which should have been recorded as expenditures in the previous fiscal year. As a result, the expenditures and related accounts payable balance in the Capital Projects Fund were understated.

Recommendation:

To ensure that the Controller's financial statements properly record all significant accounts payable/expenditures in accordance with *Generally Accepted Accounting Principles* we recommend that the following actions be taken:

1. Clarify in the Controller's year end closing procedures memorandum to state agencies, the procedures that should be utilized to identify significant accounts payable transactions; and

2. Provide training to all agencies regarding year end closing procedures.

Auditee Response:

We agree with the auditor's recommendations. The lack of staff has prevented this process from being put into place. At the current time we are addressing these issues as a part of our GAAP compliance project.

(4) Bureau of Alcoholic Beverages and Lottery Operations Division of Financial and Personnel Services

Finding: State Lottery Fund/Accounts receivable not reconciled (Prior Year Finding)

The Division of Financial and Personnel Services (Finance) does not reconcile the accounts receivable detail to the Controller's records. These reconciliations are necessary for accurate reporting and failure to investigate variances between detail and summary records may result in the loss of assets.

Department of Administrative and Financial Services

The accounts receivable balance within the State Lottery Fund is comprised of unpaid instant ticket sales, unpaid on-line ticket sales, non-sufficient funds (NSF) accounts, and a reserve for uncollectible accounts. At June 30, 1995, the net unadjusted accounts receivable balance totaled $10,325,439. Our examination of these accounts disclosed the following:

Instant Tickets Receivable:

Instant tickets receivable consist of pending ticket sales and current ticket sales. Information concerning both of these components are provided to Bureau of Alcoholic Beverages and Lottery Operations (BABLO) by a vendor. BABLO needs to provide this information to Finance on a timely basis to facilitate routine reconciliation. Examination of supporting documentation, which substantiates the information provided by the vendor, is a necessary piece of this reconciliation. BABLO and Finance rely on this information without independent substantiation of the figures. Relying totally on vendor information limits the ability to reconcile variances, to detect data processing errors and, ultimately, to determine whether the results of operation are fairly stated.

Two electronic fund transfers, or "sweeps", occurred prior to the balance sheet date without being recorded until fiscal year 1996. This error results in the overstatement of receivables and understatement of cash totaling $902,236. An adjustment will be made for the presentation of audited financial statements.

Upon reconciling the instant tickets portion of the accounts receivable, it was found that the Controller's instant tickets accounts receivable were understated. Finance personnel assert that most of this understatement is attributable to an overstatement in the on-line accounts receivable as explained immediately following.

On-Line Receivables:

The on-line ticket portion of the accounts receivable is the combination of on-line ticket sales less commissions and prize payouts made during the week. BABLO and Finance completely rely on the vendor for this information. Confirmation of this balance by subsequent collection indicated that the Controller's on-line accounts receivable was overstated by approximately $689,000. Finance personnel believe that this amount should be reflected in the instant ticket portion of the accounts receivable. When combined with the instant tickets accounts receivable understatement of nearly $853,000, the net effect results in the understatement of instant tickets accounts receivable totaling $164,000. BABLO and Finance could not reconcile this variance.

Department of Administrative and Financial Services

NSF Accounts:

When the vendors provide information concerning the amount to be "swept" from each of the ticket agents accounts, cash is debited and accounts receivable is credited. If, at the time of the "sweep", an agent does not have sufficient funds, a non-sufficient funds notice is provided to Finance and the accounts receivable is re-established. The Controller's records indicate a balance of $80,101 in NSF accounts receivable. Information provided by a vendor indicates the NSF accounts receivable should be $87,514. Finance provided information which reconciled all but $2,837 of this variance.

Reserve for Accounts Receivable:

The Bureau of Accounts and Control establishes individual reserves for uncollectible accounts. In establishing this reserve for the State Lottery Fund, the accounting entry, made by Accounts and Control, was erroneously reversed. This results in overstating accounts receivable, income, and thus profit by approximately $81,000. Finance personnel processed entries to correct this error in July, 1995. Accordingly, an adjustment will be made for the presentation of audited financial statements.

Taxes Receivable and Credit Card Receivable:

The Controller's records indicate a debit balance of $5,389 in taxes receivable, and a credit balance of $1,361,387 in credit card receivable. These balances, due to their unusual nature, were investigated. Data entry errors were the cause of both balances.

Taxes receivable (account #0020) was debited when accounts payable (account #0200) should have been. This error was in connection with a vendor invoice. The error results in the overstatement of both assets and liabilities.

Credit card receivable (account #0027) was credited when accounts receivable (account #0025) should have been. This entry was made due to the receipt of cash via electronic funds transfer. Consequently, credit card receivable was understated and accounts receivable was overstated.

These errors were identified and corrected by Finance personnel in July, 1995. Adjustments will be made for the presentation of audited financial statements.

Department of Administrative and Financial Services

Recommendation:

We again recommend that Lottery accounting personnel routinely reconcile the accounts receivable detail to the Controller's records and implement procedures for the timely dissemination of information from BABLO to Finance. Further, we recommend that Lottery accounting personnel examine supporting documentation to substantiate information provided by both vendors.

Auditee Response:

Instant Tickets Receivable:

We agree that $902,236 should have been reflected as cash at June 30, 1995 instead of accounts receivable. The $902,236 is comprised of sweeps that took place in June of 1995, but were not received by accounting until July 24, 1995. This made it impossible to record the deposit in the correct fiscal year.

The auditor found that the two major components of the accounts receivable were each misstated. We point out to the auditor that, until fiscal year 1995, the accounts receivable were reflected as single total. The Division of Financial and Personnel Services felt that better control was necessary and attempted to separate the receivable into their two major components; on-line and instant tickets. Our internal estimate was off by 6.7% on $10.3 million of accounts receivable. Our initial estimate has been updated.

On-Line Receivable:

We do agree with the auditor that the true net understatement in the accounts receivable is $164,000. We cannot readily explain the variance, but we believe that two avenues to be investigated may solve the understatement. Fiscal year 1995 was the time period that Scientific Games Sales and Billing system were out of balance. Scientific Games personnel, finance personnel, and lottery personnel met several times to discuss this issue. We agreed that an adjustment of $136,000 was necessary to balance the system and the accounts receivable. We believe that the vendor may have flowed the adjustment through their system in error. We are currently looking into this.

The other avenue that we will investigate again with the vendor is the effects of a system crash that affected sales for February 15, 1995. No sales were reported for that day. We met with Lottery and Scientific Games during April of 1995; however, we have never been totally satisfied that the sales for that day were accurately recovered as we never received a report detailing sales for that day. We will also pursue this avenue.

<u>NSF Accounts</u>:

We agree that the control account is understated and will be adjusted to bring the detail and control into balance.

<u>Reserve for Accounts Receivable</u>:

We agree that the $81,000 was incorrectly reversed by the Bureau of Accounts and Control. We do point out that when the error was detected a correction was made immediately in July of 1995; a year in advance of the current audit.

<u>Taxes Receivable and Credit Card Receivable</u>:

We agree with the auditors that a data entry error was made. We do point out that when it was discovered a correction was made immediately in July of 1995; a year in advance of the current audit.

We agree with the auditors recommendation that the receivables be reconciled on a timely and routine basis. We agree that information must be forwarded to the Division of Financial and Personnel Services from Lottery to make the reconciliations possible. We also agree with the auditors that supporting documentation must be examined to substantiate the information provided by the vendors.

The Division of Financial and Personnel Services will reconcile the accounts receivable on a routine and timely basis. The Division and the Lottery are both committed to working with the vendors to achieve timely report preparation, dissemination of critical information on a regular basis, and overcome the problem of the cutoff dates contained in the reports. This will help to ensure that there are no misunderstandings as to what the reporting period encompasses.

The vendor is developing additional reports that will facilitate the reconciliation of accounts receivable.

(5) Bureau of General Services

<u>Finding</u>: Purchasing controls over-ridden/Purchase made without sufficient funding

State purchasing policies that the Division of Purchases issued require that purchases exceeding $1,000 be made with a purchase order, primarily to ensure that funds to pay for the purchase are available and encumbered. The Director of the Bureau of General Services (GSA) circumvented this policy when he directed employees of the Division of Purchases, which is within GSA, to order $200,237 of modular furniture for the Department of Economic and Community Development (DECD). The bureau was relocating DECD to a new location. DECD had no funds to pay for the furniture or other moving costs and repeatedly advised GSA of that fact.

The furniture was ordered in July and received in August 1994. The Division of Purchases issued a purchase order in May 1995, nine months after the order. In this case, when the furniture was ordered, no funds were available. The vendor did not receive any payment until May 1995, when a partial payment of $70,000 was made from the Department of Administrative and Financial Services' fund for postal, printing and supplies. The fund paid the remaining invoice amount in July 1995 as well as late payment fees of $13,344.

The postal, printing and supply fund has been reimbursed $120,000. DECD did not need all of the furniture that was ordered because of a subsequent reorganization. The unneeded furniture, still owned by the fund, is in storage and is gradually being sold to other state agencies.

Recommendation:

We recommend that all agencies, including the Bureau of General Services, comply with established state purchasing policies.

Auditee Response:

The Division agrees with the finding and recommendation and will comply with all policies.

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(6) Bureau of General Services
Division of Surplus Property

Donated Surplus Property
CFDA # 39.003 **Questioned Cost**: None

Finding: Poor internal control over Surplus Property/Established procedures not followed

Our examination of the operation of the state surplus property program disclosed a lack of internal controls to ensure that all assets are properly accounted for and disbursed to eligible recipients; and that the program operated according to state law. The insufficient operations and the recommendations for corrections are listed below.

Physical security:

The surplus property program operates out of one main building which is protected by locked doors, access codes, surveillance cameras, and motion detectors. All four employees have keys to the main building and have individual access codes. Customers are asked to sign a log when they enter the main building but are not required to be accompanied while they look for merchandise. Surplus property, along with nonsurplus material belonging to other state agencies, is also stored in two barns in Hallowell. The nonsurplus material is segregated from the surplus property.

Through observation and discussion with agency employees we determined that existing access controls and policies were not fully implemented. Surplus property personnel did not activate the access code security feature of the main building when all were out for lunch at the same time. A basement door to the main building was secured only by a loose pin. The barn door to the Hallowell facility had a lock but it did not secure the sliding doors which could be opened even with the lock in place. Surplus property personnel stated that a private citizen who frequently purchased junk items had a key to the Hallowell barn and had recently brought in a hammer and boards to make it more secure. The same individual helped out at a February public sale by bringing property tags from sold merchandise to the state employee acting as cashier and instructed the employee on what to procedures to follow. In addition, private citizens who regularly visited the main building were not required to sign in.

Recommendation:

Surplus property personnel have secured the basement door and have activated all security features whenever personnel are not in the building. All locks have been changed and keys limited to authorized personnel. The log-in policy has been enforced and, to the extent possible, property has been consolidated in the main building. We recommend that the Division of Surplus Property continue to maintain tight access controls and not allow outside persons to participate in surplus property operations.

Auditee Response:

The recommendation has been implemented.

Department of Administrative and Financial Services

Segregation of duties:

The surplus operation consists of four individuals: a Supervisor of Surplus Property, a Warehouse Superintendent, a Surplus Property Field Agent, and an Account Clerk I. There is insufficient supervisory oversight and inadequate checks and balances.

In addition to overall responsibility for the Surplus Property operations, the supervisor has almost complete control over state surplus property. He sets prices, determines where property should be stored or who it should be distributed to; he completes transfer forms and sales records, designates items as salvage or scrap, assigns inventory tag numbers and distributes merchandise from inventory; he also collects and posts payments, prepares deposits, invoices customers for scrap sales, maintains inventory records and summarizes monthly activity for crediting of funds received. For public auctions he reconciles sales activity to deposits, makes the bank deposits, and summarizes activity by fund. No other individuals perform reconciliations.

The Warehouse Superintendent has less extensive responsibility over federal surplus property. He unloads the trucks, determines whether shipments are over or short, and reconciles the acquisition report to the control copy faxed from the General Services Administration. He sets service charges, tags property, posts inventory cards, distributes property and prepares distribution documents. He also performs physical inventory counts from which he posts shortages or overages and assists in reconciling the inventory records to the monthly reports made to the General Services Administration.

The absence of segregation of duties results in inadequate controls to ensure 1) that all property received is logged in; 2) that all payments due are received and properly credited; and 3) that transactions are correctly posted to the records.

Recommendation:

We recommend that the Department of Administrative and Financial Services restructure employee duties so that no one person is in a position to approve and also process, post, and adjust transactions. We recommend that other personnel periodically spot check program operations. Inventory counts should be made without knowledge of the recorded balances. Inventory overages and shortages should be reviewed and approved by another person. We recommend that the Division of Surplus Property not accept cash payments other than at public sales or auctions. Payments for all transactions should be by donee checks or by Internal Billing checks. The checks should be made payable to the Treasurer State of Maine and mailed to the Division of Administrative and Financial Services. To ensure that quantities and amounts have not been altered, the department should consider whether distribution documents or invoices being paid should be attached to the payments. We also recommend that the department provide an updated policy manual to all employees.

Auditee Response:

The department is in the process of restructuring and reorganizing positions and duties to accomplish the intent of the auditor's recommendation. The department will ask the auditor to review the improvements made regarding the segregation of duties to ensure that we have fully complied with the recommendation.

Inadequate Records:

The Surplus Property Division regularly collects surplus items from state agencies without requiring a detailed listing and without signing a transfer slip for the items. Signatures are not obtained unless the donating agency requires them. This is a major internal control weakness since there is an immediate loss of accountability over the assets. No assurance is provided that the division received the items rather than being taken by someone from the donating agency or while they were in transit. There is also no standardized form to ensure proper crediting of any proceeds resulting from disposal of the property.

The Surplus Property Supervisor completes a prenumbered Redistribution Order which serves as a record of the authorized release of items from an agency to the Divisions of Surplus Property or to another agency. However, this record is typed after the fact, does not generally contain a detailed description of the property, and has only typed names, not original signatures. Many of the Redistribution Orders that we examined were identified as properties transferred to salvage and having no value. Once this was done there was no audit trail since items identified as salvage were not posted to inventory records. Therefore much, if not most, of state property transferred to the Surplus Property Division cannot be accounted for.

The Supervisor also types prenumbered *Transfer Forms* which serve as distribution records and invoices. These forms are also completed after the fact. At times, identical unnumbered forms are attached and original signatures, if any, are only on these forms.

Recommendation:

We recommend that the Surplus Property Division require state agencies to complete a detailed listing of items that the agency determines to be surplus and to identify which state funds should receive proceeds from their disposal. Any transfer of property between locations should be accompanied by paperwork signed by authorized representatives of the donating and receiving agencies. When the items are capital equipment, agencies should also complete equipment adjustment forms and remove surplus property from the state's capital equipment records. Prenumbered distribution documents should be used, original signatures obtained, and accountability over forms maintained.

Auditee Response:

The division has taken steps to ensure that this recommendation is complied with at all times. A BP-84 is now required before any surplus transaction takes place.

Inadequate and Undocumented Pricing Practices:

The current policy requires that once the service charges are set they are to remain unchanged for sixty days. We noted that both federal and state surplus properties were sometimes distributed for no charge. We also noted that there were distributions of federal and state property for less money than the service charges posted on the inventory cards. No supervisory approval or explanation was documented. Distribution documents were not completely filled out and donee numbers and receiving signatures were not always obtained.

Recommendation:

We recommend that no charge or reduced charge distributions take place only after items have been made available to all customers at the reduced charge. The reasons for the fee charged should be documented and approved.

Auditee Response:

A pricing policy has been in effect; however, there have been lingering questions as to whether the document was officially issued. The pricing policy has been reissued and is now in effect for all relevant transactions.

Distributions Made to Ineligible Recipients:

Our examination of distribution records for state surplus property disclosed that there were numerous sales of salvage and junk property to private individuals. We noted that one private citizen had made twenty-six separate cash payments for such property. We also noted five instances where items were sold for cash on the same day as received by the Division of Surplus

Property, and one was sold the next day. Some were described as junk but three of the six items were assigned a value on the distribution log. The amount paid for two of the three was less than the recorded value.

Because the items sold as salvage were never available for public view, state agencies were not given the opportunity to acquire them and qualifying donees were never *given an opportunity to purchase the surplus items through private sale* as required by 5 MRSA §1813(6) which limits private sales to political subdivisions, educational institutions or qualifying nonprofit organizations. Section 18.8 of the *Manual of Financial Procedures* defines salvage and scrap but does not address the disposition. There were formal bids for the sale of scrap metal but we found no procedures for determining what was salvage material or for disposal of it. Section 18.3 of the Financial Manual states, "All surplus items shall be disposed of by State Surplus Property". Agencies can distribute items to their own subdivisions or may be authorized to trade or sell *damaged* equipment. According to senior personnel of the Bureau of Purchases, there was no authorization for the Surplus Property Supervisor to sell items to individuals unless the division was selling items that were clearly junk or trash so that landfill tipping costs could be avoided.

Our examination of closed state inventory cards disclosed direct cash sales from surplus property inventory to private citizens on dates other than advertised as public sales. For example, on April 23, 1996 a Digital Decmate Computer System was sold for $100. The inventory card showed it as received on March 13, 1996 with an estimated value of $200. When posted to the distribution log the description was *Junk computer for parts.* On May 1, 1996 a fax machine recorded into inventory on April 8, 1996 at a value of $40 was sold for $20. On May 3, 1996 an executive chair received on March 26 and valued at $15 was sold for $7.50. On May 14, 1996 a Besseler print enlarger received on May 9 and valued at $50 was sold for $50. The distribution log description stated *Enlarger for parts.*

Our examination of the distribution log disclosed many other sales to ineligible recipients as evidenced by the number of taxable transactions on dates other than those of public sales or auctions.

We also noted that one agency sold damaged property to its employees by a bid process approved by the Surplus Property Supervisor. Additionally, we noted that other agencies of state government sold property directly to their employees, to local schools and to members of the public. Other agencies donated used computer equipment at no charge to local schools. It was not apparent whether all of these transactions were completed with the prior knowledge and consent of the Division of Surplus Property.

The transactions by other agencies do not satisfy the requirements of 5 MRSA § 1813(6) because competing agencies never have the opportunity to view and bid for the property. Also, 5 MRSA §20-A, *Use and acquisition of state property*, limits the sale of property to employees who leave state employment, providing no other state agency needs it.

At the February 1996 public sale we noted that employees from both the Division of Surplus Property and the Bureau of Purchases bought surplus property. While this is not contrary to statute and apparently purchases were made after the sale had been in progress for a period of time, the division should consider prohibiting the practice in order to avoid any appearance of preferential treatment or conflict of interest.

Recommendation:

We recommend that the Surplus Property Division comply with 5 MRSA § 1813(6) and distribute property only to qualifying agencies and organizations. We recommend that sales to employees only be allowed at public auctions and in accordance with 5 MRSA § 20-A. We also recommend that the Surplus Property Division administer all surplus transactions as required by Section 18.3 of the *Manual of Financial Procedures.* We recommend that the Surplus Property Division establish, document and enforce policies and procedures for determining and disposing of salvage property. These policies should provide for a second person to concur with the assessment. General Services Administration permission should be obtained before selling any federal item for scrap or salvage .

Auditee Response:

This recommendation is in the process of being fully implemented. The department is in the process of re-authorizing all agents that may be eligible to receive surplus property.

Inventory Records Altered:

We examined acquisition reports, inventory cards and distribution documents for several inventory items. We noted the following posting errors or irregularities. One inventory card for *Tie Downs* contained posting differences for twenty-three items. This consisted of 1) a distribution document for six items that reduced the remaining balance by twenty-six; 2) one distribution document for five items that was posted twice; and 3) a third distribution document for six items that reduced the remaining balance only by four. In order to compensate for the value of the misreported items when the quantity on the card zeroed out, the division increased the acquisition value for each item in the last distribution from $17.84 to $97.93.

A second inventory card was posted with an initial quantity of eighty *Boots c/w* for a total acquisition cost of $6,673 when it should have been ninety *Boots c/w* at the same cost. In effect, this cleared the accounting for the acquisition cost but created an unrecorded shortage of ten pairs of boots.

A third inventory card for *life rafts* showed two rafts as issued on a distribution document that had been voided. The customer copy of the voided document was missing.

We also noted a February 8, 1994 distribution of a *trailer s/u van 1976* to a municipality at no charge. The distribution document had the donee's name and number, and division personnel had initialed it, but the donee's representative had not signed it as taking delivery. The municipality subsequently advised the General Services Administration and the Maine State Police investigators that it had no knowledge of the item and did not receive it.

Recommendation:

We recommend that the department periodically spot check inventory cards. We further recommend that the department take appropriate action if it determines that records have been intentionally altered. We recommend that it retain and account for all copies of *Voided* documents.

Auditee Response:

This recommendation has been implemented. We are currently examining automation alternatives that will help ensure the integrity of the records. We are in the process of taking action where we have found records to have been inappropriately altered, requiring supervisory approval of record changes, and accounting for all void documents.

Distributions Made to Unauthorized Representatives:

We tested documents for one hundred twenty life rafts that had been distributed. Although all donees appeared to be eligible, eight of twenty-three donee representatives were not recorded as authorized representatives on surplus records. We note that the *Surplus Property Program State Plan of Operation* requires that a donee's eligibility records be updated periodically, and not less than once every three years. This appears not to have been done.

Department of Administrative and Financial Services

Recommendation:

We recommend that the Division of Surplus Property update the eligibility records as required and distribute property only to authorized representatives.

Auditee Response:

The department is now in compliance with this recommendation.

Compliance Review Procedures Not Followed:

The *Surplus Property Program State Plan of Operation* requires that at least ten percent of the donees that received motor vehicles or other items or properties with unit acquisition costs of $5,000 or more ". . .shall receive a physical inspection by a representative of the Surplus Property Program annually." According to division personnel this requirement has not been met because of other duties.

Recommendation:

To ensure compliance with the terms, conditions, reservations and restrictions associated with these donated items, we recommend that the department make the required inspections.

Auditee Response:

The department is in the process of determining how best to comply with this recommendation.

Inventory Records Incomplete:

On June 3, 1996 we conducted physical inventories at Surplus Property locations. According to our count, most of the variances consisted of greater quantities than indicated on the cards. This was true for both state and federal property. State property stored in the two barns was generally not listed on inventory cards. Federal property in the upstairs of the main building was partially but not completely listed. Many state items were not tagged.

We note that both state and federal inventories are manual, card based systems. Neither has control cards although the federal cards are regularly balanced to General Services Administration reports. The state inventory cards do not appear to reconcile to anything. The state card file contained only current and closed cards for the 1996 year. We could not locate any prior period state inventory cards.

Recommendation:

We recommend that the Division of Surplus Property convert the manual inventory systems to computer based systems. Doing so will improve the reconciliation process and provide complete and permanent records. Consideration should be given to recording the estimated inventory value on the accounting records of the fund. A records retention policy should be established. We also recommend that inventory items be tagged and entered into inventory as soon as possible after receipt. Items not tagged should be unavailable for sale and no item should be released until all paperwork is completed and signed.

Auditee Response:

We are in the process of implementing this recommendation.

Loan Policy Not Complied With:

We noted that state inventory cards reflected inventory on loan to either the Division of Surplus Property or to other state agencies. Section 18.3 of the *Manual of Financial Procedures* provides for, "Establishing a 'loaner' system of certain materials that may be used for short periods of time". We noted two items that had been on loan since 1987 and 1993. Both were located although one has been relocated to another agency.

Recommendation:

We recommend that the department comply with existing policies and that it limit loan durations to a reasonably short period.

Auditee Response:

We are now in compliance with this recommendation.

State Surplus Public Auctions:

We note that the Surplus Property Supervisor has custody of all receipts and is the only person who reconciles auction proceeds. We also note that the same persons from the Bureau of Purchases are assigned to work at the auctions. We note that auction proceeds are deposited net of expenses for coffee and noontime meals for auction personnel. These expenses generally are about $100. Title 5 MRSA §131 requires that all proceeds be deposited intact with no deductions for expenses.

Title 5 MRSA §1820 specifies that ". . .any motor vehicle sold by the State shall be sold to the highest bidder". Surplus procedures have allowed qualifying organizations as defined by 5 MRSA § 1813(6) to preview motor vehicles and buy them at private sales. This provides for sale to the highest bidder from those qualifying to participate in a private sale but not to the highest bidder from the general public. The definitions of private and public sales are not clear in the statute and there could also be some question as to whether the Legislature intended state agencies to have the right of first refusal.

Recommendation:

We recommend that accounting personnel from the Division of Financial and Personnel Services review reconciliations. We recommend that the department alternate auction personnel to avoid any internal control deficiencies being exploited and to provide the state with a larger pool of experienced auction staff. We recommend that the department deposit proceeds intact as required by statute. We also recommend that the department seek clarification of legislative intent regarding current practices.

Auditee Response:

Division of Financial and Personnel Services staff are now participating in all state surplus public sales and auctions.

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(7) Bureau of Taxation

Finding: Inadequate tax reconciliation procedures (Prior Year Finding)

The Bureau of Taxation has inadequate procedures to reconcile revenue and taxes receivable for inheritance, estate, insurance companies, cigarette and tobacco, gasoline and special fuel taxes. These taxes represent 7% of the General Fund and 45% of the Special Revenue Fund revenues.

In the case of gasoline and special fuel taxes, reconciliations were not performed. The bureau's procedures did not allow for complete reconciliations of the other taxes, and thus would not detect all recording errors or deter misuse of funds.

Recommendation:

We recommend that the Bureau of Taxation reconcile all tax revenues and receivables to ensure that all receipts are properly recorded and safeguarded and to facilitate collection of delinquent taxpayer balances.

Auditee Response:

As of July 1, 1995, the bureau has begun to reconcile the Estate and Inheritance and Excise Tax revenues on a monthly basis.

(8) Bureau of Taxation

Finding: Hospital excise tax not recorded in accordance with generally accepted accounting principles (Prior Year Finding)

In accordance with Title 36 MRSA § 2801-A the Bureau of Taxation records hospital excise taxes as revenue when assessments are made. The *Governmental Accounting and Financial Reporting Standards* 1600.106 states:

> Revenues.... are recognized in the accounting period in which they become susceptible to accrual-that is, when they become both *measurable* and *available* to finance expenditures of the fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The bureau recorded $10.2 million in receivables which were not collected (*available*) within sixty days of the fiscal year end 6-30-95 and the reversal of the prior year deferred revenues was $5.0 million. As a result, deferred revenue was understated by $5.2 million and revenue was overstated by $5.2 million.

Recommendation:

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

Auditee Response:

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

(9) Bureau of Taxation
Revenue Processing Division

Finding: Taxes receivable balances with credit of $5.2 million recorded incorrectly (Prior Year Finding)

The *Governmental Accounting and Financial Reporting Standards* 1600.116 states, ". . .revenues received in advance of the period to which they apply should be recorded as deferred revenue, and recognized as revenue in the period to which they apply". The Bureau of Taxation recorded approximately 11,970 sales and withholding taxes receivable accounts with credit balances and 1,800 corporate taxes receivable accounts with credit balances as reductions to taxes receivable rather than deferred revenues. As a result, General Fund taxes receivable and deferred revenues were understated by $5.2 million at June 30, 1995.

Recommendation:

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

Auditee Response:

The bureau will make available to the Controller a schedule of credits as they relate to the taxes receivable accounts at year-end. Furthermore, we will schedule an annual reporting of this information.

(10) Division of Financial and Personnel Services

Finding: $1.2 million of outstanding telephone bills not accrued

We reviewed accounts payable in the Telecommunication Services Fund as of June 30, 1995 and noted that approximately $1.2 million in outstanding telephone charges were not included in this balance. Although a system of internal controls exists to provide for the proper accrual of expenses, because of management decision, these charges were not included. The *Codification of Governmental Accounting and Financial Reporting Standards* states:

> Proprietary fund revenues and expenses should be recognized on the accrual basis. . . Expenses should be recognized in the period incurred.

Recommendation:

We recommend that all expenses incurred at year-end as well as associated revenues be accrued to ensure fairly stated financial reporting.

Auditee Response:

We agree with the finding and improvements to the process have been implemented.

Department of Education

(11) Division of School Business Services

Finding: Inadequate oversight for General Fund School Construction money

The Department of Education (Department) and the State Board of Education (Board) do not have adequate internal control systems in place to ensure proper management of General Purpose Aid - School Construction monies. The Board has procedures to review and give concept approval for new construction projects. However, once the Board grants concept approval to a project and allocates funding for project completion, its oversight essentially ends. There is insufficient fiscal control and oversight of approved projects. The Department's internal control system is inadequate for:

- Ensuring compliance with established rules;
- Containing costs;
- Ensuring equitable treatment of funding applicants;
- Maximizing effective use of available resources; and
- Ensuring that rules do not conflict with laws or regulations.

Department personnel and Board members have not completely recognized the complexity of school construction financing and the associated restrictions. This has resulted in inappropriate and misleading program rules, ill-advised Board actions, and additional expense to the General Fund.

Overview:

The Department administers the state aid program for elementary and secondary school construction. Title 20-A MRSA, Chapter 609 authorizes the Board to review, approve and commit state funding for local school construction projects. The Board may not approve projects that will cause state and local debt service expenditures to exceed $67 million each fiscal year. In fiscal year 1995, General Fund expenditures were $63.5 million for debt service payments. As of June 30, 1995, the total commitment for school construction principal and interest debt service payments for the next 20 years was $651 million. In fiscal year 1995, the Board approved $61,554,323 for twelve school construction projects. Ninety-seven percent of the cost of those projects is subsidizable by the State of Maine.

Although the state reviews and approves construction projects and, for the most part, funds them, the projects are financed by proceeds from local government tax-exempt debt obligations that are voter approved. The outstanding debt is an obligation of the local governments and not the state. The Maine Municipal Bond Bank (the Bond Bank) acts as the financing intermediary for the vast majority of local governments. The Bond Bank lends the funds necessary to the local government and then aggregates the individual loans into one large bond offering to the national credit market. The state's General Fund backs up the debt issues of the Bond Bank by means of a reserve fund restoration commitment. Because the state has limited resources, pays most of the school construction costs through the debt service component of the General Purpose Aid to Education program and is committed to restore the Bond Bank reserve, it is in the state's best interest to closely monitor and control program costs.

Lack of fiscal control and oversight:

The Department does not adequately oversee or segregate responsibilities for financial decisions affecting approved projects. Title 20-A MRSA § 15903 ¶4 states that the Department of Education review and approve any changes to the plans and specifications after concept approval of a construction project. Additionally, *Rules for School Construction Projects* (the Rules) require that, prior to the signing of a construction contract, School Administrative Units (SAUs) submit a moveable equipment list. Section 17C of the Rules states, "No moveable equipment may be purchased with project funds which are not included in the list submitted to and approved by the Division of School Business Services." The Department of Education has given the Director of School Business Services sole authority for approving or rejecting:

- Changes to approved school construction plans;
- Requests for moveable equipment; and
- Use of unexpended or "leftover" funds following construction completion.

Although the delegation of authority complies with statute, the Division Director's complete control over the disposition of approved project funds is a major internal control weakness. Our examination of the process disclosed the following:

- No audit trail;
- Incomplete documentation;
- No criteria for approval or rejection of changes to construction plans;
- Inadequate oversight over moveable equipment approvals; and
- Ineffective school construction audits.

Project file documentation was incomplete. We selected and examined ten school construction projects to determine the level of compliance with the Rules. Each project file was inspected for the existence of three key elements required by the Rules: Educational Specifications; Space Allocation Workbooks and Moveable Equipment Lists. Fifteen of the thirty elements required were not present.

Documented criteria and a complete record of actions provide an audit trail and make the process credible. Documentation is in the best interest of recipients of state aid and provides a standard for making decisions. Documentation allows program expenditures to be analyzed, helps contain costs, and helps allocate resources to competing interests equally. There are no documented criteria for approving or rejecting requests, consequently there is no assurance that all SAUs are treated equitably.

We noted the following regarding moveable equipment:

- Nonenforcement and noncompliance with a rule that requires a list of moveable equipment be submitted prior to signing the construction contract;
- Noncompliance with a rule that states no moveable equipment may be purchased other than what is listed; and
- No written policy or documentation of the criteria for approving equipment purchases.

Because there is no established criteria for eligible items, similar items may be approved for one school and denied for another. The Rules refer only to items with an expected useful life of at least five years and that generally cost $500 or more. SAUs do not submit moveable equipment lists as required by the Rules. Instead, SAU requests are made by telephone or letter after construction contracts have been signed, as construction progresses, and as funds become "leftover." In one case, an SAU was permitted to purchase additional equipment after completion of the closeout audit and the funds to be returned to the General Fund were identified. It is routinely permitted to spend down "leftover" funds because they are considered "their" money.

Although the Rules state that moveable equipment costs generally will be six to eight percent of <u>project construction costs</u>, our examination of completed projects disclosed that moveable equipment generally was six to eight percent of <u>total</u> project costs. The percentage is often greater for small construction projects. The moveable equipment cost for one project was $635,000 or eleven percent of the total project cost.

The Department does not compare actual project expenditures to budgeted amounts, by category, as approved by the Board. The only checks are: that project expenditures are equal to or less than the approved amount; that moveable equipment items have been approved by the School Business Services Division Director; and that any remaining project funds are remitted, on a pro-rata basis, to the state.

We noted that each project generally includes ten percent of the construction budget for contingencies. Project file documentation was insufficient to determine how much of the contingency was expended to comply with the original specifications or how much was used instead to expand the project scope or to purchase additional equipment. However, contingency funds seem to be routinely used up: of the twenty-seven projects that were closed out in fiscal year 1995, only ten had not fully expended the bond proceeds. Five of those projects accounted for ninety two percent of the unexpended funds, which totaled $263,079. Recent changes to the Rules state that, "...any use of contingency funds to purchase moveable equipment must be approved by the Division of School Business Services." Project files and confirmation requests showed that SAUs requested, and the Division Director approved, expenditures for any leftover funds. In some instances SAUs requested and received approval for expenditures years after the school had been constructed and occupied.

Funding did not exceed that approved by the Board, but the practice of approving design changes and equipment costs that were in addition to those approved by the Board results in greater expense to the General Fund and is contrary to legislative intent. The 114th Maine Legislature required the Board to review school construction rules regarding costs per square foot, to consider other measures for containing building costs and to report back to the 115th Legislature (Title 20-A MRSA § 15905 ¶ 4). The Department's report to the Legislature mentions cost containment that results from their multi-level review and approval process. Although the Department has such a process for structural, civil, safety, and building issues, it does not have a process for cost containment. The Division Director has almost complete discretion within the confines of the overall project budgets. The report also mentions the moveable equipment guidelines. These, as noted above, are not enforced. The report did not address other cost containment measures such as standardized school designs or setting and enforcing maximum costs per square foot.

The Audit Section of the Department of Education determines the accuracy of each SAU's Final Financial Report (EF-B-55) and calculates the unused principal and interest earned that is due to the state. This should be altered because, as described below, collecting unused principal is not appropriate. Auditors also compare the moveable equipment purchases to the department approvals. This has little effect since the Director of School Business Services approves items even after audit. The Audit Section does not follow written guidelines or an audit program. As noted above, auditors do not verify whether the SAU's adhered to original construction plans approved by the Board and ratified by voters. The Department should consider revising the rules and require SAUs to comply with the budget as approved by the State Board.

The Audit Section has avoided auditing the largest school construction projects because of concerns over arbitrage implications. Arbitrage is excess interest earned by a governmental unit on tax-exempt bond proceeds over interest paid on debt service on those bonds, and is subject to rebate requirements as put forth in the Internal Revenue Code. Additionally, even though Section 13B of the Rules requires Form EF-B-55 to be submitted to the Department within six months after initial occupancy of a completed building, division auditors have contacted schools possibly subject to arbitrage regulations and advised them not to file the form. Receipt of the form triggers the department's audit, therefore, audits are delayed although the project may be completed except for any arbitrage items. This practice creates a major internal control weakness. The largest projects, those with the most funds at risk and with the greatest potential for recovery or reduction of costs, are not audited within a reasonable time frame.

Department of Education

Inadequate understanding of debt requirements:

The debt financing mechanism for school construction projects is complex. It contains restrictions and prohibitions on the use of bond proceeds. Department policies conflict with these provisions.

The Rules require unused principal to be returned to the state. This conflicts not only with provisions of the Internal Revenue Code, but also with the loan agreements between the local governments and the Bond Bank. Although the state is the ultimate primary payor of the debt obligation, the town technically incurs the debt, and any proceeds may only be used for the purposes outlined in the town's loan agreement. These purposes include the debt service payments. The Rules should be revised to require the proceeds to be applied directly to debt service payments. Failure to revise the Rules could cause the debt-issuing government to violate the Internal Revenue Code arbitrage provisions and potentially incur severe penalties.

The Board appears also to have misunderstood the arbitrage provisions of the tax code. It voted to approve expanding the scope of a school construction project while not increasing the state's share. The project was 100% subsidizable, however, and the Board did not change the total project funding initially approved. Effectively, spending the interest came at the expense of the General Fund, increasing state project funding. By allowing it to spend accumulated interest earned, this action complied with arbitrage regulations and increased funding to the municipality by $263,585. Interest earned, however, is generally required to be returned to the state. The arbitrage issue could have been resolved to the benefit of the state by asking the municipality instead to apply the interest earned to debt service costs, all of which could be subsidized by the state. Had this been done, the General Fund appropriation for the municipality's debt service subsidy could have been reduced, and the equivalent amount either used to fund another project or remain in the General Fund.

A second municipality elected the two-year spend-down option within the tax code. The project was completed with $500,000 remaining. Similarly, the Department did not require the town to apply the remaining proceeds to debt service, which also would have benefited the General Fund, on a pro-rata basis. Six years after the project began, the Department continues to discuss approving additional expenditures with the remaining funds, and continues offering guidance that could contribute to noncompliance with tax regulations.

Summary:

The Department of Education's current Rules for School Construction Projects conflict with superseding laws and regulations; other rules are not followed. One person makes decisions on expenditure, and thus allocates General Fund resources, but is not required to consult or obtain approvals from others. As a result, associated control systems are ineffective.

Department of Education

Recommendation:

We recommend that the Department of Education and the State Board of Education immediately cease the practice of collecting excess bond proceeds. Accordingly, we recommend that they obtain legal advice and take whatever steps necessary to revise the *Rules for School Construction Projects* so that the excess bond proceeds are applied to debt service payments. The Department should then use recalculated debt service schedules to determine subsequent General Purpose Aid subsidy payments.

We recommend that the Department provide greater oversight to the funding decisions now made solely by the Director of the Division of School Business Services.

We recommend that the Department advise all employees with decision making authority of the fiscal impact of their actions on the General Fund regarding changes in construction plans and approvals of additional equipment over and above that approved by the Board. We further recommend that agency personnel develop written policies and checklists to document the criteria and the process for approving or rejecting requests. The documents should be dated prior to the payment dates.

We recommend that the Department either enforce existing rules or change them.

We recommend that the Department develop policies regarding objectives and procedures for the Audit Section to follow.

Auditee Response:

The Department does not approve changes to construction plans unilaterally. Change orders are reviewed by the Bureau of General Services before being sent to the Department. The Department's approval of changes to movable equipment lists consists of determining whether those items would be appropriate to the project. The ultimate decision as to whether those items will be added is at the local level.

The State Board of Education will be reviewing the existing school construction rules to clarify procedures. Further, the Legislature has in the last session appropriated funds to create an Education Specialist III level school construction position. This will enable the Department to strengthen the program and remove the fiscal and administrative responsibilities from the overall control of one individual.

Department of Education

The following will address the finding's reference to the audit procedures of the audit section:

It is true that there were some school units that applied to spend the balance in their construction account after the final audit had been conducted and the project balance had been verified by the auditor. However, there is no requirement that would preclude spending the balance for project related expenditures if approved purchases occur within six months of initial occupancy of a completed building. Further, the Department is not opposed to providing a revision to the final audit when additional purchases are warranted, or providing technical assistance if verification of a project balance is requested. Some school units require verification of their project balance to determine available funds before they can proceed with the completion of a building.

In the event local school units receive authorization to spend the project balance after a final audit has been conducted, a revision is prepared by the audit section and a revised report, which includes all purchases occurring after the date of the final audit, is submitted to the superintendent for approval. At no time has the Department or the local school unit arbitrarily accepted an audit as "final" until all project related transactions have been examined and reported.

The Department ensures that when verification of a project balance is requested, it is provided in the form of technical assistance or as an interim audit and is not reported as a "final audit" until the project is in fact completed.

In planning for project audits, the Department now follows a written program which is maintained by the Support Systems Team, Finance Sub-Team auditors.

Testing of a school unit's adherence to the original construction plan and/or budget is not a required function of the audit section but may be performed by the Director of School Facilities. Department staff do not approve the expenditure of funds or the purchase of equipment over and above that approved by the State Board of Education. The Board approves a bottom line budget for bonding and subsidy purposes. It is the Department's role to see that amount is not overspent. What local school units choose to do within that budget is a local decision.

Contrary to the audit opinion, the Department did operate in the State's best interest by temporarily postponing audits of projects that may have been subject to the arbitrage requirements set forth in the Internal Revenue Code. Had the Department ignored those requirements and recovered all of the interest, including that portion due the IRS, without first identifying any legal restrictions, harm to the State would have been far more costly than what could have resulted from noncompliance with a construction rule. Further, it is the Department's opinion that postponing the audits of these projects ***was not*** *in conflict with the construction rule. The following is noted:*

Section 13(B) of the rules states - "An EF-B-55 form, to be supplied by DOE, shall be filed within six (6) months of initial occupancy of a completed building. Additional time may be granted by *the Commissioner if it is judged that extenuating circumstances exist." In the Commissioner's judgement, extenuating circumstances did exist and local school units with projects in excess of $5.0 million were asked to consult with their bond counsel before filing the EF-B-55 form.*

It is also the Department's opinion that completion of a project must include preparing and filing the arbitrage forms with IRS. At the time projects approved for more than $5.0 million were nearing completion, school units had not consulted with their bond counsel and, as a result, had not been informed that the arbitrage computation that determines the amount of interest due the IRS would be prepared in accordance with IRC, Section 148(f)(3), which states - "Except to the extent provided by the Secretary, the amount which is required to be paid to the United States by the issuer shall be paid in installments which are made at least once every 5 years" and in accordance with IRS Regulations, Section 1.148-2(f), which states - "The first rebate installment payment must be made for a computation date that is not later than 5 years after the issue date. Subsequent rebate installment payments must be made for a date that is not later than 5 years after the previous computation date for which an installment payment was made." A proposed rule to require school units to file the IRS tax forms prior to submitting the EF-B-55 form will be presented to the State Board of Education for their review and approval.

As stated earlier, due to the legalities surrounding the arbitrage requirements, the Department was reluctant to audit these projects without guidance from the Attorney General's Office. The Department requested legal guidance in 1993 but it was not until December, 1995 that the newly assigned Assistant Attorney General for the Department was able to work with us in resolving these issues. The Department has correspondence on file to substantiate our efforts in this regard.

The Department has consulted with the Assistant Attorney General and has ceased the practice of collecting excess bond proceeds. A revised rule describing the procedures for disposition of excess bond proceeds will be presented to the State Board of Education for their review and approval.

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(12) Management Information Division

Finding: School funding subsidies not calculated in accordance with statute

The School Finance Act includes language intended to stabilize school funding from one year to the next. Title 20-A MRSA §15602 ¶9 provides for the Maine Department of Education (DOE) to adjust the state subsidy for each school administrative unit (SAU) in order to limit the amount of increase or decrease in funding amount received in the prior year. This is known as the subsidy cushion or hardship adjustment. The law specifies how the comparison of funding from one year to the next should be calculated, including the adjustments in the calculation. In addition to the adjustments authorized by the Legislature, the DOE included the prior year's subsidy cushion amounts as an adjustment in the calculation. Even if the Legislature intended to include this adjustment, the department's calculations were incorrect since they did not include the corresponding amounts for the current fiscal year. This resulted in a comparison of incongruent amounts which is contrary to statute.

All SAUs are affected by the subsidy cushion calculation as errors result in SAUs receiving either too little or too much state aid. We recalculated the formula without the unauthorized adjustment for two SAUs. One which the department had calculated with too great a loss resulted in an overpayment of $119,422. We were unable to determine the net effect on the General Fund without recalculating all SAU subsidies.

The Legislature appropriated $7.0 million for the subsidy cushion. The department disbursed $6,657,737. The distribution of the funding appropriated was based on a worksheet which the department prepared and, although not apparent, included the unauthorized adjustment. The distribution is the result of many variables, including the legislatively established percentages to limit the amount of any increase or decrease. Had the unauthorized adjustment not been included, the worksheet would have resulted in a different distribution. The Legislature could have changed the percentage limits, the formula adjustments, or the funding; or it could have made no changes.

Recommendation:

We recommend that the Department of Education calculate General Purpose Aid allocations according to applicable statutory requirements. If there is doubt as to the legislative intent, we further recommend that the department ask for clarification from the appropriate authority.

Auditee Response:

The first sentence of the finding states, "The School Finance Act includes language intended to stabilize school funding from one year to the next". We agree that this sentence is an accurate reflection of the legislative intent.

The Department of Education's (DOE) interpretation of 20-A MRSA § 15602(9) is a proper interpretation of the plain words in the statute. We understand that given the wording of the statute, the Department of Audit could interpret it a different way; however, the DOE's interpretation better reflects legislative intent.

Department of Education

Prior to enactment of 20-A MRSA §15602(9), the Joint Standing Committee on Education and Cultural Affairs (Education Committee) was provided with a printout showing subsidy changes for each school unit from fiscal year 94 to fiscal year 95 which included the cushion adjustments for fiscal year 94. It is our opinion that the amounts are not incongruent as stated in the audit finding. The omission of the fiscal year 94 subsidy cushion in the calculation would be totally contrary to the legislative goal of subsidy stability. Omission of the fiscal year 94 subsidy cushion would be like pretending that certain fiscal year 94 additional subsidy revenues or reductions did not exist. This would result in a totally erroneous comparison. This was explained to the Education Committee, and they agreed that the calculations, as presented to them by the DOE, were appropriate. 20-A MRSA Section 15602(9) did not specifically reference the fiscal year 94 cushion as being part of the calculation because it can only logically be viewed as an adjustment to the foundation allocation which was referenced in the statute. It is the opinion of the DOE that the existing statutory language adequately reflects the intent of the Legislature.

Department of Human Services

(13) Office of Management and Budget
Division of financial Services

__Finding__: Incentive revenue of $5.3 million available to offset General Fund expenditures

Title 45 CFR § 304.12 authorizes each state to receive an incentive payment which is based on a percentage of child support payments collected by the state.

Title 19 M.R.S.A. § 514 requires ". . . all collections, fees, and incentive payments received by the Department of Human Services (DHS) from child support collections to be dedicated to reduce the state's share of Aid to Families with Dependent Children (AFDC) and to cover the costs of making collections ".

The department records the incentive revenue and any related expenditures in a dedicated revenue account. The revenue is credited to one reporting center while the related expenditures are charged to various other reporting centers, all within the same account. The cash balance on hand at any given date is calculated by taking the difference between accumulated revenue less accumulated expenditures in each of the reporting centers within this account.

Department of Human Services

At June 30, 1995 this dedicated revenue account showed a cash balance on hand of $5,333,409 (accumulated incentive revenues less accumulated expenditures), based on an analysis of the following reporting centers:

Reporting Center (Fund 014, approp. Org. 0138)	Amount
Reporting Org. 0138 - AFDC	$(1,559,290)
Reporting Org. 4109 - AFDC - Basic Grant	(4,651,469)
Reporting Org. 4127 - AFDC - Grant Account	1,011
Reporting Org. 4611 - Incentive	11,543,157
Total Unexpended Incentive Funds at 6/30/95	$ 5,333,409

Therefore, the $5,333,409 is available to reduce the state's General Fund share of the AFDC program. Our review of the department's accounting controls that are applicable to incentive revenue revealed several control weaknesses in the system.

First, DHS personnel stated that they only use incentive revenues on an as needed basis to offset the General Fund's share of the AFDC program. They do not necessarily transfer incentive monies to the General Fund on a periodic basis.

Second, expenditures used to offset incentive monies are accumulated along with child support collections in the same dedicated revenue account. Due to the complexity of transfers involving both the incentive revenues and child support collections, the present accounting system does not lend itself to straight forward tracking of both the incentive revenues and child support collections and their related expenditures.

Recommendation:

We recommend that DHS immediately use the unobligated $5,333,409 of incentive revenue on hand in the dedicated revenue account to reduce the General Fund's share of the AFDC program.

We also recommend that DHS - Division of Financial Services record the receipt of incentive monies and the disbursement of the related expenditures associated with those funds, in the same reporting org. account.

Department of Human Services

Auditee Response:

1. *Incentive funds are used to cover AFDC (Division of Support Enforcement and Recovery Staff) in the 014-0100-01 account. $2,700,000 each year is authorized by the Legislature.*

2. *Incentive funds are also used to cover shortfalls in the AFDC payments account. To cover balancing journals within the AFDC payments account, a journal has been done for $1,142,000 in fiscal year 1996.*

3. *In 1995, the Department transferred $1,500,000 to the General Fund in Chapter 368 to help cover the shortfall in the Child Welfare and SSI/Boarding Home accounts.*

4. *In fiscal year 1996, the Incentive funds will be requested to be used to cover anticipated shortfalls in the Child Welfare and SSI/Boarding Home accounts.*

5. *Incentive funds of $350,000 per year in the fiscal years 1996 and 1997 are also in the DHS plan to the Productivity Realization Task Force.*

6. *The Incentive funds are an estimate only done by the feds which may or may not be overstated, but they must be held in reserve in case they are overstated.*

Auditor's Comments:

1. Title 19 M.R.S.A. § 514 states that DHS may expend, in any fiscal year, up to $2,654,000 of incentive funds to pay for the cost of making child support collections. At June 30, 1995 $2,654,000 had already been transferred to a dedicated revenue account for the Support Enforcement Unit. DHS was able to document where the department had expended $2 million of this amount for administrative costs relating to child support collections. The balance of $654,000 appears to represent excess cash on hand at June 30, 1995 in fund 014; however, we are requesting further documentation for this balance.

2. The department could not support the $1,142,000 journal transfer however, our preliminary review revealed that DHS would need approximately this amount of money to be in compliance with the federal/state split.

3. The $1.5 million transfer to the General Fund occurred in May 1995. Therefore, the $1.5 million transfer happened prior to the calculation of the $5.3 million.

4. Title 19 M.R.S.A. § 514 states that incentive funds can only be used to offset the General Fund's share of the AFDC program and/or to reduce the cost of making child support collections. Transfers to cover child welfare and SSI/Boarding Home shortfalls would be a violation of Maine State statute.

5. According to Title 5 M.R.S.A. § 514 incentive funds are to be used to offset the General Fund's share of the AFDC program and/or to reduce the cost of making child support collections. Therefore, incentive funds do not appear to be available for DHS to report to the Productivity Task Force.

6. For the 1992, 1993 and 1994 fiscal years the quarterly estimate determined by the federal government has been less than the finalized incentive payments. In the event an estimate is overstated, DHS could adjust any subsequent incentive payments to cover the shortfall.

   We also note that only a reduction of the ratio between the amount of child support collections as compared to the administrative costs of making those collections, would cause a shortfall between the federal estimate and the finalized incentive payment.

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(14) Office of Management and Budget
Division of Financial Services

Medical Assistance Program
<u>**CFDA #**</u> 93.778 — <u>**Questioned Costs:**</u> None

<u>**Finding**</u>: Federal funds used for state purposes/State funds used for federal purposes/Budget process circumvented (Prior Year Finding)

The Department of Human Services (DHS) administers the Medical Assistance Program (Medicaid). Expenditures are policy driven: providers must be reimbursed for having provided services qualifying under program guidelines. Medicaid is funded by both the state and federal governments through the General Fund and Other Special Revenue Fund. It is the largest state administered assistance program. According to state accounting records, federal expenditures for the 1995 fiscal year were $625 million and state expenditures were $178 million.

Department of Human Services

Federal Funds Used for State Purposes

During the 1995 state fiscal year, state funds were not available to process Medicaid cycle payments on time. To allow the state share of Medicaid bills to be paid, DHS personnel artificially created General Fund allotment by temporarily transferring previously recorded General Fund expenditures to the Federal Expenditure Fund. During the audit period, the following journals were prepared freeing up allotments on the state side by overcharging the federal accounts:

JV Date	Cycle	Amount
08/08/94	812	$ 2,546,022
08/15/94	813	5,877,800
08/22/94	814	2,559,776
08/29/94	815	3,396,962
09/06/94	816	24,695
09/19/94	818	5,971,545
09/27/94	819	3,051,836
11/10/94	826	577,753
11/18/94	827	429,335
12/06/94	831	485,490
12/27/94	832	1,482,306
01/23/95	836	1,553,530
02/07/95	838	817,940
02/27/95	841	1,587,505
03/06/95	842	3,039,920
03/20/95	844	2,702,504
03/27/95	845	1,711,575
Total		$37,816,494

The entries temporarily overcharged federal funds and triggered federal cash drawdowns. DHS then used the federal cash to make the payments. In effect, DHS temporarily used federal funds for the state's share of program expenses. It should be noted that prior to the end of the fiscal year these entries were reversed to properly allocate expenditures within the program's accounts.

Title 31 CFR 205.12(a) states the following requirement:

A state will incur an interest liability to the federal government if federal funds are in a state account prior to the day the state pays out funds for program purposes. A state interest liability will accrue from the day federal funds are credited to a state account to the day the state pays out federal funds for program purposes.

Although Medicaid is an interest neutral program the federal cash drawndown used for state purposes could result in the state owing interest to the federal government under the Cash Management Improvement Act (CMIA). A calculation of interest owed was not developed because DHS did not maintain adequate records documenting both the drawdown pattern of federal Medicaid funds and the disbursement date of these funds.

State Funds Used for Federal Purposes

During the 1995 state fiscal year, in order to process Medicaid cycle payments on time, DHS personnel artificially created Federal Expenditure Fund allotment by temporarily transferring previously recorded Federal Expenditure Fund expenditures to the General Fund. During the audit period, the following journals were prepared freeing up allotments on the federal side by overcharging the General Fund:

JV Date	Cycle	Amount
12/27/94	832	$2,348,281
02/13/95	839	817,940
03/10/95	843	4,627,425
Total		$7,793,646

In effect, DHS used state funds for the federal government's share of program expenditures. It should be noted that these entries were subsequently reversed to ensure that expenditures were properly allocated.

Budget Process Circumvented

The transfer of funds circumvented the state's budgetary controls, that is, DHS did not obtain the required specific approval from the Bureau of the Budget. Title 5 M.R.S.A. § 1662 states the following requirement:

> The Department of Administrative and Financial Services, through the Bureau of the Budget, has the duty and authority. . . .To examine and recommend for approval any changes in the work program and quarterly allotments of any department or agency of the State Government during the fiscal year.

Department of Human Services

Recommendation:

We again recommend that DHS work with the Bureau of the Budget and with appropriate legislative committees, including the Joint Standing Committee on Appropriations and Financial Affairs, to ensure that adequate resources are made available to fund program participants at established benefit levels and that program expenditures not exceed available resources.

In order to operate within the state's budget process, we recommend that DHS refrain from preparing journal entries that create state allotments by overcharging federal Medicaid accounts or vice versa. We also recommend that DHS communicate any deviations from the program's established drawdown pattern to the state's designated CMIA coordinator so that any interest liability can be determined and reported to the federal government.

Auditee Response:

The Department of Human Services is complying with the above finding. DHS had worked out a solution with the State Budget Office in September 1995, in that the normal 25% of State Funds be increased by $10,000,000 in the first quarter of each fiscal year, to cover delays in Tax Revenues. The $10,000,000 would be replaced when the Tax on the Hospital Gross Patient Service revenue is deposited into the Special Revenue Account. The same $10,000,000 would then be available in the subsequent quarters. The department will report any deviations from the Program's established drawdown patterns to the State's designated CMIA coordinator.

**(15) Office of Management and Budget
Division of Financial Services**

Finding: Incentive revenue transfers not offset with expenditures

Title 45 CFR 304.12 authorizes each state to receive an incentive payment based on a percentage of child support payments that the state collects.

Title 19 M.R.S.A. § 514 authorized the Department of Human Services (DHS) to expend up to $2,654,000 of incentive revenue in any fiscal year to reduce the General Fund's share of the Aid to Families with Dependent Children (AFDC) program and to cover the cost of making child support collections.

During the 1995 fiscal year, DHS transferred $2,654,000 of incentive revenue to the Special Revenue Fund to cover the cost of collecting child support payments. DHS incurred collection costs of $2,084,000 in the Special Revenue Fund during the 1995 fiscal year. As a result, incentive revenue transferred to the Special Revenue Fund exceeded actual collection costs by $570,000. We noted that DHS also had incurred additional expenditures of $1.1 million in the General Fund that related to the cost of collecting child support payments.

Recommendation:

In order to ensure that revenue transfers do not exceed the cost of making child support collections, we recommend that DHS review its accounting procedures regarding the handling of the $2,654,000. We further recommend that DHS immediately use the $570,000 to offset the General Fund's share of the AFDC program and to cover the cost of making child support collections.

Auditee Response:

The Department of Human Services agrees that the amount transferred of $2,654,000 is greater than the expenditures that appear in that account. However, the agency has determined that the expenditures appearing on the federal account has been overcharged. To rectify this situation the Department must transfer expenditures in the amount of $570,000 to the Special Revenue account for State fiscal year 1995.

(16) Office of Management and Budget
Division of Financial Services

Child Support Enforcement
CFDA # 93.563 **Questioned Costs:** None

Finding: Cash receipts not processed on time

Title 5, MRSA § 131, requires ". . .every department and agency of the State collecting or receiving public money belonging to, or for the use of the State, to pay the same immediately into the State Treasury."

Department of Human Services

Title 45 CFR 302.20 requires the state to maintain a cashier function to process child support collections that the state receives.

The Department of Human Services (DHS) -Division of Financial Services-Cashier Section receives and processes child support collections. We reviewed the controls within this section and found the following weaknesses:

1. At the time of this review, DHS had a three-day backlog of child support checks waiting to be processed. DHS personnel stated that sometimes they have a nine-day backlog of checks waiting to be processed. Child support collections usually exceed $250,000 per day.

2. DHS personnel who prepare the cash receipts statement do not cross reference the statement to a batch number and amount as listed on the *Daily Receipts Record*.

3. DHS personnel do not reconcile the *Daily Receipts Record* to the amount of revenue recorded by the Controller.

Insufficient control procedures for processing receipts could result in misappropriated funds.

Recommendation:

In order to improve the controls relating to the processing of child support collections, we recommend that DHS personnel review the cashier function. Further, we recommend that DHS personnel do the following: (1) process and immediately deposit checks received for child support collections; (2) cross reference the cash receipts statement to the related collections batch number and amount on the *Daily Receipts Record*; and (3) reconcile the *Daily Receipts Record* to the revenue recorded on the Controller's records.

Auditee Response:

DHS concurs with the above findings 1, 2 and 3.

1. *DHS currently has three manpower temporary workers for six months to assist the IV-cashiers section in keeping caught up on the daily deposits.*

2. *The Supervisor in Cashiers cross reference the cash receipt to the appropriate collections batch numbers on a daily basis.*

3. *DHS will look into developing a system of reconciling the daily receipt record to the revenue recorded on the controller's records. An Accountant II has been and still will reconcile cash receipts to the monthly G901 reports.*

Department of Labor

(17) Bureau of Employment Security

Finding: Inadequate internal control and accounting procedures misstate the Employment Security Trust Fund accounts receivable balance

An entity's internal control structure consists of the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved. Entity objectives should include adequate safeguards over access to and use of assets and records, accurate and reliable accounting data, segregation of duties, proper authorization of transactions and activities, independent checks on performance, and proper valuation of recorded amounts. Establishing and maintaining an internal control structure is an important management responsibility. In order to provide reasonable assurance that an entity's objectives will be achieved, the internal control structure should be under ongoing supervision by management to assure that it is operating as intended and that it is modified as appropriate for changes in conditions.

Our review of the Division of Unemployment Compensation for the internal control system revealed the following deficiencies.

1. Unemployment Compensation Tax accounts receivable not reconciled

   The Division of Unemployment Compensation has not reconciled the unemployment compensation tax accounts receivable delinquency report and the TXAM report. The division uses the delinquency report to track contributions, penalties and interest. The Office of Administrative Services uses the TXAM report to record a portion of the accounts receivable balance on the state's official accounting records. The Unemployment Compensation Division generates both reports. As a result of inadequate internal controls, a reconciliation was not performed. Thus, a variance of more than $83,000 could not be explained.

2. Procedures for estimating a reserve for uncollectible receivables are inadequate

The division has not established a reserve for uncollectible receivables as required by generally accepted accounting principles (GAAP). The *Financial Accounting Standards Board Statement of Standards #5, Accounting for Contingencies* states that some degree of uncertainty usually exists with receivables and, as a result, losses from uncollectible receivables should be accrued when the following conditions are present: it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements; and the amount of loss can be reasonably estimated. In addition, management is responsible for establishing a process for preparing accounting estimates. This includes but is not limited to 1) accumulating relevant, sufficient, and reliable data on which to base the estimate; 2) developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors; 3) and determining that the accounting estimate is based on assumptions and other relevant factors; 4) that it is presented in conformity with applicable accounting principles; and 5) that disclosure is adequate.

The magnitude and age of the receivable balance, approximately $6.2 million at June 30, 1995, indicate that a portion of the accounts receivable balance is uncollectible despite the division's anticipated collection efforts, and should be reserved.

Typically, any balance in a reserve for doubtful accounts is an *estimate* of accounts receivable balances deemed uncollectible by management. Currently, the balance in the reserve for doubtful accounts on the state's official accounting records consists of *actual* receivable balances that await approval from the Department of Administrative and Financial Services to be written off. Detail records which support the reserve account balance, and thus the potential write-offs, were not available. As of the balance sheet date, the state's official accounting records identified reserves of approximately $2.2 million. An adjustment of $3.3 million is proposed to increase the reserve to $5.5 million for those account balances estimated to be uncollectible.

3. No systematic, formal procedures exist for selection of account write-offs

A listing of receivable balances deemed to be uncollectible by the division is compiled annually and submitted to the Department of Administrative and Financial Services for approval to be written off. The division uses no formal criteria to determine which accounts should be written off. Only those employers who communicate their inability to pay their receivable balances to the division are considered for write-off; all other receivable balances remain outstanding. As not all receivable balances are reviewed and considered for elimination, potential write-offs are overlooked and the reserve for uncollectible balances is understated at year end.

4. Accounts receivable balances written off without legal authority

The Deputy Director of Tax and the Assistant Chief of Tax have the ability to remove accounts receivable balances from the division's tax data base. No dual authorization is necessary to remove an account balance. Currently, receivables with a balance of less than $50 are eliminated from the data base without authorization from the Department of Administrative and Financial Services.

Title 5 MRSA §1504 states,

> The State Controller shall charge off the books of account of the State or any department, institution or agency thereof, such accounts receivable, including all taxes for the assessment or collection of which the State is responsible, and all impounded bank accounts, as shall be certified to him as impractical of realization by or for the State, department, institution or agency.

Writing off receivables without the approval of the Department of Administrative and Financial Services violates state statutes.

The current lack of internal control over the recording and removal of accounts receivable balances from the division's tax data base allows for potential misuse of state funds. In addition, as the Division of Unemployment Compensation and the Office of Administrative Services use reports derived from the tax data base to record and monitor the receivables the removal or non-recording of the receivable balances results in misstatement of the accounts receivable balance as posted to the state's official accounting records by the Office of Administrative Services.

Recommendation:

We recommend that the Bureau of Employment Security - Division of Unemployment Compensation strengthen its internal controls to provide reasonable assurance that specific entity objectives are achieved. To accomplish this, the division should consider implementing the following policies and procedures:

1. Reconcile the delinquency report and the TXAM report at least annually so that the Office of Administrative Services can properly record unemployment compensation tax accounts receivable on the state's official accounting records;

2. Develop and document procedures to establish a reserve for uncollectible receivables on an annual basis in accordance with GAAP; the division should maintain proper documentation which supports the methodology and calculation of the reserve;

3. Establish criteria to be used in determining balances for uncollectible accounts receivable; and

4. Implement procedures which require authorization from the Department of Administrative and Financial Services before eliminating accounts receivable balances; and require dual authorization within the division before removing accounts receivable balances from the tax data base.

Auditee Response:

1. *The Bureau of Unemployment Compensation will take action to assure the reconciliation of the delinquency report and the TXAM reports. The Office of Information Processing will produce corrected report output data in the tax rewrite process to be completed by 12/31/96.*

2. *The Office of Administrative Services will develop a reserve for uncollectible receivables on an annual basis in accordance with generally accepted accounting principles. The Office of Administrative Services will document the procedure. The timetable for completion is December 31, 1996.*

3. *The Bureau will develop formal criteria and review all receivable balances and consider them for write-offs.*

4. *The Bureau will discontinue the practice of removing a receivable with a balance of less than $50. It will follow the procedures which require authorization from the Department of Administrative and Financial Services prior to the elimination of accounts receivable balances. We will implement a formal procedure for dual authorization within the Bureau to remove accounts receivable from the tax data base.*

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(18) Bureau of Employment Security

Finding: Inadequate internal control and accounting procedures misstate the Benefit Overpayment accounts receivable balance

Department of Labor

An entity's internal control structure consists of the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved. Entity objectives should include adequate safeguards over access to and use of assets and records, accurate and reliable accounting data, segregation of duties, proper authorization of transactions and activities, independent checks on performance, and proper valuation of recorded amounts. Establishing and maintaining an internal control structure is an important management responsibility. In order to provide reasonable assurance that an entity's objectives will be achieved, the internal control structure should be under ongoing supervision by management to assure that it is operating as intended and that it is modified as appropriate for changes in conditions.

Our review of the internal control system for the Division of Unemployment Benefits revealed certain deficiencies which we have outlined below.

1. Benefit Overpayment receivable records not reconciled

   The Bureau of Employment Security - Division of Unemployment Benefits has not reconciled the benefit overpayment accounts receivable detail aging and the UI0475 report. The division uses the aged receivable detail to track benefit overpayments. The Office of Administrative Services uses the UI0475 report to record a portion of the accounts receivable balance on the state's official accounting records. The Unemployment Benefits Division generates both reports. Since the division did not reconcile to the UI0475 report, a variance of more than $3,000 could not be explained. Although the division believes that the variance is due to timing, there is no reconciliation to substantiate the cause of the variance.

2. Procedures for estimating a reserve for uncollectible receivables are inadequate

   The Division of Unemployment Benefits does not establish a reserve for uncollectible receivables as required by generally accepted accounting principles (GAAP). *Financial Accounting Standards Board Statement of Standards #5*, *Accounting for Contingencies* states that some degree of uncertainty usually exists with receivables and, as a result, losses from uncollectible receivables should be accrued when the following conditions are present: it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements; and the amount of loss can be reasonably estimated. In addition, management is responsible for establishing a process for preparing accounting estimates. This includes but is not limited to 1) accumulating relevant, sufficient, and reliable data on which to base the estimate; 2) developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors; 3) determining that the accounting estimate is based on assumptions and other relevant factors; 4) that it is presented in conformity with applicable accounting principles; and 5) that disclosure is adequate.

The magnitude and age of the receivable balance, approximately \$5.3 million at June 30, 1995, suggest that a portion of the accounts receivable balance is uncollectible despite the Division's anticipated collection efforts, and that a reserve should be established. An adjustment of \$2.9 million is proposed to establish the reserve for those account balances estimated to be uncollectible.

3. Inadequate procedures to ensure proper reporting of financial data

   The division did not generate a detailed benefit overpayment accounts receivable ledger as of June 30, 1995. This is necessary in order to confirm individual account balances as of June 30. As a result, alternate procedures were required to substantiate the year-end benefit overpayment accounts receivable balance. Procedures should be established which provide for a detailed receivables ledger to be generated and retained as part of the division's year-end accounting.

Recommendation:

We recommend that the Bureau of Employment Security-Division of Unemployment Benefits strengthen its internal controls to provide reasonable assurance that specific entity objectives are achieved. To accomplish this, the division should consider implementing the following policies and procedures:

1. Reconcile the overpayment accounts receivable detail aging and the UI0475 report so that the Office of Administrative Services can properly record unemployment benefit overpayments accounts receivable on the state's official accounting records;

2. Develop and document procedures to establish a reserve for uncollectible receivables on an annual basis in accordance with GAAP; the division should maintain documentation that supports the methodology and calculation of the reserve; and

3. Establish procedures for generating correct year-end reports.

Auditee Response:

1. *The Benefits Section staff have prepared a DP-22, Request for Computer Application, and have met with OIP staff to determine what the issue is. Benefits Section staff will continue to work with OIP/OAS staff to resolve this problem.*

2. *The Office of Administrative Services will develop a reserve for uncollectible receivables on an annual basis in accordance with generally accepted accounting principles. The Bureau will document the procedure. The timetable for completion is December 31, 1996.*

3. *The Benefits Section has obtained the recommended report.*

(19) Bureau of Employment Security

Finding: Employer accounts receivable penalties and interest not accrued or reported correctly (Prior Year Finding)

As noted in prior periods, the Unemployment Compensation Tax data base shows amounts due for employer contributions, penalties, and interest. The Bureau of Employment Security (BES) does not accrue or update penalties and interest during the fiscal year unless a payment is received or a new transaction is processed. BES reduces outstanding contributions, computes accumulated penalties and interest associated with account balances, and updates accounts receivable reports only when payments are received. Penalties and interest are not accrued on the accounts receivable report for inactive accounts, e.g., quarters with balances due, but no payment activity or other transactions occurred. Due to limitations in the computer program, the bureau manually calculates interest associated with account balances more than four years old. Thus, these accounts are excluded from the delinquency report.

In addition, the computer program used to assess penalties and interest on contributions that are due does not consistently assess penalties associated with late filings. The bureau has no procedures in place to ascertain that penalties are assessed in compliance with Title 26 MRSA §1082.

As a result of recognizing only a portion of the accumulated penalties and interest on contributions due, the accounts receivable balance may be misstated. No estimate of unrecorded penalties has been made, however, the misstatement due to unaccrued interest is estimated to be $1.2 million at June 30, 1995.

Recommendation:

In accordance with Generally Accepted Accounting Principles, we recommend that the Bureau of Employment Security evaluate and initiate changes in its computer system to correctly accrue and record penalties and interest on all contributions due from employers.

Auditee Response:

The Bureau concurs with the finding regarding the improper accrual of penalties and interest. The automated delinquency system is in the process of being updated to a client-server architecture. Effective with the June 30, 1996 adjustment of accounts receivables, all accounts will be recalculated to properly reflect the accrual of interest and penalties. The quarterly TXAQ1 report used for these adjustments included detail by employer and will be retained through the audit period. The rewrite of the new system will incorporate the Generally Accepted Accounting Principles and recognize accrued penalty and interest on all contributions due from employers. The completion date of the re-write is targeted for 12/31/96.

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(20) Office of Administrative Services

Finding: Revenue recognition criteria not observed

Each year the Office of Administrative Services records the accounts receivable balance for the trust fund on the state's official accounting records. All receivables not considered uncollectible as posted to the reserve for uncollectible accounts are automatically considered to be deferred revenue and are recorded as such. Recorded deferred revenue as of June 30, 1995 was $11.9 million. The department does not perform an analysis on the year-end receivable balance or subsequent collections to determine whether any of the deferred revenue should be classified as revenue for the year ended June 30, 1995. Consequently, the year-end deferred revenue and revenue amounts may be misstated. Examination of subsequent months' receipts indicates that any misstatement was not material at June 30, 1995.

Governmental Accounting and Financial Reporting Standards, Section 1600.106 states that revenues are to be recognized

> . . .in the accounting period in which they become susceptible to accrual. . .(when they become) collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The state has further defined *soon enough thereafter* by adopting a policy of treating any collections made on receivables within sixty days after fiscal year-end as revenue for the previous fiscal year. The Office of Administrative Services current practices do not comply with revenue recognition criteria as prescribed by the Governmental Accounting Standards Board (GASB).

Department of Labor

Recommendation:

We recommend that the Office of Administrative Services comply with GASB revenue recognition criteria and implement procedures to ensure that revenue is recognized in the right period.

Auditee Response:

The Office of Administrative Services will perform a quarterly analysis to determine what portion of revenues currently classified as deferred revenue should be classified as revenue. The analysis will identify the receivables collected for the two months following the last quarterly adjustment to the Controller's records. This will be used to determine the percentage of collections to outstanding receivables, which will then be applied to the receivable balance at the end of the quarter to identify that portion which should be classified as revenue. The analysis will be performed for unemployment taxes, less doubtful and bankruptcies, and penalty and interest.

Office of the Treasurer of State

(21) Finding: Inadequate internal control and accounting procedures over trust and agency funds

An entity's internal control structure consists of the policies and procedures established to provide reasonable assurance that specific entity objectives will be achieved. Entity objectives should include adequate safeguards over 1) access to and use of assets and records, 2) accurate and reliable accounting data, 3) segregation of duties, 4) correct authorization of transactions and activities, 5) independent checks on performance and 6) correct valuation of recorded amounts. Establishing and maintaining an internal control structure is an important management responsibility. To provide reasonable assurance that an entity's objectives will be achieved, the internal control structure should be under ongoing supervision by management to determine that it is operating as intended and that it is modified as appropriate for changes in conditions.

We reviewed the Office of the Treasurer of State's (Treasurer) internal control system on trust and agency funds and found the following deficiencies:

Office of the Treasurer of State

1. Private Trust Fund subsidiary ledgers not reconciled or do not exist

   The Private Trust Fund consists of various deposits and guaranty funds which are held by the Treasurer for safekeeping. The Treasurer's office maintains subsidiary ledgers for two of the guaranty funds. However, it does not reconcile the ledgers to the state's official accounting records. A review of the funds identified mispostings in the Insurance Guaranty Fund for $1.46 million and the Maine Employment Security Compensation Guaranty Fund for $325 thousand. Further, the Treasurer's office does not maintain a subsidiary ledger which supports the balance in the Treasurer's Safekeeping Fund. The Treasurer's Safekeeping had a balance of $3.95 million as of June 30, 1995.

2. Detailed accounting data for state-held trust funds not provided to Controller (Prior Year Finding)

   The Treasurer's office is responsible for recording any activity within state-held trust funds. The current practice is to record transactions only within trust fund equity accounts, if recorded at all. Operating accounts are not used. Consequently, detailed operating account activity that the Controller needs for preparing accurate operating statements is not available.

   As a result, adjustments were required at year-end to correctly reflect income, expenditure and investment balances relative to the trust funds.

3. Adjustments made to trust fund balances without proper supporting documentation

   Trust fund balances were adjusted to record changes in beginning balances reported in fiduciary statements for the month of April 1995. The fiduciary gave no explanation for the cause of the variance nor did the Treasurer's office request one. Beginning balance variances were the result of a computer glitch and therefore incorrect. As such, the state's official accounting records should not have been adjusted to reflect these variances. While the variances were immaterial, the amount totaled approximately $11,000 for all funds. This incident demonstrated the absence of adequate internal controls and resulted in misstatement of trust fund balances at year-end.

4. Trust fund investments sold without proper approval

   The contracted trust fund fiduciary sold investments from the Several Trusts Fund and the fund arising from the Lands Reserved for Public Use without approval from the trust fund trustees.

Title 5, MRSA §138 states that the trustees have the power to enter into contracts or agreement with any national bank or trust company, which they have done, for custodial care and servicing of the securities belonging to the permanent trust funds of this state. The current contract for Special Services between the state and the fiduciary states that from time to time the fiduciary ". . .will make recommendations for the sale and purchase of securities. . .but will execute them only upon the written approval of the Trustees of the Funds". Four out of ten sales transactions that we reviewed did not have specific approval by the trustees. Inadequate control over purchases and sales could result in the mismanagement of trust funds.

5. <u>Inadequate accrual of interest income</u>

   Interest income was not accrued at year-end for several securities included in the Treasurer's cash pool. Some of the cash pool investments were accrued; however, no accrual was made for repurchase agreements which totaled $59 million at June 30, 1995. This required an additional accrual of $160 thousand.

   Governmental Accounting and Financial Reporting Standards, §1600.106, states that revenues become susceptible to accrual when they become both measurable and available to finance expenditures of the fiscal period. Since the amount of income earned by the securities is determinable or measurable and the securities mature within thirty days after fiscal year end, the income from the securities, according to state policies, is considered available to fund expenditures of the current period. Thus, the income should be accrued.

<u>Recommendation</u>:

We recommend that the Treasurer's office strengthen its internal controls to provide reasonable assurance that specific entity objectives are achieved. To accomplish this, it should consider implementing the following policies and procedures:

1. Maintain subsidiary ledgers for all individual funds within the Private Trust Fund for which the Treasurer has custodial responsibilities and reconcile these ledgers to the state's official accounting system at least annually so that year-end balances are reported correctly;

2. Provide the Controller with annual summaries of trust fund summaries or post state-held trust fund activity on operating accounts of the state's accounting system;

3. Obtain sufficient documentation to support all journal entries made to the trust funds; documentation should provide persuasive evidence that the financial information recorded accurately depicts the activity for the period;

4. Review and approve all purchase and sales transactions before execution by the fiduciary or revise the contract with the fiduciary to allow the fiduciary to perform certain investment transactions without prior trustee approval; and

5. Review all investments in the Treasurer's cash pool at year-end to determine whether interest income earned but not received is measurable and available, thereby requiring accrual.

Auditee Response:

Trust and Agency Funds Control Procedures

1. *The Treasurer's office receives guaranty deposits from all state agencies. Depending upon the nature of the deposit, the securities are entered by journal onto state records as holdings in "escrow". In order to comply with this audit finding, all holdings will be entered regardless of the identity of deposit. This will balance the account with the depositing department over time. Also, corrections are in process to record any agency deposits of securities not reported by journal previously.*

2. *The Treasurer's office records all buy/sell transactions and records all capital gains for the state trust funds and reconciles the accounts with the Controller and the bank. Income earned goes to the beneficiaries as in the case of the Baxter Park Trust, Several Trust Funds and Lands Reserved Trust. The reports from the bank clearly show income earned balances and these sums are paid out as is required by the account in question. A review will be held to see how the income is being recorded and the requirements of such recordings. Further, gains and losses being recorded in June year-end are recorded in July causing audit differences. If possible, June prior closing entries will be made.*

3. *Tax costs were adjusted by the bank for some trust holdings. No asset changes were made due to the state being a non-taxable entity. Presently, the accounts are in balance and to support this audit criticism future entries can be made to record account holding changes in control costs.*

Office of the Treasurer of State

4. *The Treasurer manages the trust funds with the assistance of the advisers: the Attorney General, Commissioner of Administration and Commissioner of Banking and Insurance. These persons are advisers, not trustees. The Treasurer and his advisers have voted to give the contracted investment advisers full authority to trade securities to protect the principal of the fund. Advice of these changes are reported at the next quarterly meeting in all cases, reducing the chance of any fund mismanagement. Perhaps mention of this procedure in the minutes of the next meeting will clear up this audit finding.*

5. *A clerical error in computing interest on U.S. Treasury Bills resulted in an earnings distribution in June 1995 to be incorrect. This distribution was corrected in July 1995.*

Reports on Compliance

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Compliance Based on an Audit of Primary Government 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 primary government financial statements of the State of Maine, as of and for the year ended June 30, 1995, and have issued our qualified report thereon dated August 16, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the primary government 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 primary government financial statements are free of material misstatement, we performed tests of the State of Maine's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the primary government financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Maine in a separate letter dated August 16, 1996.

This report is intended for the information of management, the Legislature, and those federal agencies that provided financial assistance. 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

August 16, 1996

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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 primary government financial statements of the State of Maine, as of and for the year ended June 30, 1995, and have issued our qualified report thereon dated August 16, 1996.

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, 1995:

- 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 those federal agencies that provided financial assistance. 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

August 16, 1996

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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 primary government financial statements of the State of Maine, as of and for the year ended June 30, 1995, and have issued our qualified report thereon dated August 16, 1996.

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, 1995. 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, 1995.

This report is intended for the information of management, the Legislature, and those federal agencies that provided financial assistance. 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

August 16, 1996

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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 primary government financial statements of the State of Maine, as of and for the year ended June 30, 1995, and have issued our qualified report thereon dated August 16, 1996.

In connection with our audit of the primary government financial statements of the State of Maine, and with our consideration of the State of Maine's 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, 1995. 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 those federal agencies that provided financial assistance. 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

August 16, 1996

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Findings and Questioned Costs

State of Maine
Schedule of Compliance Findings and Questioned Costs
For the Year Ended June 30, 1995

Department of Administrative and Financial Services

(22) Bureau of Accounts and Control

Cash Management Improvement Act
CFDA# Various Federal Programs **Questioned Costs:** None

Finding: Interest calculations affected by inadequate procedures for reporting accounting changes

The Bureau of Accounts and Control created and maintains computer software to calculate interest due or payable on the receipt and disbursement of federal funds for programs that are subject to the Cash Management Improvement Act (CMIA). The computer program must incorporate any changes made to accounting procedures in order to work effectively.

Written instructions to agencies and departments to report accounting changes to the Bureau of Accounts and Controls have never been issued.

Recommendation:

We recommend that all changes in accounting procedures that would effect interest liability calculation be communicated in writing to the Bureau of Accounts and Control. This reporting requirement would help insure the accuracy of the interest calculation.

Auditee Response:

We agree with the recommendation.

Department of Administrative and Financial Services

(23) Bureau of Budget

<u>CFDA #</u> Various Federal Programs | <u>Questioned Costs:</u> None

<u>Finding</u>: Development of the State Cost Allocation Plan does not fully comply with federal requirements

The Office of Management and Budget (OMB), Circular A-87 Attachment A, *Cost Principles for State and Local Governments,* states that for costs to be allowable and subject to reimbursements, they must be net of all applicable credits. The process the Bureau of the Budget uses in developing the State Cost Allocation Plan (Sta-Cap) does not include procedures to determine whether Central Services costs that are allocated to operating units are net of all applicable credits.

The Bureau of General Services collected revenue from the recycling of paper throughout state government and from the disposal of records from the state archives but there was no evidence of any adjustment/reduction to the central services costs/expenditures for the Bureau of General Services. We noted, however, that the revenue collected was minimal during fiscal year 1993, the base year for the fiscal year 1995 plan, and would not have resulted in a change to the Sta-Cap rates approved for fiscal year 1995.

<u>Recommendation</u>:

We recommend that the Bureau of the Budget implement procedures for reviewing all revenues and balance forward adjustments to the Central Services accounts; and determine the applicable credits for offset to expenditures in accordance with OMB Circular A-87.

We also recommend that the bureau incorporate these procedures into the development of the State Cost Allocation Plan.

The bureau should also review revenues collected and credited to the Central Services accounts during fiscal years 1994, 1995 and 1996; and adjust expenditures to be allocated in the fiscal year 1998 Cost Allocation Plan for all applicable credits.

__Auditee Response__:

We agree with the finding related to the General Fund Undedicated revenues that accrued in FY 1992-93 and should have been applied as credits to the State Cost Allocation Plan for FY 1994-95 in accordance with OMB Circular A-87, Cost Principles, Attachment A, Section B. We also agree that the amount in question, $3,910, is not material in relation to the amount of cost recovery to the General Fund in FY 1994-95 from the State Cost Allocation Plan.

The following amounts will be reflected in the FY 1997-98 Cost Allocation Plan to be prepared by the Division of Financial and Personnel Services of the Department of Administrative and Financial Services: $2,765 in Fy 1993-94; $9,144 in Fy 1994-95; and, $8,905 in Fy 1995-96.

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(24) Bureau of General Services

__CFDA #__ Various Federal Programs __Questioned Costs:__ None

__Finding__: Federal procurement provisions not included in purchase orders and contracts (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), § .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], and

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

Recommendation:

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

Auditee Response:

We accept this finding in some circumstances. The Division will draft a memorandum to all state agencies to notify them of this requirement. The Division will screen contracts and grants to ensure compliance. Training will be provided to all buyers to ensure compliance on all purchase orders by September 15, 1996.

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(25) Bureau of General Services

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

Finding: Property and equipment records not updated

As requested, the Bureau of General Services provided the Bureau of the Budget with the book value of state owned buildings and the cost of equipment, as of June 30, 1993. This information was required to determine the Use Allowance for Buildings and Equipment to be allocated in the Cost Allocation Plan for fiscal year 1995. The actual book value of buildings and the cost of equipment at June 30, 1993 could not be substantiated because the property and equipment ledger for those records tested had not been updated since June 30, 1990. The Office of Management and Budget (OMB) Circular A-87 Attachment C, *Cost Principles for State and Local Governments,* requires that the distribution of governmental central services costs be supported by accounting and other records that will document the assigned costs.

We also noted that over the past few years the Bureau of General Services has been late in providing the Bureau of the Budget with information that it requires to complete the Cost Allocation Plan. Consequently, the Bureau of the Budget has been late in forwarding information to the agencies for them to prepare their Department Indirect Cost Allocation Plans (DI-CAP's). Therefore, the agencies and the bureau have had to request the federal government for an extension of the filing deadline resulting in additional time and costs.

Recommendation:

In order to complete the Cost Allocation Plan on time and to comply with federal regulations we recommend that the Bureau of General Services update the state's property and equipment records as soon as possible so that accurate information can be provided to the Bureau of the Budget .

Auditee Response:

The Bureau of Accounts and Control is in the process of installing an asset inventory system. Piloting should begin in late September. The implementation of this system should allow the State to maintain more accurate records related to fixed and moveable assets.

The Bureau of General Services will be more diligent in furnishing required information on a more timely basis.

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(26) Bureau of General Service
Division of Surplus Property

Donated Surplus Property
CFDA # 39.003 **Questioned Cost**: None

Finding: Poor internal control over Surplus Property/Established procedures not followed

Text of finding can be found in the Schedule of Reportable Conditions finding No. 6.

Department of Administrative and Financial Services

(27) Division of Financial and Personnel Services

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

Finding: Incorrect basis used for the recovery of administrative overhead costs.

The Department of Administrative and Financial Services (DAFS) has in place a cost allocation plan to recover the cost of accounting, payroll and personnel management services which the Division of Financial and Personnel Services (DFPS) provides to various Internal Service Fund (ISF)/Cost Centers. The DFPS used budgeted expenditure estimates rather than actual expenditures in allocating administrative overhead to the cost centers. The allocation basis, according to the Office of Management and Budget (OMB), Circular A-87, *Cost Principles for State and Local Governments*, must be actual costs and not budgeted estimate s. The continued use of budgeted estimates in allocating administrative overhead, without a timely adjustment to the rates for actual expenditures, will result in an incorrect allocation of charges to the ISF/Cost Centers and potentially higher rates for services provided to federal government programs and other programs within the State. It was noted that for fiscal year ending June 30, 1995 the difference between budgeted estimates and actual expenditures was minimal. The DFPS, however, has used the same basis for allocating overhead since fiscal year 1993 without any adjustment to the subsequent year(s) rate(s) for the difference between actual and estimated charges through fiscal year ending June 30, 1996.

The Division was planning to adjust the Fund(s)/Cost Centers for the accumulated allocation differences during the next biennium (1998-1999).

Recommendation:

We recommend that the Division of Financial & Personnel Services (DFPS) allocate its administrative overhead charges based on actual expenditures and not budgeted estimates, or make timely adjustments for the differences between budgeted and actual expenditures.

We further recommend that the division adjust the rates in fiscal year 1997 for the cost centers taking into consideration the accumulated amount of allocation differences for overhead from 1993 through 1996.

Auditee Response:

We will continue to make our overhead charges based on budgeted estimates, however, we will make timely adjustments to our rates each succeeding year to ensure that the Division does not over recover costs. We will also adjust rates during fiscal year 1997.

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(28) Division of Purchases
State Postal Center

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

Finding: Inadequate security procedures to safeguard food stamps

The following is required by the provisions of Title 7 CFR §274.7 (b):

> State agencies shall establish control and security procedures to safeguard coupons that are similar to those used to protect currency. The exact nature of security arrangements will depend on State agency evaluation of local coupon issuance and storage facilities. These arrangements must permit the timely issuance of coupons while affording a reasonable degree of coupon security. The State agencies, as well as all persons or organizations acting on their behalf, shall:
> (1) Safeguard coupons from theft, embezzlement, loss, damage, or destruction;
> (2) Avoid unauthorized transfer, negotiation, or use of coupons:
> (3) Avoid issuance and transfer of altered or counterfeit coupons; and
> (4) Promptly report in writing to FNS any loss, theft, or embezzlement of coupons.

During state fiscal year 1995, food stamps that were not deliverable were returned to the State Postal Center where they were sorted and then delivered to the Food Stamp Issuance Unit (FSIU) in order to be returned to inventory. All of the employees had easy access to these negotiables between the time when the food stamps were sorted and stored at the State Postal Center and when they were delivered to the FSIU. Each morning the returned food stamps were removed from the designated sorting shelf and then were bundled for delivery to the FSIU. During transport the stamps were placed in an unsecured plastic container and then in an open canvas hamper.

Department of Administrative and Financial Services

Recommendation:

A seven month investigation conducted by the Maine State Police and agents of the federal government resulted in the arrest of a postal center employee for involvement in illegal activities regarding the sale of food stamps. As a result, the State Postal Center initiated immediate corrective action: it no longer sorts and routes returned food stamps; they now go directly from the U.S. Post Office in Augusta to the FSIU. Returned food stamps are now mailed to a newly established locked post office box and are transported in a locked canvas bag directly to the issuance office. We recommend that all parties strictly adhere to the newly implemented security measures.

Auditee Response Department of Administrative and Financial Services:

The Division has implemented changes in procedures that are designated to improve the internal control.

Auditee Response Department of Human Services:

The Department of Human Services concurs with the finding and will strive to adhere to the newly implemented security measures.

Staff from Bureau of Family Independence were involved in developing procedures outlined under the recommendation and intend to follow these procedures. If it appears that further measures are necessary they intend to work with the State Postal Center staff to revise procedures as needed to comply with Federal regulations.

Department of Defense and Veterans Services

(29) Maine Emergency Management Agency

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

Department of Defense and Veterans Services

Finding: Inadequate cash management procedures (Prior Year Finding)

According to Title 31 CFR 205.20,

> Cash advances to a State 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 State . . . . The timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State . . . .

The federal Cash Management Improvement Act (CMIA) sets forth the requirement in 31 CFR 205.7 (c) (4)) for major programs: "A State shall request funds not more than 3 business days prior to the day on which it makes a disbursement . . ."

We analyzed a three-month period for this federal grant and found that the average number of days that the Maine Emergency Management Agency (MEMA) held cash exceeded those guidelines:

Month/Year	Average Number of Days Cash on Hand
April 1995	8 days
May 1995	10 days
June 1995	11 days

Recommendation:

We recommend that the Department of Defense and Veteran Services-MEMA work with the State Controller and Treasurer, as necessary, to develop a method of cash management that is in accordance with federal regulations on cash management.

Auditee Response:

We have developed a method with the State Controller's office whereby invoices can be processed, held, and paid immediately as cash is recorded on MFASIS system. This is a continuing systemic problem reflecting the State's inability to cut checks within the three-day time frame.

Department of Defense and Veterans Services

(30) Maine Emergency Management Agency

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

Finding: Federal Cash Transactions Report not supported by accounting records (Prior Year Finding)

Title 44 CFR 13.20(b)(1) states, "Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant".

The Department of Defense and Veterans Services has been reporting expenditures on the Federal Cash Transactions Report (PMS272) as though all of the drawdowns had been expended during the period and the cash balance was zero. This is not reflective of nor supported by the actual activity recorded on the accounting records for the state. For example, at September 30, 1994 the state's accounting records showed a balance of $105,893 in the Disaster Assistance account while the PMS272 showed a balance of zero for the same program.

Recommendation:

We recommend that the department report accurate information on the Federal Cash Transactions Report.

Auditee Response:

Steps have been initiated to more closely correlate the processing of invoices, drawdowns, and final payments which should eliminate this type of inaccuracy, or unreconciled reporting.

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(31) Maine Emergency Management Agency

Disaster Assistance Program
CFDA # 83.516 **Questioned Costs:** $1,312

Department of Defense and Veterans Services

Finding: Miscoding of grant expenditures

We detected several miscodings by the Maine Emergency Management Agency (MEMA) for grant expenditures. Two entries charged a total of $300,558 in subgrants to cities and towns as grants to other state agencies. A third miscoding charged an equipment purchase of $1,111 to the program's federal account for subgrants when it should have been charged to the program's federal account for central administration of the grantee. The fourth miscoding resulted in a $1,312 charge to the federal grant that should have been charged to the state account as a state match to the grant.

Recommendation:

We recommend that MEMA use due care when coding payments and that it perform monthly reconciliations between its records and the Controller's. These procedures would help ensure proper grant compliance and accounting, help prevent questioned costs to the grant, and help ensure proper disclosures to parties relying on the records.

Auditee Response:

The Business Manager will double-check data with the accountant, now aware of problem, as well as request central admin. personnel to more closely scrutinize data in "pipeline" process.

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(32) Maine Emergency Management Agency

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

Finding No written documentation for completing disaster assistance projects

We noted that several Maine Emergency Management Agency (MEMA) subrecipients had disaster assistance projects that were open from one month to one year and two months beyond the required completion date without written documentation from the federal government for time extensions. We also noted that there was no documentation for completion of a project under Disaster #788 with subrecipent Maine Department of Transportation (MDOT).

For disasters declared before November 23, 1988, the CFR 205.116 (d) states:

If an applicant finds that an approved project cannot be completed within the time limit prescribed by the Regional Director, the applicant shall forward promptly to the State a request in writing for additional time, together with justification for delay in completion of the project. The Governor's Authorized Representative shall forward the request with a recommendation to the Regional Director. The Regional Director shall notify the applicant, through the State, of approval or denial.

For disasters declared on or after November 23, 1988, Title 44 CFR 204 (d) states:

Requests for time extensions beyond the Grantee's authority shall be submitted by the Grantee to the RD (regional director) and shall include. . .a detailed justification for the delay and a projected completion date. The RD shall review the request and make a determination. The Grantee shall be notified of the RD's determination in writing.

Recommendation:

We recommend that MEMA comply with the regulations and secure written documentation from the Federal Emergency Management Agency (FEMA) when it needs an extension from the federal government to complete a disaster assistance project. We further recommend that all subrecipients promptly certify in writing to MEMA the date they complete a project, thereby avoiding any sanctions specified in 44 CFR.

Auditee Response:

MEMA will ensure that written documentation from FEMA is requested when the required completion date cannot be met.

(33) Maine Emergency Management Agency

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

Finding: No written agreements between Maine Emergency Management Agency (MEMA) and subrecipient state agencies

Department of Defense and Veterans Services

We found no written subgrant agreements covering Maine Emergency Management Agency (MEMA) payments to other state agencies, i.e., Maine Department of Transportation (MDOT), and Inland Fisheries and Wildlife (IF&W). Consequently, there was no clear evidence of an understanding between the parties relating to requirements of the Federal Emergency Management Agency (FEMA), the grantor, requirements imposed by federal and State regulations, or rights and responsibilities of each party.

Of particular concern was the cost sharing agreement between MEMA and IF&W relating to the $418,376 federal share of expenditures between August 1993 and June 1995 for IF&W projects that were performed as part of Disaster #0988. IF&W hired private contractors to perform the work and paid them through the General Fund. IF&W made the payments with the expectation that MEMA would reimburse them for the seventy-five percent federal share ($418,376), plus the fifteen percent state share while IF&W would assume the ten percent local share.

Maine Emergency Management Agency reimbursed IF&W for the federal share. MEMA did not reimburse IF&W for any of the state share and so IF&W absorbed the expenditures.

Title 44 CFR 206.44 states:

> Upon the declaration of a major disaster or an emergency, the Governor, acting for the State, and the FEMA Regional Director or his/her designee, acting for the Federal Government, shall execute a FEMA-State Agreement. The FEMA-State Agreement states the understandings, commitments, and conditions for assistance under which FEMA disaster assistance shall be provided. This Agreement imposes binding obligations on FEMA, States, their local governments, and private nonprofit organizations within the states in the form of conditions for assistance which are legally enforceable.

Title 44 CFR 13.37 also states:

> States shall follow state law and procedures when awarding and administering subgrants (whether on a cost reimbursement or fixed amount basis) of financial assistance to local and Indian tribal governments. States shall:(1) Ensure that every subgrant includes any clauses required by Federal statute and executive orders and their implementing regulations; (2) Ensure that subgrantees are aware of requirements imposed upon them by Federal statute and regulation. . . .

Recommendation:

We recommend that MEMA develop written agreements with its subgrantees that include federal grantor requirements, other federal and state requirements, and any other pertinent rights and responsibilities of the parties.

Department of Defense and Veterans Services

Auditee Response:

Subrecipients are given applicant handbooks at each Public Officials Briefing for each declared disaster, which explains in detail what their requirements and responsibilities are. In addition, when payments are made, additional guidance is given in the cover letter. MEMA does not feel it is necessary to have a separate agreement and FEMA concurs. However, when the State share is diverted from the State Agency it was intended for, documentation will be provided to support the respective Commissioner's intents.

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(34) Maine Emergency Management Agency

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

Finding: Non-federal revenue credited to grant administrative account

We determined that $21,900 of revenue received from a private source was credited to Maine Emergency Management Agency's federal grant administration account as reflected on the Controller's records. Funds were commingled and therefore difficult to differentiate between expenditures applicable to the grant and those applicable to the non federal revenue.

This action is a violation of the Office of Management and Budget (OMB) *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments* (Common Rule), Subpart C, paragraph .20 which states:

> Fiscal control and accounting procedures of the State. . .must be sufficient to (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restriction and prohibitions of applicable statutes."

Recommendation:

We recommend that MEMA credit all revenue to the fund accounts that were established to accept them.

Department of Defense and Veterans Services

Auditee Response:

This will not occur in the future. Previous director made the decision to credit wrong account, overriding Administrative Director's suggestion.

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(35) Maine Emergency Management Agency

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

Finding: Inadequate system for reviewing subrecipient audit reports (Prior Year Finding)

The Department of Defense and Veterans Services (DVS)-Maine Emergency Management Agency (MEMA) has instituted a system to review subrecipient audit reports in conjunction with the Maine Department of Audit according to a signed June 30, 1994 desk review agreement. The agreement is based on requirements in the Office of Management and Budget (OMB), *Audits of State and Local Governments*, Circular A-128.

Maine Emergency Management Agency agreed to review all reports (1) to ensure that subrecipient audit reports include all federal funds provided by MEMA to subrecipients; (2) to ensure that subrecipients take corrective action within six months of receiving the subrecipient audit report; and (3) to consider whether subrecipient audits require adjustment of MEMA's own records.

MEMA has compiled periodic computer listings of subrecipients that includes notations on whether audit reports have been received and reviewed. At audit date, there is no indication that MEMA has reviewed any of the subrecipient audit reports. Also, there is no indication which federal grants the subrecipients received although it is known that the following grants are affected:

83.503 Civil Defense-State and Local Emergency Management Assistance; and
83.516 Disaster Assistance Program

Recommendation:

We recommend that DVS-MEMA document the subrecipient audit review process to ensure that all necessary audit reports are received within the thirteen months prescribed in OMB Circular A-

128 and that dollar amounts shown in those reports are correct. MEMA should also ensure that subrecipients take corrective action within six months after receipt of audit reports on findings, and consider whether records of subrecipient audits require adjustment of MEMA's records.

Auditee Response:

DVS/MEMA agrees with the recommendation and is continuing in its efforts to improve the subrecipient audit review process to include the development of a comprehensive audit suspense system.

Department of Economic and Community Development

(36) Office of Community Development

Community Development Block Grant
CFDA # 14.228 **Questioned Costs:** $39

Finding: Expenditures not recorded in correct period or submitted on time

Personnel from the Office of Community Development charge travel expenses to the Community Development Block Grants (CDBG) state matching account for expenses that occurred while performing CDBG services. The Office of Management and Budget (OMB), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, Common Rule, Subpart C, Financial Administration 24 CFR 85.20 (b) (1) requires that financial reporting be *accurate and current*.

State matching expenditure records were reviewed for the year ended June 30, 1995. Our review showed that two travel dates and related expenditures on a travel expense voucher were incorrectly recorded in the current audit period ended June 30, 1995. The two travel dates were on May 5 and June 16, 1994 for the total amount of $39.60. This caused a mismatch of state matching funds from fiscal year-ended June 30, 1994 to fiscal year-ended June 30, 1995. The state matching fund for the prior fiscal year is understated by $39.60 and the current fiscal period is overstated by $39.60.

The travel expense voucher was submitted for reimbursement and reporting on December 15, 1994. The submission date of the travel voucher, December 15, 1994, was seven months after the oldest travel date and two months after the most recent travel date, as reported on the travel voucher.

Recommendation:

We recommend that the Office of Community Development inform personnel of the importance of timely submission of travel vouchers.

Auditee Response:

The Office of Community Development (OCD) believes the incident that precipitated this finding was of an isolated nature. Special care is taken to insure that travel expenses are submitted in a timely manner.

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(37) Office of Community Development

Community Development Block Grant
CFDA # 14.228 **Questioned Costs:** None

Finding: Failure to follow up on finding for subrecipient monitoring finding/Communication of monitoring results not timely (Prior Year Finding)

The Department of Economic and Community Development (DECD)-Office of Community Development is responsible for conducting reviews of local government recipients to ensure compliance with applicable laws and regulations. We examined twenty-five subrecipient monitoring reviews and noted that the grantee failed to follow up on a monitoring finding. The subrecipient's finding was for depositing funds to the regular account and not transferring the funds to escrow. Interest was to be determined and then submitted to DECD. The subrecipient failed to submit payment for interest due on funds.

The DECD did not follow up on the subrecipient's failure to submit the interest payment.

We also noted that results of five reviews were not communicated promptly. Dates of written communication ranged from three months to more than ten months from the date of monitoring.

Recommendation:

We recommend that the Department of Economic Community Development communicate the results of all subrecipient monitoring reviews promptly to help track and resolve detected deficiencies as soon as possible. Also, the department should develop a tracking system to monitor compliance with the findings of all subrecipient monitoring reviews.

Auditee Response:

OCD concurs that the failure to follow up on the monitoring finding in the case of the Town of Allagash was an administrative shortcoming. The $24.00 in interest payment due to the CDBG program has now been received and processed. OCD agrees that the five monitoring correspondences were indeed overdue. In two of the five cases, valid reasons existed for the delays. In these instances program representatives were awaiting the arrival of requested materials or information from the communities prior to completing the monitoring letters. In any event, in cases where responses will exceed a two months, local officials will be notified. OCD believes improvement has been made in this area over the past two years.

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(38) Office of Community Development

Community Development Block Grant
CFDA # 14.228 **Questioned Costs:** $77,510

Finding: Federal funds to recipient/subrecipient do not meet federal criteria

Title 24CFR 570.2 states:

> The primary objective of Title I of the Housing and Community Development Act of 1974,as amended, and of the community development program of each grantee under the Title is the development of viable urban communities, by providing decent housing and a suitable living environment and expanding economic opportunities, principally for persons of low and moderate income.

Department of Economic and Community Development

We reviewed payments to individual municipal and local government grantees for the period July 1, 1994 to June 30, 1995. The records of one grantee/subrecipient do not support the Housing and Urban Development (HUD) objective of leading to productive activity, planning or performance as stated in Title I.

The Department of Economic Community Development(DECD) has established a set-aside of Regional Assistance Funds (RAF), as shown in its 1994 and 1995 final statements. Our review of DECD's 1993-1995 final statements including the criteria established for RAF eligible applicants showed certain threshold criteria that applicants must meet in order to receive RAF funds.

One threshold criteria that the DECD requires is that RAF applicants cannot be from ineligible entitlement areas. The ineligible communities are Portland, Bangor, Lewiston, and Auburn. The DECD entered into a contract with a grantee/recipient to administer RAF funds for the grantee's non entitlement areas. The applicant/recipient met the criteria of eligible applicant; however, the subrecipient was ineligible for receiving RAF funds from the state because of being located in an ineligible entitlement community.

There were three other threshold requirements the RAF subrecipient did not meet:

1. The proposed activities must meet one of the national objectives described in 24 CFR 570.483;

2. Fifty-one percent of the jobs created as a result of CDBG expenditures proposed by the RAF applicant are provided to persons of low and moderate income; and

3. Undertake eligible activities, pursuant to 24 CFR 570.482.

The subrecipient failed to meet the national objective under 24 CFR 570.483 (f), the planning and administrative costs of threshold criteria. The subrecipient submitted a budget description for the Procurement Technical Assistance (PTA) program in support of using RAF funds. The budget categories are for personnel costs including travel and meetings of the subrecipient to assist businesses in marketing products or services to federal and state governments. The planning and administrative costs outlined in the budget proposal do not appear to support activities. These consist of all costs of data gathering, studies, analysis, and preparation of plans and the identification of actions that will implement such plans as stated in 24 CFR 570.205.

The contract attachment Rider A, for this particular contract, states under the project description that the grantee has entered into an agreement with a subrecipient who in turn will use the funds in accessing federal funds through the Department of Defense (DOD) PTA program.

> The RAF monies will be used as a match required to leverage funds. The PTA Program funds will be utilized to provide marketing and technical assistance to Maine business firms in selling their goods and services to DOD, other federal agencies, and state and local governments, as well as providing other related services. . . .Activities provided under the PTA program include but are not limited to counseling sessions where client questions regarding government contracting are answered, client identification and management services and several ongoing client services.

Records in the recipient's grant folder indicated that the subrecipient has operated the PTA program statewide for several years with Maine DECD using funds from sources other than RAF. The department intends to make the funds available through RAF.

The applicant did not meet the threshold criteria in items 2 and 3 above since it appears to have used funds for administrative purposes that are not eligible activities and do not fall within 24 CFR 570.482 and 105 (a) of Title 1 of the Housing and Community Development Act of 1974. Funding this activity has occurred for more than one annual period without any monitoring or review process that reported benefits to persons of the low to moderate income or that it met the productive activities of HUD's Title 1. No environmental review has occurred for any of the final recipients of the RAF subrecipient which, over the years, considered this funding as administrative/planning criteria.

Recommendation:

The Department of Economic Community Development should discontinue the funding of Regional Assistance Fund programs that do not meet the national objectives of Title 1 of the Housing and Community Development Act of 1974. Funds expended that do not comply with Title 1 of the Housing and Development Act of 1974 should be paid back to the federal agency.

Auditee Response:

The Market Development Center has played a significant role in economic development activities statewide, but particularly in regions effected by defense cutbacks, i.e., central Aroostook County. The funds provided through the Regional Assistance Fund (RAF) grant have been for planning activities, enabling the Center to fulfill its mission of stimulating business activity leading to job creation and retention for Maine workers.

The Department believes that the activities carried out by EMDC with the $77,510 in grant funds were eligible as planning activities under Section 570.205(b). This section defines planning activities as "Policy-planning-management-capacity building activities which will enable the recipient to: (1) Determine its need; (2) Set long term goals and short term objectives; (3) Devise *programs and activities to meet these goals and objectives; (4) Evaluate the progress of such programs and activities in accomplishing these goals and objectives; and (5) Carry out management, coordination and monitoring of activities necessary for effective planning implementation, but excluding the costs necessary to implement such plans".*

The following specific activities are conducted by EMDC through the Market Development Center with the $77,510 grant funds. All meet the requirements of the planning activity definition.

- *Planned and implemented a major conference at Loring Airforce Base to coordinate the environmental contracting required for base closure.*
- *Developed an environmental networking database to identify resources and opportunities available to Maine businesses.*
- *Formulated a plan to identify contracting opportunities with federal agencies in addition to the Dept. of Defense, identify market opportunities, recruit new business clients and evaluate progress in these efforts.*
- *Developed a methodology to identify and qualify business vendors for state and municipal contract opportunities.*
- *Established the objective of expanding access to the Electronic commerce and Electronic Data Interchange and developed a plan to expand the capacity of the system and the ability of business to effectively use it.*

In summary, all these activities involve planning and capacity building to enhance the functional operation of the Market Development Center.

The second element of the finding relates to meeting the national objective of benefiting low and moderate income persons. 51% of the persons benefiting from a CDBG funded activity must be of low and moderate income In the case of the Market Development Center, 51% of the jobs created or retained as a consequence of the planning activities undertaken, would be held by or made available to persons meeting the low/moderate income criteria.

Section 570.483(b)(5) states that planning-only activities are eligible for CDBG funding if it can be documented that at least 51% of the persons who would benefit from implementation of the plan are low and moderate income persons. The regulation does not state what form this documentation should take or how it should be collected. Maine's CDBG program historically has funded planning-only activities if a reasonable and logical linkage can be established between the planning activities and benefit to low and moderate income persons. In the case of the Market Development Center, this linkage is established by the persons that receive or retain jobs as a result of the Center's business development activities. These activities occur as a result of the planning that was funded by the RAF grant. Since the collection of incomeverificationdocumentation is impossible for a planning based activity of this type, the CDBG program evaluates the preponderance of evidence related to the program funded.

Department of Economic and Community Development

- *The focus of the MDC's activities are designed to assist businesses located in the most economically depressed counties of the state: Aroostook, Oxford, Piscataquis and Somerset.*
- *The central Aroostook region, owing to the closure of Loring Airforce Base has suffered from extremely high levels of unemployment. Much of MDC's efforts are focused in this region.*
- *One of the largest users of MDC's services has been Crowe Rope Industries. Wages at Crowe Rope are in the $5-$9 per hour rage, consistent with low/moderate income requirements.*
- *Another major recipient of MDC's services has been Creative Apparel of Belfast. This company received a CDBG Development fund loan in 1988 and demonstrated at that time that over 51% of their employees met the HUD income criteria.*
- *Two of the major recipients of MDC assistance in Oxford County, Gilbert Manufacturing and Oxford Aviation have participated in other CDBG programs related to job creation or retention. Over 51% of the employees of these companies meet the low/moderate income criteria.*
- *Brett Doney, CEO of the Oxford Hills Growth Council reported that of the 12 businesses in that region receiving assistance from the MDC, well over 51% of employees would meet the low/moderate income criteria.*
- *The majority of all companies receiving MDC assistance are in "traditional" manufacturing industries. These industries are characterized by wages consistent with the low/moderate income criteria.*
- *Particular emphasis is provided to planning activities that benefit small disadvantaged businesses and women-owned businesses.*

Given this evidence, the Department concludes that the planning activities conducted are designed to lead to implementation activities that meet the HUD benefit criteria.

The finding identified by the auditor has its basis in the original contract and budget description of the RAF grant. It appears the activities identified in these documents may in fact have been ineligible, but they are not an accurate representation of the activities conducted with CDBG funds at EMDC and the Market Development Center.

State CDBG funds, from the RAF grant were not expended by EMDC and the Market Development Center for planning activities within the City of Bangor or the three other Maine entitlement cities of Auburn, Lewiston or Portland.

Planning activities are "exempt of definition" from environmental review requirements.

Department of Economic and Community Development

(39) Office of Community Development

Community Development Block Grant
<u>CFDA #</u> 14.228 **<u>Questioned Costs:</u>** $713

<u>Finding</u>: Expenditures not recorded in correct account/Expense not properly authorized

Personnel from the Office of Community Development charge travel expenses to the Community Development Block Grants (CDBG) account for expenses that occurred while performing CDBG services. The Office of Management and Budget (OMB), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, Common Rule, Subpart C, Financial Administration 24 CFR 85.20 (b) (1) requires that financial reporting *be accurate and current.*

We reviewed federal expenditure records for the year ended June 30, 1995. Our review showed that an out-of-state travel expense voucher was incorrectly charged to the Community Development Block Grant. The travel voucher shows a change in account coding from General Fund to Federal Fund. The detail, supporting the travel expenditure for an individual not charging time to CDBG, contains a Request For Out-of-State Travel and/or Travel Advance form, that shows a different account coding. The purpose of travel indicates the attendance at a forum on economic development. The person authorizing only signed for the account coding and not authorization for travel.

The other expenditure for state-provided service, was requisitioned and approved by the same person. Two other signatures on the invoice show approval for account number and amount only. The person requesting the service is the only person in CDBG Technical Assistance. We believe the department lacks internal control for authorizing expenditures.

<u>Recommendation</u>:

We recommend that the Department of Economic Community Development establish procedures that help ensure internal control for authorized expenditures and correct account classification.

Auditee Response:

OCD agrees that the expense in question may not have been charged to the most appropriate account. CDBG supplemental account may have been a more appropriate placement. The expenses involved a trip to Washington D.C. made by former Commissioner Michael Aube to a meeting of the National Association of Development Organizations (NADO). The meetings were focused on rural economic development issues and in particular on the role of the CDBG program in rural economic development.

Regarding the second aspect of the finding, funds requisitioned and approved by the same individual, controls are now in place requiring a Director to authorize expenditures.

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(40) Office of Community Development

Community Development Block Grant
CFDA # 14.228 **Questioned Costs**: $3,000

Finding: Funds obligated or committed before state approval

The Department of Economic and Community Development-Office of Community Development is responsible for reviewing local government recipients to ensure compliance with applicable laws and regulations. We examined twenty-three subrecipient payments and noted that one of the subrecipients had requested funds prior to the approval of the recipient's Request for Release of Funds and related certification. Thus, the department was not in compliance with 24 CFR 58.22.

Recommendation:

In order to ensure compliance with 24 CFR 58, Environmental Review Procedures, we recommend that the Department of Economic and Community Development communicate with subrecipients prior to any obligations or committing any Title I funds

Department of Economic and Community Development

Auditee Response:

The office believes this case highlights an extremely rare incident and not representative of a system wide problem. For the case in question, the payment was approved 10/7/94 while the Request for Release of Funds was approved 10/18/94. The actual payment was not made to the community at least seven days after the approval date (October 14th) and the community did not release any funds until after the October 18th clearance date.

Department of Education

(41) Bureau of Instruction/School Management
Division of Compensatory Education

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

Finding: Financial reports not timely (Prior Year Finding)

A test of one hundred twenty-five financial reports for twenty-five Local Education Agencies (LEA's) revealed that thirty-three of the program financial reports were submitted late. One had not been submitted.

Report Name	Number	Reports Late or not Submitted	Due Date
Annual Financial Report	EF-U-420	8	30 days after project closure
Requests for Federal Funds	EF-U-421	7	July 15
Annual Project Contract	EF-U-422A	6	July 15
Carryover Requests	EF-U-423	4	August 31
Annual Statistical Report	EF-U-424	8	July 15/Dec 15 (testing period)
		33	

The Education Departmental General Administrative Regulations (EDGAR) 34 CFR 80.20 requires 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 the LEAs submit financial reports in accordance with the above stipulations. Title 34 CFR 80. 43 also states, "If a grantee or subgrantee materially fails to comply with any term of an award. . .certain remedies for compliance are available to the State Educational Agency (SEA)".

Recommendation:

We recommend that the division continue with its procedures to ensure that subgrantees submit required program financial reports on time.

Auditee Response:

Due to the volume of reports submitted at year-end, an automated system was implemented for report processing purposes. The system is designed to provide more time for follow-up on delinquent subrecipient financial reports. Further, consolidation of various federal programs under IASA in fiscal year 1996 has significantly reduced the number of financial reports filed. The Office of Compensatory Education continues to maintain procedures to ensure timely filing of all reports.

Department of Education

(42) Bureau of Instruction/School Management
Division of Special Services - Compensatory Education

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

Finding: Monitoring procedures weak for Maintenance of Effort (Prior Year Finding)

The Division of Special Services-Compensatory Education did not review Local Education Agency (LEA) expenditures to determine if the aggregate amount was not less than ninety percent for the second preceding year for each LEA receiving funds.

Department of Education

Title 34 CFR 200.41 states the following:

> . . . an LEA may receive its full allocation of funds . . . if the State Education Agency (SEA) finds that either the combined fiscal effort per student or the aggregate expenditures of State and Local funds with respect to the provision of free public education in the LEA for the preceding fiscal year was not less than 90 % of the combined fiscal effort per student or the aggregate expenditures for the second preceding year.

Management Information Services produces annual Maintenance of Effort (MOE) reports and sends them to Compensatory Education which files them. The department did not make the calculations necessary to determine the ninety percent requirement. The incomplete review was due to personnel turnover and inadequate instructions.

The effect on a LEA that does not meet the MOE requirement, and a waiver is not granted, is that the SEA does not reduce the LEA's allocation by the exact proportion it failed to meet the ninety percent requirement. The MOE was met for those transactions that we examined.

Recommendation:

We recommend the division implement written procedures to ensure that the Maintenance of Effort requirement is calculated and monitored for compliance. In addition, Management Information Services uses a computer to generate MOE reports. It should also generate the compliance percentages.

Auditee Response:

Management Information Services has developed a program that automatically calculates the 90% requirement. The results of the calculations are sent to the Office of Compensatory Education and are used by staff to monitor subrecipient compliance with the maintenance of effort requirement. In FY'96, the report was used to monitor all subrecipients awarded Title I grants. Every effort will be made to monitor these grants in a timely manner.

Department of Education

(43) Bureau of Applied Technology and Adult Learning
Division of Applied Technology Administration

Vocational Education - Basic Grants to States
<u>CFDA#</u> 84.048 **<u>Questioned Costs:</u>** None

<u>Finding</u>: Membership requirements of the Maine Council on Vocational Education (MCVE) is not according to federal regulations

The Code of Federal Regulations 34 CFR 403.18 gives the required make-up of the Maine Council on Vocational Education (MCVE). A requirement is that one member of MCVE must be a private sector member of the state Job Training Coordinating Council established pursuant to section 122 of the Job Training Partnership Act (JTPA). Although MCVE has a member from the JTPA council, that member is a *labor organization representative*, not a *private sector member*.

<u>Recommendation</u>:

In accordance with the federal code, the Maine Council on Vocational Education should have a private sector member of the state Job Training Coordinating Council established pursuant to the JTPA,

<u>Auditee Response</u>:

We concur. Since this finding, however, the Department of Education; Office of Vocational and Adult Education has issued a program memorandum OVEA/DVTE -96-10 which details the Omnibus Consolidated Recessions and Appropriations Act of 1996 concerning the State Councils. (This memorandum is on file with the Department of Audit). The 1996 Appropriation Act rescinds the funding for the State Councils thereby eliminating the requirements pertaining to the membership of the council for future audit purposes.

Department of Education

(44) Bureau of Applied Technology and Adult Learning
Division of Applied Technology

Vocational Education - Basic Grants to States
CFDA# 84.048 **Questioned Costs:** None

Finding: Lack of adequate follow-up on Methods of Administration site visits

The Code of Federal Regulations 34 CFR 100, Appendix B, § IIB dictates that ". . .the State agency responsible for the administration of vocational education programs must adopt a compliance program to prevent, identify and remedy discrimination. . .by its subrecipients". Accordingly, the MOA Team, within the Division of Applied Technology, is responsible for conducting on-site civil rights reviews of local educational agencies (LEAs) that receive federal financial assistance.

Six vocational education providers were selected for compliance reviews in fiscal year 1995, resulting in eleven different site visits. Violations of federal civil rights laws were found at all eleven sites. Eight of the eleven LEAs had not submitted acceptable corrective action as of the year ending June 30,1995. Additionally, nine months or more elapsed without follow-up by division personnel regarding submission of acceptable corrective action plans. In one case, it was sixteen months. Consequently, there is inadequate follow-up of the MOA team's on-site visits And insufficient communication with the director's office of the Division of Applied Technology regarding the LEAs that fail to respond to findings.

Subrecipient deficiencies with federal civil rights law together with the insufficient follow-up that was required for corrective action, may prevent the award of federal grant dollars to LEAs not in compliance.

Recommendation:

The Department of Education should develop standardized procedures for following up on all site visits to assure that subrecipients promptly correct deficiencies with federal civil rights laws.

Auditee Response:

The Office of Applied Technology (OAT) is developing a time chart that will determine on a daily basis when responses are due. OAT will also send reminders regarding the deadline for filing. MOA Team Coordinator will monitor corrective action plans. An audit trail of all activities will be documented.

(45) Division of Finance

Subrecipient Cash Monitoring
CFDA # Various Federal Programs **Questioned Costs:** None

Finding: Deficiencies in subrecipient cash monitoring

Guidelines for Title 34 CFR 80.20(b)(7)state, "Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantee cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency." The department allows fifteen days after each period for subrecipients. This conforms substantially to the same standards of timing and amount as apply to advances to the state, the grantee. These reports must be complete and reviewed on time to ensure compliance with applicable codes.

Each subrecipient acts independently and accounts to its own management organization. Cash Management Reports (CMR) are required quarterly. In our sample of twenty-five entities, fourteen were required to file reports; eleven of the fourteen were late from three days to four months. Currently, the department hasn't developed a procedure to ensure all entities receiving federal funds are remitting CMRs. Through an inquiry we found out that the CMRs are filed by the date received and then reviewed as time permits. We examined one report that was received on time but the review took place thirty days later. This was further supported by late reports which showed excess cash on hand. Subrecipients did not have funds withheld because payment had been made before the department review.

Recommendation:

Presently, the effectiveness of the entire cash management process is substantially diminished through reviews which occur after initial action could have been taken. We recommend the department promptly review reports received. The department should also implement a reconciliation process to ensure that all entities receiving federal monies are filing reports.

Auditee Response:

The EFU-415, "Federal Cash Management Report", is due quarterly on the 15th of the month. The accountant responsible for reviewing the EFU-415 report is also responsible for reconciling various other financial reports due at the same time. The Finance Sub-Team has assigned another accountant to assist in the reconciliation process. We continue to ensure all cash reports are reviewed on a timely basis.

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(46) Bureau of Instruction/School Management

Special Education - State Grants
CFDA # 84.027 Questioned Costs: None

Finding: State match for direct and support services not documented by program area (Prior Year Finding)

Title 34 CFR 300.371 requires that expenditures of federal funds for direct and support services ". . .be matched on a program basis by the state by funds other than federal". Program area is defined as including the comprehensive system of personnel development, recruitment and training of hearing officers and surrogate parents, and parent training activities. Because over $100 million of state and local funds are expended annually on special education, program officials have assumed that the state match for approximately $1.0 million federal funds has been met. The Division of Special Services did not document the non-federal match expenditures by program area. Instead, it used an analysis of state General Purpose Aid expenditures at the local level for support and training positions. However, because the analysis did not document the percentage of time spent in special education training, we could not determine the amount of expenditures qualifying as match.

Recommendation:

We recommend that the Division of Special Services implement a system to document, by program area, the non-federal match for direct and support services expenditures.

Auditee Response:

The Office of Special Services has added a section to the EF-S-09E - Local Entitlement Annual Financial Report, to collect information from school administrative units on the amount expended for staff development (Comprehensive System of Personnel Development).

(47) Bureau of Rehabilitation
Division of General Rehabilitation Services

Rehabilitation Services - Basic Support
CFDA # 84.126 **Questioned Costs:** None

Finding: Client case file unlocated

The Code of Federal Regulations, 34 CFR 361.39, states that a case record be maintained for each applicant for, and recipient of vocational rehabilitation services. Of the cases selected from our sample one case file of an individual who received vocational rehabilitation services could not be located.

Recommendation:

We recommend that the department review current practices regarding client case records to ensure client files are not lost. If a client case file can not be located a new one should be reconstructed promptly.

Department of Education

Auditee Response:

A client case record which was transferred between regional offices has apparently been lost. A diligent search was made in both offices in an attempt to find this record. As of 9/29/96 the file could not be found and it was officially declared lost. The counselor and the supervisor are reconstructing the file with available information.

In the future a signed and dated locator file card will be placed in the client files to indicate the location of the removed file. If a case is transferred to a new location, the locator file care, with notations regarding new location, will be placed permanently in the original file location, a copy of essential portions of the record (eligibility, face sheet, IWRP, etc) will be kept in the original office file until such time as the transfer has been confirmed.

Executive Department

(48) Maine Office of Substance Abuse

Block Grants for Prevention and
Treatment of Substance Abuse
CFDA # 93.959 **Questioned Costs:** None

Finding: Independent peer review for Block Grant programs not performed

Title 45 CAR 96.136 requires that an independent peer review be conducted every year that the Block Grant is provided. The purpose of the review is "... to assess the quality, appropriateness and efficiency of treatment services provided. . .and ensure that at least 5 percent of the entities providing services. . .are reviewed".

The intent of the independent peer review process is to continuously improve treatment services to alcohol and drug abusers within the state system. The Maine Office of Substance Abuse did not obtain an independent peer review for the 1995 fiscal year.

Recommendation:

We recommend that the department initiate an independent peer review for every year that the Block Grant is provided and that it maintain documentation to support this.

Auditee Response:

We will comply.

(49) Maine Office of Substance Abuse

Block Grants for Prevention and
Treatment of Substance Abuse
CFDA # 93.959 **Questioned Costs:** None

Finding: No documentation that Block Grant funds are used as payments of last resort

A portion of the Block Grant substance abuse money is required to be expended for treatment services to pregnant women and women with dependent children as well as for availability of tuberculosis and human immunodeficiencies virus (HIV) services to substance abusers.

Title 45 CFR 96.137 requires that the grant will be the payment of last resort for these services. The state is required to develop effective strategies for monitoring programs' compliance. The Maine Office of Substance Abuse has performed no follow-up monitoring that providers have used all other avenues of reimbursement before expending Block Grant funds.

Recommendation:

We recommend that the Maine Office of Substance Abuse establish a system and maintain documentation to verify that the Block Grant payments are payments of last resort.

Auditee Response:

We will comply.

Department of Human Services

(50) Bureau of Child and Family Services

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

Finding: Follow-up on organizations' overpayments and findings not timely (Prior Year Finding)

According to the Bureau of Child and Family Services's *Child and Adult Care Food Program (CACFP) Policy Manual*, Section II subsection A, the state agency's administrative responsibilities include under paragraph 19: "Recovering, from CACFP participant organizations, overpayments discovered by Bureau CACFP staff during normal monitoring procedures, Supervisory Reviews, or the audits of an organization. . . ."

A review of Department of Human Services' (DHS) program supervisory reviews for the federal year ending September 30, 1994 revealed that an organization owed the department $795. Also, we examined seven organizations receiving advance payments for the federal year ending September 30, 1995 and discovered one which owed DHS $304 at year-end. In addition, the program staff did not follow up on the overpayment from an organization's close-out of its advance method of payment.

Recommendation:

We recommend that DHS develop a written policy to ensure that it takes appropriate and timely corrective action on program review findings and advance overpayments, and that it resolve them promptly.

Auditee Response:

We have since changed our procedures to require a log of all reviews that include amounts owed (if any), findings, date of resolution, etc. These will be kept on file for the Auditor to review as necessary. The advance payment oversight was due to a change in employees; the new account clerk was not aware of the reconciliation process to be completed at the end of each Federal fiscal year; this has since been rectified and a reconciliation report will be done at the end of each year and reviewed by the CACFP Manager.

Department of Human Services

(51) Bureau of Child and Family Services

Child Care and Development Block Grant
CFDA # 93.575 **Questioned Costs:** $312

Finding: Client eligibility not determined

During the voucher examination one of twenty-five items chosen for examining did not meet the test of controls and compliance. Each disbursement voucher should contain the first and last name of the client. Since this voucher did not contain the last name of the client the case file could not be located. Without the case we could not determine whether the eligibility requirements were met.

Recommendation:

We recommend that no voucher be approved for payment without the client's full name being on the voucher.

Auditee Response:

This case was found after the audit was completed. DHS was in the process of transferring administration of vouchers to the Contracted Voucher Management Agency. The record was found and showed that the child care was provided as stated on the disbursement form and that the full name was on the voucher and totaled the $312 in question.

The Department will endeavor to ensure that the clients full name will heretofore be noted on the vouchers.

Department of Human Services

(52) Bureau of Child and Family Services

Child Care and Development Block Grant
<u>CFDA #</u> 93.575 **<u>Questioned Costs:</u>** $94,864

<u>Finding</u>: Payroll costs incorrectly charged to grants (Prior Year Finding)

According to the Office of Management and Budget (OMB) Circular A-87, *Cost Principals for State and Local Governments*, Attachment A, costs may be charged to a federal program only to the extent of the benefit received by a cost objective. These costs may be either direct costs or the allocable share of any indirect costs. Indirect costs are those costs that are incurred for a common or joint purpose benefitting more than one cost objective and which are not readily assignable to the cost objectives specifically benefitted.

We noted that four employees whose salaries are charged entirely to the Child Care Assistance Block Grant (CCABG) perform administrative duties that relate to several federal programs including the CCABG and/or other state programs. The Department of Human Services does not allocate these costs to their respective program areas. As a result, we question the total payroll costs of these four employees totaling $94,864.

<u>Recommendation</u>:

We recommend that the salaries/fringe benefits of these employees be allocated to the correct federal and/or state programs based on the benefits received by those program areas.

<u>Auditee Response</u>:

The agency can identify staff charged to the State's Contracting Service Center Accounts who spend a portion of their time and effort on the Child Care Assistance Block Grant (CCABG) Program. The percentage of time the four (4) employees directly charged to the CCABG, as well, as the employees identified by the agency who are charged to the bureau's state accounts, shows there are more than $94,864 in charges that could be assessed to the Child Care Assistance Block Grant.

The agency's Division of Financial Services, with assistance from the contracting service center, are currently working on time reports to allocate payroll costs for those personnel working in more than one program area.

Department of Human Services

(53) Bureau of Child and Family Services

Child Care and Development Block Grant
CFDA # 93.575 **Questioned Costs:** None

Finding: No standardized procedures for on-site monitoring of service providers (Prior Year Finding)

Title 45 CFR 98.52(b)(1)(viii), requires grantees to monitor program activities for compliance with program regulations.

The Department of Human Services (DHS) contract personnel stated that they perform on-site visits of day care providers to ensure that federal and state funds are expended according to laws and regulations. However, the department has no standardized procedures to evaluate day care providers when personnel visit on site. Further, DHS does not require contract officers to document the results of on-site visits.

The department now has completed the process of developing performance standards for all contracts and they are currently used to measure performance during on-site visits to monitor day care providers.

Recommendation:

None

Auditee Response:

DHS has completed the process of developing performance standards for all contracts and they are currently being used to measure performance during on-site visits.

Department of Human Services

(54) Bureau of Child and Family Services

Foster Care - Title IV - E
CFDA # 93.658 **Questioned Costs:** $195

Finding: Eligibility compliance requirements not met

Under 42 United States Code 672 (a) a child must be Aid to Families with Dependent Children (AFDC) eligible for payments to be allowed, and under 42 U.S.C. 671(a)(10); 42 U.S.C. 672, the provider must be licensed by the correct state foster care licensing authority.

The Department of Human Services personnel indicated that payments made for transportation for an ineligible child were unintentionally charged to Title IV-E due to a computer program error that is not correctly matching the requirements for payment of transportation costs to be charged to Title IV-E.

Recommendation:

The department should take the necessary steps to insure that payments are charged to the correct accounts.

Auditee Response:

Corrections will be made to the computer program to assure that transportation expenses charged to Title IV-E relate only to eligible clients.

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(55) Bureau of Child and Family Services
Division of Purchases Support Services

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

Finding: Variances in annual utilization report

Department of Human Services

Title 42 United States Code 1397e requires annual activity reports that include expenditures and service data for the Social Services Block Grant. We noted several errors in the federal fiscal year 1994 utilization report.

The reported amounts did not agree with the Controller's monthly expenditure reports. Seven out of fourteen expense categories were inaccurately stated. Three were understated, varying from $712 to $361,228; and four were overstated, varying from $18 to $273,895. Also, the total was understated by $31,054.

Recommendation:

We recommend that the Department of Human Services (DHS) coordinate information with the Department of Mental Health and Mental Retardation and the Department of the Attorney General to confirm the expenditure variances. We also recommend that DHS file a revised 1994 report and that it maintain documents to support all data on the reports.

Auditee Response:

We will be submitting a revised 1994 report with the submission of the 1995 report.

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(56) Bureau of Elder and Adult Services

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

Finding: Weak internal control over expenditures for the Physically Disabled Waiver Program

Title 42 CFR 441.303 requires financial assurances that expenditures for the Physically Disabled Waiver Program do not surpass the costs of an institutionalized setting. There is weak internal control over financial reporting to the Department of Human Services (DHS)-Bureau of Elder and Adult Services. The contracted provider of services for the Physically Disabled Waiver is not submitting monthly utilization and expenditure reports. As a result, it is difficult to determine whether, during the year, the expenditures for the waiver program surpassed the costs of an institutionalized setting. The department requires similar information for the three other waivered services that are in compliance each month.

Recommendation:

We recommend that the Bureau of Elder and Adult Services which has oversight of the Physically Disabled Waiver Program require that the contracted provider of services submit monthly unitization and expenditure reports. Doing so will better insure the monitoring of 42 CFR 441.303 which requires that program costs do not surpass the costs of an institutionalized setting.

Auditee Response:

Since the audit was completed, the Bureau of Elder and Adult Services has started to receive the following department reports for the Physically Disabled Waiver: MARS report and the Comptroller's cash report ID B919; BEAS is also in the process of negotiating a contract with Alpha One which requires monthly submission of reports that include a list of active consumers with their admission and discharge date, categories of services provided with the number of units per consumer reimbursed each month and then aggregate monthly totals for each category of services, total number of consumers served, admitted and discharged during the month. This will meet the State standards and enable BEAS to monitor closely the physically disabled waiver expenditures and program compliance.

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(57) Bureau of Family Independence

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

Finding: Outstanding claims of $3,610,930 not reconciled

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 . . .Identity. . .households that owe outstanding payments on a previously issued claim determination.

The Bureau of Income Maintenance uses the Financial Status Report (FNS-209) to report the balance of outstanding claims due to the State of Maine. It also maintains a detailed list of who owes outstanding claims. At June 30, 1995 the outstanding claims totaled $3,610,930 or $517,073 more than the amount reported on the FNS-209. Bureau personnel stated that this discrepancy was due to closed claims that had not been purged.

Recommendation:

We recommend the bureau periodically reconcile the detailed list of households that owe outstanding payments with the *Status of Claims Against Household* reported on the FNS-209.

Auditee Response:

These two reports were never meant to balance. We will be only getting "Status of Claims Against Household" on an as needed basis.

(58) Bureau of Family Independence

Food Stamps
CFDA # 10.551 **Questioned Costs:** $13,285

Finding: Collection summary for financial status report (FNS-209) not reconciled (Prior Year Finding)

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 . . .Document the circumstances which resulted in a claim, the methods used to collect the claim. . .Document how much money was collected in payment of a claim and how much was submitted to FNS.

The Bureau of Income Maintenance (BIM) maintains a computerized system to record food stamp overpayments received during the quarter. This information is then reported on the Financial Status Report (FNS-209). Collections reported as cash, check, money order, etc., on the FNS-209 report dated June 30, 1995 totaled $113,221. BIM was unable to provide sufficient backup to justify $13,285 that was in excess of the amount reported on the FNS-209. Bureau personnel stated that this discrepancy was due primarily to tax offsets generated from both individual and federal tax returns.

Recommendation:

We recommend that the BIM provide sufficient backup to support the amounts reported quarterly as cash, checks, money orders, etc., on the FNS-209.

Auditee Response:

This difference is due to tax offsets that only Bob Stillings receives details on.

(59) Bureau of Family Independence

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

Finding: Inadequate security procedures to safeguard food stamps

Text of finding can be found in Schedule of Compliance Findings and Questioned Costs finding No. 28.

(60) Bureau of Family Independence

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

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

Title 45 CFR, 205.42 (e)(I)(c), requires that the state agency dispose of and submit one hundred percent of its cases within one hundred twenty days of the end of the sample month.

Of the twenty-five cases we reviewed, the case data on four cases was not transmitted to the U.S. Department of Health and Human Services (HHS) within the proper time frame.

Recommendation:

We recommend that the Department of Human Services take steps to ensure that the results of the quality control reviews are reported to HHS within one hundred twenty days of the end of the sample month.

Auditee Response:

The Bureau of Family Independence will continue to work cooperatively with the Office of Data, Research and Vital Statistics and with the Federal Government to assure that cases are prepared for transmittal and that equipment will transmit cases, completely and accurately within the required time frames, as outlined in 45 CFR 205.42(e)(I)(c).

(61) Bureau of Family Independence

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

Finding: Contract terms not specified for At-Risk Child Care services (Prior Year Finding)

The Department of Human Services (DHS) passed through to thirty-eight community agencies $744,908 of At-Risk Child Care funds for providing prescribed child care slots. The department did not use written contracts to specify either the cost per unit of service or the total contract amount that these agencies would receive.

The Office of Management and Budget (OMB), *Single Audits of State and Local Governments* (Circular A-128), section (9b), requires the following:

> 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 ensure that subrecipients identify and understand their responsibilities regarding program policies, rules and regulations. It also helps strengthen internal control over funds that are passed through to providers of At-Risk Child Care.

Recommendation:

Beginning with the 1996 fiscal year, DHS allocated At-Risk Child Care funds by contract for all participating agencies. Therefore we make no recommendation.

Auditee Response:

As stated in the recommendation, beginning with the 1996 fiscal year, DHS allocated At-Risk Child Care funds by contract for all participating agencies.

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(62) Bureau of Family Independence
Division of Support Enforcement and Recovery

Child Support Enforcement
CFDA # 93.563 **Questioned Costs:** None

Finding: No policy for processing the application fee for child support recovery services

According to Title 45 CFR 302.33(c)(2) the following is required.

> Beginning October 1, 1985, the State plan must provide that an application fee will be charged for each individual who applies for services under this section. The State shall collect the application fee from the individual applying for Title IV-D services or pay the application fee out of State funds. State funds used to pay an application fee are not program expenditures under the State plan, but are considered program income under 45 CFR 304.50.

According to 45 CFR 304.50 the following is required for the treatment of program income by the Title IV-D Agency:

> The Title IV-D agency must exclude from its quarterly expenditure claims all fees which are collected during the quarter under the Title IV-D State plan.

The Department of Human Services (DHS) does not have a policy regarding the accounting for application fees. We noted on the quarterly federal financial report that DHS-Division of Financial Services does not deduct the fee from its program expenditures.

Recommendation:

In accordance with 45 CFR 302.33 and 304.50, we recommend that DHS implement procedures for processing the application fees for child support collection services and report these fees on its federal financial reports.

Auditee Response:

We agree with this finding and are taking steps to ensure that this information is included on the federal financial reports.

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(63) Bureau of Family Independence
Division of Support Enforcement and Recovery

Child Support Enforcement
CFDA # 93.563 **Questioned Costs:** None

Finding: Noncompliance with time requirements for paternity establishment

Title 45 CFR 303.50 (a)(2) states:

> Paternity must be established, or the alleged father excluded as a result of genetic tests and/or legal process, within one year of the later of: (1) successful service of process; or (2) the child reaching six months of age.

Out of twenty-five case files reviewed, we noted six cases where paternity had not been established nor had the alleged father been excluded within the proper time frame.

Recommendation:

In order to ensure that paternity is established within the time frame required by 45 CFR 303.5(a)(2), we recommend that the Department of Human Services-Division of Support Enforcement and Recovery review its process of establishing paternity,

Auditee Response:

We agree with the findings and recommendation. We were aware of the need to improve production in paternity establishment before this audit occurred and were in the process of identifying ways to improve performance before these findings were issued. We have reallocated significant portions of the paternity establishment caseload and have assigned more staff to that function. As a result the paternity caseload has diminished and will continue to do so in the future. It should also be noted DSER and BIS are working to develop a data warehouse which, (when completed) will greatly improve our ability to move all cases through the various processes more quickly. In the meantime we will continue our efforts to meet federal mandates.

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(64) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Data Processing

Child Support Enforcement
CFDA # 93.563 **Questioned Costs:** $423

Finding: Child support collections not properly distributed

Title 45 CFR 302.32 requires the state to distribute child support collections in the following sequence:

1. The first $50 must be allocated to the family that has an assignment of rights;
2. To the state and federal governments for their shares of that month's public assistance payments unless the collection was for other than that month's assistance;
3. To the state for reimbursement of any past assistance owed; and
4. To the family.

Department of Human Services

The New England Child Support Enforcement Services (NECSES) is the application system used by the Department of Human Services (DHS)-Division of Support Enforcement and Recovery to account for child support collections and to distribute the funds. The Department of Administrative and Financial Services-Division of Data Processing (DDP) is responsible for maintaining the NECSES computerized system.

Out of twenty-five transactions tested for proper distribution, one disbursement included funds, that were incorrectly disbursed to an Aid to Family with Dependent Children (AFDC) client. From November 1, 1993 through April 28, 1995, NECSES had incorrectly classified this individual as a non-AFDC client and distributed a total of $668 in child support collections to this individual. This amount should have been held by the state for reimbursement of the federal and state share of the AFDC benefit. Questioned cost is derived by applying the Federal Medical Assistance Percentage (FMAP) of 63.3% to $668.

Recommendation:

We recommend that personnel from DHS and DDP review the NECSES program in order to correct this error and to ensure that the application system is operating according to approved specifications.

Auditee Response:

The NECSES system did recognize this family as AFDC and did disburse pass-through and GAP payments properly. We agree that disbursements to this client as Client Arrears (CA) should have been kept by the State of Maine for reimbursement of AFDC funds expended. The Bureau of Information Services' Development Services NECSES programming team is currently working on corrections to this module. We expect that this programming error will be corrected with the next six months.

Department of Human Services

(65) Bureau of Family Independence
Division of Data Processing

Medical Assistance Program
<u>CFDA #</u> 93.778 **<u>Questioned Costs:</u>** None

<u>Finding</u>: Social Security numbers not verified (Prior Year Finding)

A state Medicaid agency must request information from certain sources to verify Medicaid eligibility for each applicant and recipient. According to the 42 CFR 435.948, an agency *must request* the following:

> . . .information about benefit and other eligibility related information available from SSA under Title II and XV of the Social Security Act for applicants during the application period and for recipients for whom the information has not been previously requested. . . .

Verification of an applicant's Social Security number with the Social Security Administration (SSA) is a preliminary step required in the eligibility determination process.

A test of paid health insurance claims revealed that the Social Security numbers for two of twenty-five applicants/recipients were never verified with the SSA. State agency personnel did not know why this happened but indicated it could have been caused by error in preparing computer tapes sent to the SSA for verification. There is no questioned cost because we obtained documentation from the SSA showing that the Social Security numbers in question were valid.

<u>Recommendation</u>:

We again recommend that the Department of Human Services take effective measures, as required, to independently verify all Social Security numbers for program applicants/recipients.

<u>Auditee Response</u>:

The finding is a national problem which the Social Security Administration is attempting to fix. The problem is created when two or more tapes are sent to the Social Security Administration for verification. If the Social Security Administration does not run the tapes in chronological order, *or if the action on the last tape, the information is not returned to the State. The Social Security Administration is looking at date stamping the tapes as they are received so that they are run chronologically. Until we (or the Social Security Administration) get a new computer, the problem will continue to exist.*

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(66) Bureau of Family Independence
Office of Data, Research and Vital Statistics

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

Finding: Sampling plan submitted late (Prior Year Finding)

According to 42 CFR 431.814(a), a state agency must:

> . . .submit a basic MEQC sampling plan (or revisions to a current plan) that meets the requirements of this section to the appropriate HCFA regional office for approval at least 60 days before the beginning of the review period in which it is to be implemented.

The sampling plan for the Medical Assistance Only (MAO) stratum for the April 1994 to October 1995 sampling period was submitted for approval only one day before the beginning of the review period.

Recommendation:

We again recommend that the department submit quality control sampling plans for approval at least sixty days before the beginning of each six-month review period.

Auditee Response:

The Bureau of Family Independence will work cooperatively with the Office of Data, Research and Vital Statistics to assure that the MEQC sampling plan is submitted in accordance with 45 CFR 431.814(a).

Department of Human Services

(67) Bureau of Health
Division of Maternal and Child Health

Women, Infants and Children
CFDA # 10.557 **Questioned Costs:** None

Finding: Failure to make indirect cost adjustments (Prior Year Finding)

The Allowable Costs/Cost Principles of *The Compliance Supplement for Single Audits of State and Local Governments* require an adjustment to actual costs when a provisional indirect cost rate is used. This is also required by the *State and Local Rate Agreement* between the State of Maine, Department of Human Services (DHS), and the U.S. Department of Health and Human Resources-Division of Cost Allocation.

The department failed to adjust the provisional rate used for program year 1993 to the final rate calculated for indirect costs. As a result, it under assessed the indirect costs for the Women, Infants and Children (WIC) program by $3,365.

Recommendation:

We recommend that DHS make the necessary adjustment to compensate for the incorrect amount charged to indirect cost. We further recommend that DHS make adjustments to compensate for differences between the provisional and final indirect cost rate.

Auditee Response:

Financial staff located in the Women, Infants and Children (WIC) Program are currently adjusting the Provisional Indirect Cost Rates to the Final Indirect Cost Rates for the years identified in the finding.

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(68) Bureau of Health
Division of Maternal and Child Health

Special Supplemental Food Program for
Women, Infants and Children
CFDA # 10.557 **Questioned Costs:** None

Department of Human Services

Finding: Federal Financial Reports submitted late

Federal Financial Reports (FNS-498) are due thirty days after the close of each reporting period according to program regulations in Citation FNS 154 Handbook Sec. 311(a). We reviewed twelve reports: one was issued on time; eight were issued from five to twenty days late; two were missing; and one was not dated.

Recommendation:

We recommend that the department prepare and submit the required Federal Financial Reports by the dates they are due.

Auditee Response:

The agency concurs with the finding. The agency will make every effort to submit the federal financial reports on a timely basis.

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(69) Bureau of Medical Services

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

Finding: Drug rebates of $2.0 million unresolved (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, 1995, drug manufacturers owed the state $2.0 million. However, BMS personnel stated that this amount could be overstated due to subsequent adjustments in the price and quantity rate structures. Timely settlement of disputed or unresolved charges could help recover cost savings for the Medicaid program. Federal and state savings would be split based on the federal medical assistance rate.

Department of Human Services

Recommendation:

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

Auditee Response:

This finding was cleared by the Federal Office of Inspector General dated November 30, 1995. Clearance documentation attached.

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(70) 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 payor of last resort. The TPL unit tracks the submission of claims and the recovery of reimbursements on an individual client basis; however, it does not have a standardized process to monitor total amounts due from each insurer nor does it age the amounts due. Because reimbursements are not assured, amounts billed are not established as accounts receivable on state accounting records. The TPL units' ability to monitor collection is weakened by the absence of data. The TPL unit recovered $16.1 million from third parties during the 1995 fiscal year.

Recommendation:

We again recommend that the unit maintain adequate records of total amounts due from each insurer and that it age the amounts due. Doing so will insure prompt remittance of all amounts billed and enable monitoring of collection efforts.

Auditee Response:

This finding was cleared by the Federal Office of Inspector General. Clearance documentation attached.

(71) Bureau of Medical Services
Division of Licensing and Certification

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

Finding: Weak internal control over provider terminations

After due process the Medicaid agency may deny provider payments after provider certification has been terminated. Subparagraph (a) of 42 CFR Sections 442.117 and 442.118, states:

> A survey agency must terminate a facility's certification if it is determined that. . .(1) The facility no longer meets applicable requirements for nursing facilities (NFs) or conditions of participation for intermediate care facilities for the mentally retarded (ICFs/MR) as specified . . .(2) The facility's deficiencies pose immediate jeopardy to patients' health and safety.

If the state Medicaid agency terminates a provider's certification, that information is relayed from the agency's Division of Licensing and Certification to the Medicaid Management Information System's (MMIS) File Maintenance Unit. This is accomplished by entering certain codes on a transmittal form known as a HCFA-1539. If the proper termination code or codes are indicated on the form, File Maintenance then removes the provider from the claims processing system. In the prior year audit, we noted that personnel within File Maintenance were not aware of all of the termination codes.

Although corrective action has been taken to ensure that personnel carefully review all information on the transmittal forms, a review of internal controls revealed that no formal written communication is made between the appropriate organizational units regarding the removal of a terminated facility from the provider payment system.

Recommendation:

In order to assure that a terminated facility is removed from the provider payment system, we recommend that the Division of Licensing and Certification send a formal letter to the Director of the Data Resolution Unit and the team leader of the File Maintenance Unit notifying the appropriate individuals that a facility was terminated.

Auditee Response:

The Department concurs with the finding and will institute a procedure to send a formal letter to the Director of the Data Resolution Unit and the Team Leader of the File Maintenance Unit notifying the appropriate individuals that a facility was terminated.

(72) Office of Management and Budget Division of Financial Services

Child Support and Enforcement Program
Job Opportunities and Basic Skills Program
CFDA # 93.563/93.561 **Questioned Costs:** None

Finding: Lack of documentation for journal vouchers (Prior Year Finding)

A review of individually significant items for the Child Support Enforcement Program and the Job Opportunities and Basic Skills Program noted a number of journal vouchers allocating costs between funding sources for which supporting documentation could not be provided. These adjustments are made periodically (but not at set intervals) to allocate expenditures between state and federal funds. Without the supporting documentation for these journal vouchers it cannot be determined if the amounts charged to the General or Federal Expenditures Fund are calculated correctly. The total of unsupported journal vouchers by program is as follows:

Program	CFDA#	Amount
Child Support Enforcement Program	93.563	$160,975
Job Opportunities and Basic Skills Program	93.561	786,616

Recommendation:

We recommend that the Department of Human Services retain supporting documentation for all journal vouchers.

Auditee Response:

DHS concurs with the finding and will ensure the retention of all supporting documentation including Journal Vouchers.

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

Child Support Enforcement
CFDA # 93.563 **Questioned Costs:** None

Finding: Cash receipts not processed on time

Text of finding can be found in the Schedule of Reportable Conditions finding No. 16.

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(74) Office of Management and Budget
Division of Financial Services

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

Finding: Cost settlement recoveries not timely (Prior Year Finding)

Department of Human Services

Title 42 CFR 433.320 (a)(1) and (2) states the following:

> . . . the agency must refund the federal share of overpayments that are subject to recovery to HCFA (Health Care Financing Administration) 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 Form HCFA-64 report submitted for the quarter in which the 60 day period following discovery. . .ends.

We examined nine hospital audit cost settlements where each hospital owed the state money. The federal share, or $1,977,663 of amounts due on behalf of five of the hospitals, were not on the HCFA-64 report for the quarter when the sixty-day period following discovery ended.

Recommendation:

We again recommend that DHS review its procedures for recording all overpayments on the HCFA-64 report to ensure that they are reported according to the sixty-day requirement.

Auditee Response:

Every effort is made to conform to the sixty-day requirement on overpayments, but due to a shortage of staff and also shortage of funds this requirement is difficult to accomplish. We will endeavor to review our procedures and try to adhere to the sixty-day requirement.

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(75) Office of Management and Budget
Division of Financial Services

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

Finding: Federal funds used for state purposes/State funds used for federal purposes/Budget process circumvented (Prior Year Finding)

Text of finding can be found in the Schedule of Reportable Conditions finding No. 14.

Department of Human Services

(76) 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 and Budget (OMB) *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* (Common Rule), subpart c sec. .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. Sec. 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 of Maine 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 $7.5 million as of June 30, 1992.

During our audit for fiscal year 1995 we discovered the following: 1) the capital equipment reconciliation forms for the fiscal years 1993 through 1995 were not completed; 2) the quarterly equipment reports were not completed; and 3) the detail equipment records for the 1993 through 1995 fiscal years were not available.

Recommendation:

We recommend again that DHS perform the following: 1) record all capital equipment transactions for the 1993 through 1995 fiscal years; 2) perform a complete inventory; reconcile the physical inventory to the detail property records; and 3) maintain all equipment records on a current basis.

Auditee Response:

The transaction for 1993 to 1995 fiscal years have been completed. At the present time there is a physical inventory being completed and it will be reconciled to the detail records. After the completion this will be maintained on a current basis.

Department of Human Services

(77) 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 thirty-one financial reports tested, twenty-seven were submitted after the due date

Program Name/CFDA#	Citation	Number of Reports Submitted Late	Average No. of Days Late
State Administrative Matching Grants For Food Stamp Program CFDA#10.561	7 CFR 277.11(4)	4	15
Child and Adult Care Food Program CFDA#10.558	7 CFR 226.7(d)	3	4
AFDC CFDA#93.020	45 CFR 201.5(a)(1)	4	11
Child Support Enforcement CFDA#93.563	45 CFR ch. III 301.15(a)(1)	3	2
Foster Care - Title IV-E CFDA#93.658	45 CFR 74.73	2	3
Medical Assistance Program CFDA#93.778	42 CFR 430.30(c)(1)	4	29
JOB Opportunities and Basic Skills Training Program CFDA#93.561	45 CFR 201.5(a)(1)	4	9
Child Care and Development Block Grant CFDA#93.575	45 CFR 98.64	3	59

Department of Human Services

Recommendation:

We recommend that the department prepare and submit the required federal financial reports by the dates they are due.

Auditee Response:

The Department recognizes the fact that Federal Financial Reports are due thirty days after the close of a quarter. The Department strives to achieve this goal by all means possible. There are initiatives that are in process which will help in this endeavor. Data Warehousing which will provide the information quicker, computerization of the direct and Indirect Cost allocation process which is in effect and has helped speed up the process. The filling of the Directors position which will provide stability in the unit and allow the Assistant Director to concentrate more on reports and other things.

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(78) Office of Management and Budget Division of Financial Services

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

Finding: Federal financial data incorrectly reported (Prior Year Finding)

The Department of Human Services (DHS) incorrectly reported the following program outlays on its Schedule of Federal Financial Assistance (SFFA) and on the department's individual Federal Financial Reports:

CFDA#	Program Title	Total Expenditures Per Federal Financial Reports	Total Expenditures Per Schedule of Federal Financial Assistance	Variance
10.558	Child & Adult Care Food	$10,968,794	$ 9,110,385	$1,858,409
93.560	AFDC	62,793,594	62,819,790	(26,196)
93.561	JOBS	5,203,086	5,253,654	(50,568)
93.658	Foster Care IVE	16,422,128	16,420,213	1,915

Differences in reported amounts were due to unintentional accounting errors that were identified after the SFFA was prepared, and to errors in accumulating data that was used when preparing the SFFA. The result of these errors was that inaccurate amounts were reported on quarterly and yearly Federal Financial Reports.

Immediately after the auditor notified the accountants of the errors, the accountants made the corrections and issued adjustments/amendments to the individual Federal Financial Reports.

The error noted in the above table for the Child and Adult Care Food Program, CFDA# 10.558, represents an amount material to that program. It appears that the SF 269 Report of Federal Expenditures for the quarter ending June 30, 1995 was prepared using current expenditures for the month ending June 30, 1995 rather than expenditures for the quarter ended June 30, 1995. This error, although unintentional, indicates a weakness in the internal control system over the reporting of federal expenditures.

Recommendation:

We recommend that the department exercise more care when preparing the Schedule of Federal Financial Assistance as well as when preparing the individual Federal Financial Reports and review the internal controls over federal financial reporting to insure that material errors do not occur.

Auditee Response:

The Department of Human Services concurs with the above finding and will strive to ensure that material errors do not occur. The Financial Data Warehouse should help in ensuring that these types of situations will not happen in the future.

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(79) Office of Management and Budget
Division of Financial Services

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

Finding: Cash management procedures not followed (Prior Year Finding)

State agency personnel within the Department of Human Services' (DHS) Division of Financial Services draw down federal funds to meet cash outlay requirements. *Drawdown* means a process whereby a state requests and receives federal funds.

31 CFR 205 (d) stipulates that..."a state and a federal agency shall limit the amount of funds transferred to a state to the minimum required to meet a state's actual, immediate cash needs." Amounts transferred over or under immediate cash needs could result in interest liabilities being incurred by either the state or federal government.

DHS has not monitored funds use as required by the State of Maine Policy and Procedures Manual for the Cash Management Improvement Act (CMIA). The manual requires the state to document the dates of cash draws and disbursements as well as any deviations from the established funds transfer procedures. Moreover, the date the draws arrive and funds are disbursed must be monitored for interest calculation purposes as well as to identify exceptions. When and if exceptions occur they must be documented to insure the proper transfer of interest payments.

DHS did not document the dates of cash draws and disbursements on behalf of the various federal programs noted above. We also noted that exceptions to the agreed-upon drawdown procedures occurred in the Medical Assistance Program. This program is designed as an interest neutral program for which interest calculations are unnecessary unless there are deviations from the prescribed drawdown procedures. This exception resulted in more federal cash on hand than planned. Because DHS did not monitor the actual dates of draws and disbursements the required interest calculation could not be completed.

Recommendation:

We recommend that DHS:

1. Maintain records that show the receipt and disbursement dates for federal funds requested;
2. Monitor for compliance with check clearance patterns;
3. Document exceptions, if any, from funds transfer procedures, and
4. Calculate interest liabilities, if any, for each federal program under the auspices of the Cash Management Improvement Act of 1990.

Auditee Response:

1. *Effective August 1995, DHS began to document the dates of cash draws from the established funds transfer procedures that leaves a better audit trail.*

2. *DHS disagrees with the interpretation that DHS is responsible for monitoring check clearance patterns and disbursement dates and calculating interest liabilities.*

3. *To rectify this finding, the agency is keeping track of the actual schedule dates and ordering the cash on the 10 day check clearance pattern.*

4. *It was stated in the finding that the State CIA manual requires the State to do these tasks not DHS specifically. State Agencies do not have access to the information required to do these tasks. The Bureau of Accounts and Control and the State Treasurer is responsible for completion of the mentioned tasks, and are currently maintaining the records of date(s) of cash drawn, expenditures and interest liability, if any.*

(80) Office of Management and Budget
Division of Audit

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

Finding: Federal and state audit requirements not satisfied (Prior Year Finding)

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*.

- **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.

- **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.

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

  This manual establishes rules pursuant to Title 5 MRSA, 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.

   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 met all applicable American Institute of Certified Public Accountants and Governmental Accounting Standards reporting standards.

2. Audits performed by state agencies address only the funds provided by those particular 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: 1) an opinion on a program's financial statements; 2) a report on a program's internal controls, and 3) 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. Audit reports that DHS prepared also do not comply with this option; and the reports 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. The department'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.

Auditor's Note: This finding was included in the fiscal year 1993 *Single Audit Report of the State of Maine*. We find the same areas of concern exist for fiscal year ended June 30, 1995. However, legislation (Chapter 402-PL of 1995 - Part C - Chapter 148C), effective July 3, 1995, adequately addresses the recommendations made in original 1993 finding.

Recommendation:

None

Auditee Response:

We agree with the finding. However see state auditor's note above. MAAP has been amended effective 7/3/95 and appropriate corrective action has been taken. A-133 audits will be performed by Independent Public Accountant's effective for fiscal years beginning on or after 7/1/95.

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(81) Office of Management and Budget
Division of Financial Services

CFDA # Various Federal Programs **Questioned Costs:** $343,915

Department of Human Services

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) state:

> . . .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. . . .

During the 1995 fiscal year, the Department of Human Services (DHS) - Division of Audit performed audits/cost settlements of sixty-three subrecipients and identified a total $1,253,336 in disallowed costs and/or grant overpayments.

DHS has six months to take corrective action either to seek reimbursement or resolve the overpayments and/or disallowed costs. At December 31, 1995 DHS had not resolved a total of $343,915 in disallowed costs and/or grant overpayments that relate to twenty-four subrecipients. This amount includes both the federal and state share of the disallowed costs and/or grant overpayments due from subrecipients.

We question the $343,915 because the department's accounting records do not provide for a breakdown of the amount due that should be accorded to the federal and/or state share.

Recommendation:

We recommend that DHS take appropriate corrective action within six months of receiving subrecipient audit reports that cite instances of noncompliance with federal laws and regulations.

Auditee Response:

The Department does not agree with this finding. The questioned costs of $343,915 is not the amount of federally funded expenditures, as stated in the last sentence of this finding. In any case, in all program areas, there are sufficient expenditures appearing on the state's books to offset the federally funded questioned costs.

Department of Human Services

(82) Office of Management and Budget
Division of Audit

<u>CFDA #</u> Various Federal Programs **<u>Questioned Costs:</u>** None

<u>Finding</u>: Unaudited federal funds

The Office of Management and Budget (OMB), *Audits of Institutions of Higher Education and Other Non-Profit Organizations*, (Circular A-133) paragraphs 7 and 15h stipulates that (1) audits shall usually be performed annually but not less frequently the every two years: and (2) audit reports will be submitted within thirteen months after the end of the recipients's fiscal year.

The Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP) allows each subrecipient, based on its federal funding level, to choose a federal compliance audit performed either by the Department of Human Services (DHS)-Division of Audit or by an independent public accountant (IPA).

As of the date of audit, twenty subrecipients with fiscal years that ended during 1993 or 1994 had not had audits of their federal funds in accordance with Circular A-133. Fifteen of the subrecipients had chosen DHS-Division of Audit to perform the federal compliance portion of the audit. The other five subrecipients chose IPAs. The department provided the twenty subrecipients with a total of $1,899,851 in federal pass-through funds.

<u>Recommendation</u>:

We recommend that DHS program managers ensure that each community agency is audited according to the stipulations of Circular A-133.

<u>Auditee Response</u>:

We agree we are out of compliance for the fifteen (15) subrecipients who chose DHS, Division of Audit to perform the federal compliance portion of the audit. This area of noncompliance will be corrected in the subrecipient fiscal years ending June 30, 1996 as the State of Maine single audit law requires that subrecipients choose an Independent Public Accountant to perform this service.

Department of Human Services

We agree that at the time State Audit performed a field audit of our records, we did not desk review five (5) subrecipients who chose IPA's to perform the federal compliance portion of the audit. Currently, we have completed our desk review coverage of three (3) of these subrecipients. The other two (2) subrecipients will be finalized in the near future.

As a result, the division of Audit will have completed audit coverage for $1,097,197 of the $1,899,851.

Department of Labor

(83) Bureau of Employment Training Programs

Job Training Partnership Act
CFDA#: 17.246 **Questioned Costs:** None

Finding: Inconsistent application of procedures for awards and contracts

In accordance with its internal policies, the Bureau of Employment Training Programs (BETP) issues Notices of Availability (NOA) to its subrecipients for each program it awarded funding. The NOA is the enabling document that allows funds to be drawn down against a grant. An NOA is issued for each original award and for any revisions made to an award during the term of the grant.

We reviewed the award and contract documentation for the Economic Dislocation and Worker Adjustment Assistance (EDWAA) forty percent program with 12 County Service Delivery (SDA) area for program year 1994. An additional $99,500 was awarded to 12 County SDA near the end of the contract which it could expend past the contract termination date of June 30, 1995. BETP did not issue an NOA to 12 County SDA for the additional funding nor did it extend the termination date. However, 12 County SDA was able to draw down against the increased award. The SDA did receive approval from BETP in August 1995 for a revised budget which included the additional award.

Management at BETP has implemented a new policy which states that Notices of Availability are not necessary for contracts which only have a single source of funding, i.e., Title III EDWAA and special projects. However, the agency has not formalized this.

Recommendation:

We recommend that the Bureau of Employment Training Programs adhere to its policy of issuing Notices of Availability for all original and revised awards for its Title II and III programs until such time as a revised policy has been formalized and approved by the appropriate officials.

Auditee Response:

The BETP agrees that it should incorporate any changes regarding contract award forms into its FMS Manual. Be advised, however, that the procedure in question, originally initiated as a test to eliminate paperwork has been reinstituted; therefore, no change to the Manual is required.

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(84) Bureau of Employment Training Programs

Job Training Partnership Act
CFDA#: 17.246/17.250 **Questioned Costs:** None

Finding: Inadequate monitoring procedures performed

The Bureau of Employment Training Programs (BETP) has not been monitoring its Service Delivery Area (SDA) providers according to regulations of the Job Training Partnership Act, 20 CFR 627.475 or according to the Governor's Coordination and Special Services Plan as approved by the U.S. Secretary of Labor. These regulations require BETP to make on-site visits to monitor its SDA's no less than once a year. BETP spent a reasonable amount of time monitoring 12 County SDA during fiscal year 1995. However, it has not monitored Cumberland County SDA or Penobscot Consortium SDA nor are there any plans to do so. Contracts with these two providers totaled \$3,691,666 for Title II and \$2,681,846 for Title III for fiscal year 1995 federal awards.

Department of Labor

Title 20 CFR 627.475 also states that the Governor, or his delegate, should establish ". . .policies to achieve program quality and outcomes (which) meet objectives of the (Job Training Partnership) Act and regulations promulgated thereunder". BETP did not perform the necessary procedures to ensure that one of its subrecipients, Jobs for Maine's Graduates (JMG), complied with the matching requirements applicable to the eight percent education grant. According to 20 CFR 628.315(e) and the Governor's Coordination and Special Services Plan, the match must be made with general revenues received from the state. BETP did not ascertain the source of JMG's contribution to the program.

Recommendation:

We recommend that the Bureau of Employment Training Programs improve the monitoring of SDAs and other subrecipients by implementing the following procedures:

1. Perform on site visits at Cumberland County SDA and Penobscot Consortium SDA during fiscal year 1996; and

2. Determine that Jobs for Maine's Graduates has complied with all matching requirements associated with grants received under Titles II and III of the Job Training Partnership Act.

Auditee Response:

The BETP and Job Service Administration units merged in the spring in an attempt to prepare for one-stop programming. Due to the upheaval that accompanies all organizational transformation efforts, the monitoring did not occur. The plan now is to conduct the monitoring activities by December 30, 1996.

The Bureau respectfully disagrees with the draft finding that JMG's match is not properly monitored. The Bureau reports that the General Fund appropriation for JMG exceeds the JTPA allocation. The Bureau has direct access through MFASIS, of the JMG expenditures and this is a required reporting item in JMG's reports to the Bureau.

Department of Labor

(85) Bureau of Employment Training Programs
12 County Service Delivery Area

Job Training Partnership Act
CFDA#: 17.246/17.250 **Questioned Costs:** None

Finding: Inadequate procedures performed during subrecipient monitoring (Prior Year Finding)

Each subrecipient of the Maine Department of Labor (MDOL) Job Training Partnership Act (JTPA) must submit audited financial statements annually. Personnel from the Bureau of Employment Training Programs (BETP) or the 12 County Service Delivery Area (SDA) then perform a desk review of the audit reports to determine the adequacy of the reports. The audited financial statements and their associated tests of controls and regulatory compliance are part of the subrecipient monitoring effort.

We noted the following deficiencies in the checklist that the agency used to perform the desk reviews:

1. The desk review checklist does not require MDOL personnel to reconcile funding it provides with the revenue reported in the audited financial statements; and

2. The desk review checklist does not address the adequacy of the supplemental schedules required by Section .02(E) of the *Maine Uniform Accounting and Auditing Practices* (MAAP).

Recommendation:

We recommend that BETP and the 12 County SDA revise their desk review checklists to include steps which reconcile funding with reported revenues and address the adequacy of supplemental MAAP schedules.

Auditee Response:

BETP Response:

The desk review checklist will be revised to include procedures to reconcile revenues and expenditures reported in the audited financial statements with BETP records.

The checklist will also be revised to include a review of the supplemental schedules required by Section .02 of MAAP. All audits received for the year ending June 30, 1995 will be reviewed again to comply with these requirements.

12 County SDA Response:

The desk review of Service Provider audit reports was done utilizing a tool provided to us by the BETP. This checklist will be upgraded effective immediately to incorporate the audit findings.

(86) Bureau of Employment Training Programs
12 County Service Delivery Area

Job Training Partnership Act
CFDA #: 17.246/17.250 **Questioned Costs:** None

Finding: Inadequate documentation of current policies and procedures

We reviewed the *Financial Management Procedures Manual* maintained by the Bureau of Employment Training Programs (BETP) and the *Operating Policy and Procedures Manual* maintained by 12 County Service Delivery Area (SDA). We determined that some of the policies and procedures currently used at these agencies were not properly documented. The policies and procedures that require documentation are:

1. The bureau should create a control listing of all spreadsheets that BETP and 12 County SDA prepare on a regular basis; it should outline the source, frequency, use and description of the various spreadsheets;

2. In order to eliminate any confusion among the SDAs or service providers as to what documents are required and when they are required, the bureau should document the award and contracting procedures that BETP and the 12 County SDA perform; the procedures should be applicable to contract revisions as well as the original awards and contracts;

3. The bureau should document the federal reports that BETP is currently required to file, along with due dates and the person(s) responsible for preparing and reviewing the reports; the *Financial Management Procedures Manual* prepared by management currently addresses federal reporting requirements; however, with the exception of one page, the manual has not been updated since its inception in 1988.

The standards for financial management systems applicable to Job Training Partnership Act (JTPA) identified in 20 CFR 627.425, specify that ". . .recipients and subrecipients shall ensure that their own financial systems. . .shall include information pertaining to subgrant and contract awards, obligations. . ." and are ". . .sufficient to permit preparation of required reports".

Recommendation:

We recommend that the BETP and the 12 County (SDA) properly document their procedures pertaining to awards and contracts, federal reporting and the use of spreadsheets. In addition, both agencies should review their policies and procedures manuals so that they correctly reflect the procedures that personnel at the agencies currently perform.

Auditee Response:

1. *The Bureau concurs and is currently creating control listings of all spreadsheets that the 12 County SDA prepare on a regular basis to be completed for the FY 96 Audit. Major spreadsheets used by BETP are documented to include instructions for use and completion dates of the applicable worksheets.*

2. *Service Provider procedures which remain constant are documented in Volume II of the SDA's Operation Manual. Contract Revisions (modifications) are often the result of unique circumstances and therefore, procedures are often tailored to meet the situation. These procedures are "documented" in modification instructions. The BETP will be reviewing the implement changes in re-engineering the work flow, and modifications to procedure in the context of establishing the new Bureau of Employment Services.*

3. *The Bureau has incorporated all reporting requirements, whether Federal or State, into its instructions that are communicated to the SDA's. However, they are not all included in the FMS Manual. The system will be restructured according to new procedures instituted with the merger of the Department's fiscal units.*

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(87) Bureau of Employment Training Programs
12 County Service Delivery Area

Job Training Partnership Act
CFDA#: 17.246/17.250 **Questioned Costs:** None

Department of Labor

<u>Finding</u>: Unallowable costs charged to the Job Training Partnership Act program/Drawdown techniques conflict with Cash Management Improvement Act agreement

The Bureau of Employment Training Programs (BETP) and 12 County Service Delivery Area (SDA) draw down federal funds to pay for administrative costs of programs funded by the state's General Fund. Although administrative costs are later distributed to federal and state funded programs equitably, BETP and 12 County SDA initially charge the federal fund for all administrative costs.

For fiscal year 1995, BETP and 12 County SDA drew down additional federal funds for administrative costs amounting to approximately $254,300 and $145,500, respectively. No costs are questioned at this time due to the complexity of the calculation.

Title 20 CFR 627.435 *Cost Principles and Allowable Costs* states that for a cost to be allowable, it must be necessary, reasonable, and allocable to the program. It also states that ". . .costs of another Federal grant, JTPA. . .or cost category may not be shifted to a JTPA grant". BETP's and 12 County SDA's current practice of drawing down additional funds violates this regulation.

In addition, BETP and 12 County SDA do not draw down federal funds for their indirect costs in accordance with the Cash Management Improvement Act (CMIA) agreement between the State of Maine and the U.S. Department of Treasury-Financial Management Service. The agreement specifies that drawdowns for indirect costs shall be calculated by applying an approved indirect cost rate to the agency's direct costs. The indirect cost rate is to be based on an approved indirect cost allocation plan. Neither BETP nor 12 County SDA have an approved indirect cost allocation plan or indirect cost rate. The agencies currently draw down amounts based on estimates of future expenditures.

<u>Recommendation</u>:

In order to comply with the provisions of the (CMIA) agreement we recommend that BETP and 12 County SDA submit cost allocation plans to the U.S. Department of Labor and obtain approved indirect cost rates. We further recommend that BETP and 12 County SDA charge indirect costs to the JTPA in accordance with 20 CFR 627.435, and that they draw down funds in accordance with the CMIA agreement.

<u>Auditee Response</u>:

The entire drawdown procedure will be reviewed and modified as a result of the unit integration. Given this integration, the 12 County SDA's cost allocation needs will be treated the same as all other indirect costs within the Maine Department of Labor, that is, our cost allocation system *distributes those costs based on the proportionate share of total direct program hours charged in the system. Drawdowns would then be based on the total expenditures of the fund ledger (Grant) which would include both direct and indirect charges.*

(88) Bureau of Employment Training Program
12 County Service Delivery Area

Job Training Partnership Act
CFDA # 17.250 **Questioned Costs:** None

Finding: Inadequate review procedures for financial reports

Twelve County Service Delivery Area (SDA) has no procedures in place that provide for the review of financial reports to ensure accuracy of the expenditure balances reported before being sent to the Bureau of Employment Training Programs (BETP).

We reviewed the agency's quarterly financial reports for the period ended June 30, 1995. Two separate instances were noted where the wrong expenditure amount had been entered into the worksheets which summarized the expenditures for all the service providers. As a result of these errors, expenditures for the Title IIB program year 94 and Title IIC program year 94 programs were overstated by $187,000 and $200, respectively. As the quarterly reports are not reviewed by another member of management before being submitted to BETP, these errors were not corrected until the next quarter.

Recommendation:

We recommend that 12 County SDA implement review procedures for its financial reports to ensure that expenditure amounts are accurately reported to its oversight agency.

Auditee Response:

We agree that quarterly financial reports for the BEEP have been developed by a single staff person and, subsequently, have not been further reviewed for accuracy by a second staff person. To do so would have necessitated having the second staff person effectively repeat the entire *exercise. Although we can certainly appreciate that this would go a long way in ensuring the accuracy of the reports, we simply have not had the staff resources to do it. It is our hope now that this office's fiscal unit is integrated with the larger DOL fiscal unit, procedures will be developed to double check all processes for accuracy.*

(89) Bureau of Employment Training Programs
12 County Service Delivery Area

Job Training Partnership Act
CFDA#: 17.246/17.250 **Questioned Costs:** None

Finding: Inadequate review procedures for the indirect cost allocations

The Department of Labor, 12 County Service Delivery Area (SDA) allocates indirect costs monthly. We reviewed the directed delivery and SDA administrative expenditure allocations for the months of November 1994 and March 1995. As a result of the complexity of the allocation which requires the use of several spreadsheets, we noted the following deficiencies:

1. Kennebec and Washington Counties' direct delivery percentages for March were incorrect and carried forward into the cost pool allocation. As a result, state funds were ultimately used for expenditures that could have been charged to the Job Training Partnership Act (JTPA) program;

2. The overhead percentages in the SDA administrative cost allocation were incorrect since they did not include the percentages for the Maine Training Initiative program. Again, the state funds were used for expenditures which could have been charged to the federal program;

3. The accrual for the Class/Less Than Class transactions for the Strategic Training for Accelerated Reemployment (STAR) program in Washington County was incorrect and not detected by 12 County SDA personnel; and

4. No formal documentation of the cost allocation calculation process exists. Title 20 CFR 627.425 and the Office of Management and Budget (OMB), *Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments* (Common Rule), Subpart C § .20 require certain documentation of accounting and financial reporting systems used for federal financial assistance programs.

Because management personnel at 12 County SDA do not review the indirect cost allocations, incorrect expenditure allocations were reported to 12 County SDA's oversight agency via quarterly financial reports.

Recommendation:

We recommend that 12 County SDA properly document its financial accounting and reporting systems according to the requirements of 20 CFR 627.425 and the Common Rule. We further recommend that it develop and implement written procedures that require a review of the indirect cost allocation before reporting those expenditures to the oversight agency.

Auditee Response:

Cost allocation plans do exist for both Direct Delivery and for the SDA administration. The allocation of indirect costs for direct Delivery is generally reviewed by the manager of Direct Delivery programs (although the actual calculations themselves are not reviewed.)

In the case of the SDA administration, the Director of Planning & Administration personally calculates the distribution of allocated expenses. Documentation of the procedure will take place immediately.

Again, a real review (double check) of these allocation procedures would necessitate a repeat of the entire exercise. This simply has not been practical to date.

It is hoped that the consolidation of fiscal units within the DOL will provide for the auditor's recommendation on fully documenting accounting and reporting systems and will provide for the necessary review of these systems' products.

(90) Bureau of Employment Training Programs
12 County Service Delivery Area

Job Training Partnership Act
CFDA # 17.246/17.250 **Questioned Costs:** None

Department of Labor

Finding: Noncompliance with federal regulations regarding State Job Training Coordinating Council

Title 20 CFR 628.210 requires that a State Job Training Coordinating Council be established and be comprised of thirty percent representation from business and industry, thirty percent from organized labor and community based organizations, thirty percent from state and local government, and ten percent from the general public. The council's composition as of June 30, 1995 reflected a ten percent deficiency in business and industry representation while the other categories had corresponding overages in representation. These compliance variations are the result of difficulties in securing council representatives.

Recommendation:

We recommend that the agency aggressively seek out council representatives to comply with council composition guidelines.

Auditee Response:

MDOL recognizes the importance of filling vacant positions on the Maine Human Resource Development Council (MHRDC). At the same time we recognize the need to recruit new members in light of new legislation now before the Congress. It would be unfortunate to appoint new members when the council could be easily restructured in the spring. New members will be appointed in the context of a council under new legislation, or when it becomes clear the current legislation will continue to exist.

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(91) Bureau of Employment Training Programs
12 County Service Delivery Area

Job Training Partnership Act
CFDA # 17.246/17.250 **Questioned Costs:** None

Department of Labor

Finding: Inadequate monitoring of service providers' cash management procedures

Twelve County Service Delivery Area (SDA) does not have adequate monitoring procedures over the cash management processes that its service providers perform. Currently, 12 County SDA reviews the service providers' cash requests on a weekly basis to determine whether excess cash exists. No reconciliation of these cash requests is performed to determine whether they are prepared correctly. A limited analysis of the providers' procedures for estimating cash drawdown amounts is performed by 12 County SDA during its biennial site visits but no analysis is performed to compare actual disbursements to drawdowns.

In October 1995, 12 County SDA received a $285,000 refund from one of its service providers as a result of larger than normal drawdowns made at the end of fiscal year 1995. The SDA did not anticipate the refund since the procedures it normally performs did not identify the existence of the excess cash.

Recommendation:

We recommend that 12 County SDA improve its monitoring of its service providers' cash management procedures by implementing the following:

1. Implement procedures which monitor the accuracy of the service providers' preparation of cash request forms;

2. Improve the analysis of the providers' cash management procedures during its biennial site visits by increasing the time frame examined; and

3. Perform a comparison of drawdowns to actual expenditures for each program on a monthly basis.

Auditee Response:

As per recommendations Nos. 1 & 3, Service Provider cash requests will be verified against the monthly expenditure reports. Due to timing differences, we do not expect the expended amount and requested cash to agree exactly. However, verification will be made within a reasonable amount of dollars.

As for recommendation No. 2, during its biennial Service Provider monitoring visits, the SDA will increase the time frame examined for cash management.

It's important to state here in this first audit finding that the SDA fiscal unit has recently incorporated into the larger ME. DOL fiscal unit. It is expected that this merger will provide us with increased "checks and balances".

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(92) Bureau of Employment Training Programs
12 County Service Delivery Area

Job Training Partnership Act
CFDA# 17.246/17.250 **Questioned Costs:** $693

Finding: Record retention requirements not met

We reviewed the agency's quarterly reports submitted to the Bureau of Employment Training Programs (BETP) during July 1995 for the period ended June 30, 1995. The expenditures reported for Service Delivery Area (SDA) Administration for the Title IIA program year 1994 and Economic Dislocation and Work Adjustment Assistance (EDWAA) formula program year 1994 could not be supported by 12 County SDA's accounting records and there were no reconciling worksheets available for review. Although the worksheets existed at one time they had been inadvertently overwritten on the computer and consequently there were no hard copies.

The 12 County SDA revised its June 30, 1995 reports during November 1995 and submitted them to BETP. We examined these reports and discovered that some of the expenditures reported for SDA Administration were not supported by accounting records or reconciling worksheets. Allocation of the indirect costs to the various programs that 12 County SDA administers resulted in questioned costs of $479 for the Title II programs and $214 for the Title III programs.

The standards for financial management systems applicable to the Job Training Partnership Act (JTPA) identified in 20 CFR 627, specify that

> . . .recipients and subrecipients shall ensure that their own financial systems. . .provide fiscal control and accounting procedures that are in accordance with generally accepted accounting principles. . ." and should include ". . .source documentation to support accounting records; and be sufficient to permit preparation of required reports.

Further, according to Section 165(e) of JTPA, ". . .records shall be retained for 2 years following the date on which the annual expenditure report containing expenditures charged to such program year's allotment is submitted to the Secretary".

Recommendation:

In order to comply with federal regulations, we recommend that 12 County SDA maintain all accounting records and worksheets necessary to provide adequate supporting documentation for its financial reports. The SDA should retain hard copies of computer generated worksheets and/or make back-ups of the computer files.

Auditee Response:

The 12 County SDA will maintain all accounting records and worksheets necessary to provide adequate supporting documentation for its financial reports. Hard copies of computer generated worksheets were maintained during fiscal year 1996.

We understand that the State Audit Department cannot waive the questioned costs at this juncture. However, we will pursue a waiver with the Federal Grant Official in that we feel a questioned cost amounting to less than .12% of the total amount allocated is not material to the overall efforts of the SDA.

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(93) Office of Administrative Services

Unemployment Insurance
CFDA# 17.225 **Questioned Costs:** None

Finding: Check clearance pattern not approved by Financial Management Services

The Department of Labor (MDOL) - Office of Administrative Services developed a new check clearance pattern for the Unemployment Insurance Program to correspond more closely to the program's clearance activity.

Department of Labor

Title 31 CFR, 205 (c)(1)(I) requires that a state immediately notify the U. S. Department of Treasury - Financial Management Service (FMS), in writing of any program requiring a new clearance pattern. The Department of Labor did not notify the Office of the Treasurer of State of the change in the clearance pattern. The Treasurer, therefore, was not able to notify the FMS in writing of the required change.

In addition, the new clearance pattern that MDOL implemented resulted in one hundred one percent of the cash need being drawn down for each eleven-day clearance period.

Recommendation:

We recommend that the Department of Labor notify the State Treasurer if a program's clearance pattern should be changed so that the State Treasurer may immediately notify the FMS. We further recommend that the MDOL adjust its clearance pattern to total one hundred percent of the cash need for each eleven-day clearance period.

Auditee Response:

As recommended, the Department has adjusted its clearance pattern to total 100%. As we have changed banking institution, the clearance pattern will be monitored and the State Treasurer will be immediately notified in writing of any change to the existing clearance pattern.

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(94) Office of Administrative Services

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

Finding: Equipment inventory 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 § .32 (2) and (3) state:

> . . . 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.

The Department of Labor (MDOL) has not conducted a physical inventory of equipment, has not maintained a perpetual inventory of all capital equipment (e.g., modular office furniture) as required by the State of Maine *Manual of Financial Procedures*, and has not established a control system to ensure adequate safeguarding of assets. Out of sixty-two items tested, five with an original cost of over $63,000 were unaccounted for.

Recommendation:

We recommend that the Maine Department of Labor, Office of Administrative Services conduct a complete physical inventory of its capital equipment and reconcile the results to perpetual records. We further recommend that MDOL establish written procedures for all its bureaus and divisions to follow in order to ensure accurate and complete perpetual inventory records.

Auditee Response:

A physical inventory was conducted during fiscal year 1995 at all BES locations for all capital equipment except for modular furniture. A property inventory reconciliation is in process. We have made progress in this area as all random selections requested by the Auditors were found.

The department is soliciting proposals from interested vendors to conduct a modular furniture inventory at all DOL locations. We expect it completed by November 30, 1996. After the review process, the information will be added to our property inventory system.

Department of Mental Health and Mental Retardation

(95) Division of Accounting

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

Department of Mental Health and Mental Retardation

Finding: An accounts receivable not established for federal funds due to the state from subrecipients (Prior Year Finding)

An objective of internal control is accountability for assets. During state fiscal year 1995 the Department of Mental Health and Mental Retardation (MHMR)-Division of Audit was responsible for auditing or coordinating audits of MHMR subcontracts that require audits. Besides developing questioned costs, the financial and compliance audits often reveal an excess of revenue over expenditures (surplus). If there is no resolution within sixty days, surplus balances immediately become due and payable to the state.

As of January 31, 1995, MHMR established a receivable for surplus state funds with debits totaling $195,342. As of June 30, 1995, MHMR identified $52,003 in surplus federal funds due back to the state. To date, no receivable has been established for the balance of these federal funds due to the state. The amounts due for the pertinent federal programs as of June 30, 1995 are:

CFDA#	Program Name	Balance Due MHMR
93.125	Mental Health Planning and Demonstration Projects	$48,497
93.150	Projects for Assistance in Transition from Homelessness	3,506
Total		$52,003

Recommendation:

In order to strengthen collection procedures for amounts due to the state, we recommend that MHMR establish an accounts receivable on the Controller's records for federal funds identified as due back to the state as a result of subrecipient audits. We further recommend that the department make a concerted effort to collect the $52,003 still outstanding in federal monies identified as due to the grantee.

Auditee Response:

. . . .Department had hoped these would be taken care of. There has been some verbal statements made that these funds were actually allowed to be carried over to the next fiscal year but our policy is unless we receive written documentation from the program people these receivables will continue. The Department will set these up as a receivable in current fiscal year 1997.

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(96) Division of Audit

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

Finding: Federal and state audit requirements not satisfied (Prior Year Finding)

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*.

- **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.

- <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.

- <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, 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 and some have not met continuing education requirements. MHMR has not participated in an external quality control review program; and has not met all applicable AICPA and GAS reporting standards.

2. Audits performed by state agencies address only the funds provided by those particular 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: 1) an opinion on a program's financial statements, 2) a report on a program's

internal controls, and 3) 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. Audit reports prepared by MHMR do not comply with this option and do not comply with any standard reporting requirements.

Auditor's Note: This finding was included in the fiscal year 1993 *Single Audit Report of the State of Maine*. We find the same areas of concern exist for fiscal year ended June 30, 1995. However, legislation (Chapter 402-PL of 1995 - Part C - Chapter 148C), effective July 3, 1995, adequately address the recommendations made in the original 1993 finding.

Recommendation:

None.

Department of Transportation

(97) Bureau of Finance and Administration

Highway Planning and Construction
CFDA # 20.205 **Questioned Costs:** None

Finding: The indirect overhead cost allocation plan for non-crew personnel lacks federal approval

The Department of Transportation allocates indirect overhead costs according to two cost allocation plans, one based on crew personnel and the other based on non-crew.

The department submitted the non-crew personnel indirect cost allocation plan to the Federal Highway Administration (FHWA) on August 30, 1973 and received a response on September 7, 1973 which stated:

> Although we approve of the state's procedure for the next twelve months, we do not believe it is the best method to use. . . .We hope that after the twelve month period the State will have sufficient data so a uniform rate can be established for use during a yearly period".

While the crew overhead allocation plan complies with the FHWA request, the non-crew plan does not.

Recommendation:

The department should resubmit both of the indirect overhead cost allocation plans for FHWA approval.

Auditee Response:

The Department will submit a request for approval of the indirect overhead cost allocation plan currently being used.

---

(98) Bureau of Finance and Administration

Highway Planning and Construction
CFDA # 20.205 **Questioned Costs:** None

Finding: Rail assistance funds due are not established as loans receivable on the agency and Controller's records

Section 10.01 of the agreement between the railroad and the Department of Transportation states: "Federal funds received by the contractor (railroad) from the Commissioner under this agreement are provided as a loan and shall be repaid in equal semi-annual installments."

Federal rail assistance funds totaling $534,583 was paid to two railroads as of June 30, 1995. Subsequent agreements in excess of $463,158 have been exercised. The department has not formally established any of the loan receivables noted above on either the agency's or Controller's books.

Recommendation:

We recommend that the Department of Transportation establish loan receivables on the agency's and Controller's records to allow for correct reporting at fiscal year-end in accordance with generally accepted accounting principles. The department should also establish procedures to ensure that the loans are repaid in accordance with the terms of the agreements.

Auditee Response:

We concur. Accounts receivable for the rail assistance program were established during FY 96. Collection of these receivables will be accomplished within the existing procedures.

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(99) Bureau of Finance and Administration

Non-Major Federal Programs
CFDA # Various | **Questioned Costs:** None

Finding: Reimbursement for expenditures was applied to accounts that are not allowable

In fiscal year 1995 the Department of Transportation (MDOT) drew $732,695 from four grants, CFDAs 20.500, 20.505, 20.507 and 20.509. The expenditures which justified the drawdowns appear to have been made before fiscal year 1995. When the cash was drawn, $649,169 was used to pay for legal services and office supplies in the Bureau of Transportation. Expenditures were transferred from Administration and Planning and recorded by journal voucher. When asked why they were transferred we were told that it was assumed that expenditures were made in that organization. The remaining $83,526 in cash appear to have been recorded as revenue in another account and not expended by year-end 1995.

It appears that poor cash management procedures prevented the cash drawdown in the correct year in which the expenditures occurred. The $732,695 from the four grants should have been recorded to Federal Fund balance which should have incurred the original expenditures, rather than have absorbed expenditures in Administration and Planning. The result of these transactions was an overstatement of grant expenditures in fiscal year 1995.

Department of Transportation

Recommendation:

We recommend the following:

1. Cash be drawn down and recorded on an accrual basis of accounting as revenue in the year in which the original expenditures were incurred; and

2. Transfers of expenditures by journal voucher be made only if justified by generally accepted accounting practices.

Auditee Response:

We concur. The Department will draw down and record cash on an accrual basis of accounting as revenue in the year in which the original expenditures are incurred. Transfers of expenditures will be recorded by journal voucher only if justified by generally accepted accounting principles.

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(100) Bureau of Finance and Administration

Indian Grants Economic Development
CFDA # None Available **Questioned Costs:** $48,534

Finding: Excessive billing for construction engineering costs

By Memorandum of Agreement (MOA) dated June 30, 1993 the Department of Transportation agreed to design and construct a bridge with the financial assistance of the Department of Interior-Bureau of Indian Affairs (BIA). The MOA established the BIA cost share of the project at eighty-two percent of total cost and limited the cost of construction engineering to fifteen percent of the cost of construction. The final cost of construction was $560,443 thereby limiting construction engineering costs to $84,066. The BIA share of $84,066 at eighty-two percent would be $69,072. BIA paid $117,606 for construction engineering, $48,534 greater than their share by terms of the MOA.

Department of Transportation

Recommendation:

We recommend that the Department of Transportation repay the Department of Interior-Bureau of Indian Affairs $48,534 for excess construction engineering costs.

Auditee Response:

We do not concur. The billing for construction engineering costs is correct per the agreement with the United States Department of the Interior, Bureau of Indian Affairs. It is our opinion that the 15% construction engineering rate was used purely for initial estimation purposes and so long as we kept to the 82.163% share we are in compliance with the terms of the agreement.

---

(101) Bureau of Project Development
Right-of-Way Division

Highway Planning and Construction
CFDA # 20.205 **Questioned Costs:** None

Finding: Unreliable inventory of excess Right-of-Way property

The United States Department of Transportation requires the Maine Department of Transportation -Right-of-Way Project Guide to maintain an inventory of Right-of-Way properties that are declared as excess. Our review of this inventory disclosed the following conditions:

1. Sixteen properties had been sold but three were not identified as sold;
2. Of four leased properties two had expired leases, one had no lease, and one with no lease was being used by a private organization;
3. No process exists or accountability assigned for determining availability of excess property;
4. Seven errors were found in availability determination; and

5. The Department of Transportation refers to Right-of-Way properties by the federal project code whereas otherwise it universally uses project identification numbers (PINs).

The inventory is an important management control mechanism that is used to support the highway planning process. The lack of reliability reduces the usefulness of the inventory and the number of people who would ultimately use it.

Recommendation:

In order to ensure that the inventory is current and accurate and can be used as a timely reference for the Department of Transportation, we recommend that the Right-of-Way Division establish written procedures for determining the data content and maintenance of the excess property inventory.

Auditee Response:

We concur. The Right-of-Way Division is currently developing a computer system that will maintain the inventory of all Right-of-Way parcels. The completion date is scheduled for fiscal year 1997.

(102) Bureau of Transportation Services
Rail Services Division
Office of Audit

Highway Planning and Construction
CFDA # 20.205 **Questioned Costs:** None

Finding: Lax oversight and enforcement of railroad agreement terms

We found monitoring and enforcement of railroad agreement terms to be weak. Standard Railroad Agreements, Section 13.01, Sub-section (b)(2)(I), Audits of Contractors requires that railroads and their subcontractors, must be examined within one hundred eighty days of the start of work. Projects ME-94-1 and ME-94-2 were not in compliance with the examination requirements.

Department of Transportation

Recommendation:

The Department of Transportation- Division of Rail Services should prepare a checklist to ensure that agreement conditions are met and that all parties, including the MDOT - Office of Audit, be notified and involved in the required monitoring and enforcement.

Auditee Response:

We concur with the finding. Due to the reorganization of the Department, the Office of Freight Transportation will now be responsible for these agreements and the proper procedures will be established, including notification to the Office of Audit.

Office of the Treasurer of State

(103) Cash Management Improvement Act
CFDA # Various **Questioned Costs:** None

Finding: Documentation of monitoring procedures of Cash Management Improvement Act needed

The Treasury Department is responsible for administering the Cash Management Improvement Act (CMIA) agreement between the State of Maine and U.S. Department of Treasury. This agreement establishes cash management criteria for seventeen of the state's major federal financial assistance programs. The purpose of the Act is to promote sound cash management practices and to insure greater equity in the transfer of federal funds to state governments.

A *Policy and Procedures Manual*, dated July 1, 1993, provides information about funding mechanisms, implementation and central oversight procedures. Specifically, the manual mandates:

> . . .in every program, even those with an interest-neutral funding mechanism, it is important that auditable documentation be maintained to demonstrate the State's compliance with CMIA.

The Treasury Department has not maintained documentation on how cash draw-downs and disbursements of federal funds are monitored as required by CMIA.

Office of the Treasurer of State

Recommendation:

We recommend that the Treasury Department document oversight procedures to assure full compliance with provisions of the Cash Management Improvement Act. This should include periodic review of agency and department cash management records for all federal programs subject to the Act.

Auditee Response:

As a supplement to existing procedures an attempt will be made to contact each affected department to ascertain proper procedures are in place. Currently, Audit exceptions are for prior years which have been cleared up. Human Services, notes that exceptions noted as to Audit trails are for back years 1994/5 which are now fixed. Documentation seems to be in place as to draw downs and disbursements. Periodic contact with Human Services and other departments will be made as recommended.

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(104) Cash Management Improvement Act
CFDA# Various **Questioned Costs:** None

Finding: Cash Management Improvement Act annual report filing incomplete

The Treasury Department filed the Cash Management Improvement Act (CMIA) Annual Report for the period July 1, 1994 to June 30, 1995 on December 19, 1995 complying with the instructions from Financial Management Service of the U.S. Department of Treasury. The contents addressed direct cost claims and the report for current year and prior period interest liability.

Our review of the report indicated that some information pertaining to average daily balances, interest rates, and related amounts for cash owed to the Federal Government were erroneously omitted from the report.

Office of the Treasurer of State

Recommendation:

We recommend that the Treasury Department review the Annual Report submission and correct any entries due to the absence of certain data. An amended report should be prepared or the corrections considered as prior year adjustments when the next report is prepared covering the period July 1, 1995 to June 30, 1996 and submitted to the Financial Management Service.

Auditee Response:

In the one program containing a calculation error, Price Waterhouse, the Audit Firm hired to do the calculation will correct by a prior year adjustment in December 1996. A review of the calculation showed the correction to be minor in nature.

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Management Letter

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

Tel: (207) 624-6250
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Management Letter

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

In planning and performing our audit of the primary government financial statements of the State of Maine for the year ended June 30, 1995, 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 August 16, 1996. A separate report dated August 16, 1996, contains our report on reportable conditions on the State's internal control structure. This letter does not affect our report dated August 16, 1996, on the primary government financial statements of the State of Maine.

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

August 16, 1996

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State of Maine
Management Letter Findings and Recommendations
for the Year Ended June 30, 1995

Department of Administrative and Financial Services

(105) Bureau of Accounts and Control

Finding: Incorrect accounting for working capital advance (Prior Year Finding)

The method the Bureau of Accounts and Control uses to account for working-capital-advance related transactions between governmental funds is incorrect. It results in misstated assets and revenue in the fund that receives the advance. Because of constraints of the accounting system, any transfer of funds by a governmental fund must be coded to a revenue source. To offset the revenue, an asset is debited upon receipt of the advance or credited upon repayment. Using the asset account in the fund receiving the advance offsets that fund's legitimate liability. In addition, using revenue to show the receipt or repayment of the advance is incorrect since there should be no effect on the operating statement resulting from a loan or advance.

Recommendation:

We recommend that when accounting for working capital advance related transactions between governmental funds, the bureau use a fund balance account such as profit or loss rather than an asset account to offset the use of revenue. Using a fund balance account would eliminate overstating assets and revenues.

Auditee Response:

We agree with this finding and will implement procedures to account for working capital as recommended.

Department of Administrative and Financial Services

(106) Bureau of Accounts and Control

Finding: Interfund payables incorrectly allocated

During our review of a sample of thirty interfund payables we noted that one was incorrectly recorded in the General Fund. This transaction alone resulted in an understatement of the General Fund balance by $751,953. We also noted nine other instances where payables were not recorded in the appropriate funds.

Currently, the Bureau of Accounts and Control reviews interfund payables and receivables at fiscal year-end to determine if assets and liabilities are equal. The state's accounting system is not designed to automatically post interfund payables at the same time that a receivable is established in another fund. Therefore, the bureau reviews billing statements that support the receivable balances to determine which fund(s) to post the offsetting payables. The methodology used to determine that a payable is posted to the correct fund does not take into consideration the customers' funding sources. As a result, interfund payables were allocated to the wrong funds.

Recommendation:

We recommend that the bureau modify the methodology for determining interfund payables at fiscal year-end to ensure that payables are recorded in the correct funds.

Auditee Response:

We are examining procedures that may help us make our projections more accurate by requesting agencies to indicate what fund will be charged.

(107) Bureau of Accounts and Control

Finding: Incorrect recognition of revenue and expenditures

Disaster Assistance grant funds are provided to the Department of Defense and Veterans Services (DVS)-Maine Emergency Management Agency (MEMA) when the President of the United States declares that a disaster has occurred in the state. When federal funds are drawn down from the

Federal Emergency Management Agency (FEMA) to the state, MEMA prepares a Controller's cash receipt statement to credit the revenue to MEMA's federal account.

Much of these funds are transferred to other state departments. In fiscal year 1995 funds were transferred primarily to the Maine Department of Transportation (MDOT), but also to the departments of Inland Fisheries and Wildlife, and Conservation. When the funds are transferred through the state's internal billing/payment process, MEMA uses an expenditure code for grants to state agencies. The departments credit the revenue to their federal accounts which is a second recording of federal revenue; and when they expend the funds the departments also use an expenditure code which is a second recording of expenditures. Thus, all federal disaster assistance funds that MEMA received and transferred to state departments in fiscal year 1995 were incorrectly recorded twice in the state accounting system. The effect is that $2,094,590 of grant drawdowns would be recorded twice in the revenue and expenditure categories of the State of Maine Financial Report for fiscal year 1995.

According to generally accepted accounting principles (GAAP) as stated in the *Codification of Governmental Accounting and Financial Reporting Standards*, (GASB) section 1800.107, "Interfund transfers should be distinguished from revenue. . .or expenditures in financial statements". The section further states:

> Operating transfers should be reported in the "Other Financing Sources (Uses)" section in the Statement of Revenues, Expenditures, and Changes in Fund Balance (governmental funds). . . . Alternatively, transfers of resources from the fund legally required to receive them to the fund legally authorized to expend them may be reported as deductions from the gross revenues in the former and additions to the revenues in the latter.

Recommendation:

We recommend that DVS-MEMA consult with the Controller to determine the best method for correct recording of federal grant revenue and expenditures. The method should also include the need for accurate identification of all disaster assistance expenditures on the Schedule of Federal Financial Assistance that is used for audit planning purposes.

Auditee Response - Bureau of Accounts and Control:

The agency involved should have used revenue transfer codes. We will discuss this issue with General Accounting to make sure that in the future these kinds of transfers are coded correctly. Also, we have discussed the feasibility of establishing new transfer codes to identify operating transfers. In the near future the Bureau will issue written guidance to all agencies.

Auditee Response - Department of Defense and Veterans Services:

This has been a major problem area over the last several years. Clearly defined guidelines for all State Agencies should be established/monitored by "Finance". We have always questioned whether any (State) grant from such a federal program, to another State Agency should again be recorded as federal revenue, regardless of whether the funds are actually offsetting already expended funds, or are to be applied to a direct payment reference a grant project number as previously approved. In our efforts to be in compliance with GAAP, we admittedly have been somewhat inconsistent. Clear-cut instances of pass-through funds have resulted in "source document" recording entries to the final recipient agency account. In all other instances, the transaction has been considered more of a reimbursement, rather than an operating transfer. We totally agree however that the process should be consistent and assure appropriate/single recordings of revenue, and related expenditures. As to the "schedule of federal financial assistance," a separate column, or explanatory section, might be considered to facilitate/assist for audit planning purposes.

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(108) Bureau of Accounts and Control

Finding: Minutes not kept on meetings of the Advisory Council on Deferred Compensation Plan

Title 5 MRSA § 12004I subsection 25 lists the Advisory Council on Deferred Compensation Plan as an Advisory Board. Title 5 MRSA § 12014.A, which governs the organization and operation of all boards in state government, requires that state boards shall ". . .keep minutes of all meetings and record all actions". During our audit, we found that the board had met three times and could not provide minutes which recorded the activities at these meetings.

Recommendation:

We recommend that the department establish procedures to ensure that minutes are kept for all meetings of the Advisory Council on Deferred Compensation Plan.

Auditee Response:

We agree with the recommendation.

Department of Administrative and Financial Services

(109) Bureau of Accounts and Control

Finding: Lack of change control management protocol

The Bureau of Accounts and Control maintains computer software that monitors cash transactions for federal programs that are referenced in the Cash Management Improvement Act. The maintenance function includes revising computer code to reflect changes in procedures that would impact the processing of data and reporting results.

The Bureau of Accounts and Control programming staff has not established protocols for change control and configuration management. Use of such a system would include complete documentation of system changes, components, and versions of the cash management application including the verification of the accuracy of report data.

Recommendation:

We recommend a formal change control process be defined and established. This process should be then supported by configuration management software which needs to be put into place.

Auditee Response:

We agree with the recommendation.

(110) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Documentation not available for the audit

Our review of the internal control structure for the Bureau of Alcoholic Beverages and Lottery Operation (BABLO) revealed that its personnel had not retained the following documents for the 1995 fiscal year:

1. Warehouse Shipping Authorization and Invoices of July 1994 through May 1995;
2. Bi-Weekly Bailment Reports; and
3. Inventory count sheets for the year-end physical inventory.

Lack of documentation indicates a weakness in the bureau's accounting and administrative controls that could prevent verification of account balances.

Recommendation:

We recommend that BABLO personnel retain the documents described above.

Auditee Response:

We agree with the recommendation. The documents that were not available for audit were discarded in error.

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(111) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Detail accounts receivable records not maintained

Title 28-A, M.R.S.A. § 352 authorizes the Bureau of Alcohol and Lottery Operations (BABLO)-Merchandising Division to ship liquor to agency liquor stores before receiving payment for the merchandise. The agency liquor store must make payment within three days of either the receipt of a liquor delivery or the notification of the amount due. Amounts due are not established as accounts receivable except at the end of the fiscal year. At June 30, 1995 the receivable balance recorded on the Controller's records totaled $265,000.

The BABLO - Merchandising Division authorizes the shipment of liquor from the privately owned warehouse to agency liquor stores. During the 1995 fiscal year, the division recorded sales totaling $26 million. BABLO invoices the customer for the amount due and retains a copy of the invoice to match up with the customer payment. However, BABLO personnel do not maintain a detail and a control ledger of the invoiced amounts or the date and amounts of customer payments.

Recommendation:

To improve accountability over merchandise sold on account, we recommend that the BABLO-Merchandising Division maintain a detail and a control ledger of the invoiced amounts and the date and amounts of customer payments.

Auditee Response:

Staff from the Division of Financial and Personnel Services have met with Alcoholic Beverages staff to discuss the need to maintain the recommended ledger. Alcoholic Beverages will maintain the ledger.

(112) Bureau of Alcoholic Beverages and Lottery Operations

Finding: Inventory valuation not according to statutory requirement or generally accepted accounting principles (Prior Year Finding)

Title 28-A, M.R.S.A. § 64 states that the inventory value must be based upon actual cost and may not, at any time, exceed the amount of working capital authorized.

Generally accepted accounting principles (GAAP) requires the inventory to be valued at the lower of cost or market.

Bureau of Alcoholic Beverages and Lottery Operations (BABLO) personnel assign a cost to each item in stock based on the current cost of that item regardless of the original acquisition cost or length of time that a unit has been in stock. This procedure does not comply with the statute or with GAAP.

Recommendation:

To ensure that the inventory valuation conforms to both legal requirements and GAAP we recommend that BABLO review its procedures for assigning a cost to the inventory

Auditee Response:

We agree with the auditor regarding improving procedures to value inventory. We are in the process of evaluating the need to invest in a new sales and inventory system that would allow us to apply better costing methodologies to our liquor inventory. The new system would reflect the fact that the state is now utilizing agency outlets as well as state owned stores.

We are in compliance with Section 64, Title 28-A, MRSA and with generally accepted accounting principles. GAAP requires that assets being held by an entity be safe guarded and that there be fair presentation of the actual activity on the financial statements. Because we have possession of items for resale, both those which we have actually paid for and those items for which payment will be due, we include them on our financial statements. However, Section 64, Title 28-A, MRSA, states that <u>spirits and fortified wines may not be considered in the inventory until payment has been made for them.</u>

We do use the current cost of an item. In our opinion, this methodology is consistent with liquor industry standards as well as GAAP. At the close of this fiscal year our inventory was turning over about twelve times per year. We are using a FIFO inventory valuation. This insures that nearly all the items on the shelf are at market cost.

(113) Bureau of Alcoholic Beverages and Lottery Operations Division of Financial and Personnel Services

<u>Finding</u>: State Lottery Fund; Inventory Account not Reconciled Timely

The year-end physical count of instant game tickets was understated by $314,549 because one game had been recorded but not invoiced until October, 1995. This condition went undetected by the auditee since they did not routinely reconcile the account during the audit period.

Subsequent reconciliation conducted by accounting staff at the Division of Financial and Personnel Services also revealed that $111,632 in postage charges were posted to the instant game inventory and should have been expensed in the prior year.

<u>Recommendation:</u>

We recommend that the bureau:

1. Immediately forward all vendor invoices related to instant game purchases to lottery accounting for posting purposes.

2. Periodically reconcile the instant game inventory balance to the full games on hand and make the necessary adjustments, if any.

3. Charge the $111,632 in postage charges to cost of goods sold thus removing it from inventory.

Auditee Response:

We agree with the finding and most of the recommendation. The year-end physical count of instant ticket games was understated by $314,549. As stated in the finding the game was on hand, but not invoiced by the Vendor until October of 1995. Therefore, the game was not recorded on the ledger.

We agree that $30,000 in postage charges had been charged to the inventory account. Unfortunately, not all of the remaining postage charges was identified at the point the practice was stopped and were erroneously left in the account.

We also agree that $81,273 in telephone charges were erroneously charged to the inventory account due to a coding error.

You have recommended that the $111,632 be moved into cost of goods sold, we believe that it should be reflected as a prior period adjustment. This would allow us to accurately reflect this fiscal year's cost of goods sold.

The Division of Financial and Personnel Services and the Lottery will strive to be more timely providing information that is required to make an accurate accounting of the results of operations. The Lottery will take periodic inventories of instant ticket games and forward the results to the Division of Financial and Personnel Services to ensure that the inventory account is in proper reconciliation.

(114) Bureau of Alcoholic Beverages and Lottery Operations
Division of Financial and Personnel Services

Finding: State Lottery Fund petty cash account balance maintained in excess of authorized limit

The Division of Financial and Personnel Services (Finance) maintains an imprest petty cash fund with an authorized balance of $250,000 to pay Lottery prize expenses. In the 1995 fiscal year, this amount was insufficient to process prize expenses because of the increased activity associated with new games. In January 1995 Finance submitted a $50,000 petty cash fund reimbursement request for prize expenses that it had not paid. This effectively raised the available petty cash fund balance to $300,000.

Title 5 MRSA § 1505 provides that the Commissioner of Administrative and Financial Services must approve petty cash funds and also provides that funds so established be reimbursed only upon statements and bills audited by the State Controller. Because the $50,000 was identified as a reimbursement, the State Controller had no way of knowing that Finance had use of more money than was authorized. The reimbursement request also overstated prize expense and understated fund balance thereby resulting in transferring $50,000 less to the General Fund than required by statute.

Recommendation:

We recommend that Finance request the approval, in writing, of the Commissioner of Administrative and Financial Services for an increase to the petty cash fund and correct state accounting records for these funds.

Auditee Response:

We agree with the auditors recommendation. Our review of the increased demands on the account warrant an increase of $50,000. The Division of Financial and Personal Services will prepare a request for the Commissioner's signature.

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(115) Bureau of Alcoholic Beverages and Lottery Operations Division of Financial and Personnel Services

Finding: State Lottery Fund/Support Documents not Located

Departmental personnel were unable to provide documentation for:

1. $20,443,266 in actual low-tier prizes paid for $1 instant games for the months July 1994 up through and including February 1995.
2. $6,046,118 in actual low-tier prizes paid for the $2 instant games for the months July 1994 up through and including February 1995.

3. $1,809,797 in actual low-tier prizes paid for the $2 instant games for the month of March 1995.

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 prizes paid.

Auditee Response:

These records were held for the auditors review. Some field work was completed by the auditors before the close of fiscal year 1996. As we made the transition to fiscal year 1997 there were no further contacts with the auditors regarding Lottery; we believed that they had completed their review of the Enterprise Funds and we discarded the records as they were two fiscal years old.

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(116) Bureau of Budget

Finding: Contingent Account expenditures were not for one of the uses permitted by law

During July 1994, the Executive Department upon concurrence with the Budget Office made a $12,000 expenditure for an official portrait from the State Contingent Account for a purpose that was not for one of the uses permitted by law.

According to 5 MRSA § 1507, the Governor may allocate up to $2,350,000 of funds from the State Contingent Account for specific purposes. The funds may be used for mental health institutions, unanticipated construction costs, real estate purchases, emergencies, Maine technical colleges, job development training, and a training fund for job retention.

Recommendation:

We recommend that the Executive Department use the State Contingent Account for purposes permitted by state law.

Auditee Response:

We believe that the use of Contingent Account funds was proper and consistent with the intent of the law as it constituted an emergency at the time of the request. The practice of using the Contingent Account to pay for the cost of a former Governor's portrait dates back at least as far as Governor Longley.

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(117) Bureau of Employee Relations

Finding: Collective bargaining agreements do not comply with federal law

The Administrative, Professional and Technical, and Operations, Maintenance and Support Services Bargaining Unit Agreements, Article 9, state:

> Compensating time earned by an employee may be accumulated up to two hundred forty hours. If an employee is denied use of compensating time which exceeds the allowed accumulation, he/she shall, at the employer's option, be paid for the time or be entitled to carry it over until a suitable time for use is approved.

The Supervisory Bargaining Unit Agreement, Article 9, allows the accumulation of compensating time up to three hundred hours.

According to the Fair Labor Standards Act, 29 CFR §553.21:

> . . . the employee . . . may accrue not more than 240 hours or 480 hours for public safety, emergency response, or seasonal activity of compensatory time for hours worked . . . Any such employee who . . . has accrued 240 or 480 hours . . . of compensatory time off shall, for additional overtime hours of work be paid overtime compensation.

The State of Maine's policy, therefore, allows the accumulation of compensatory time off beyond the maximum amount of two hundred forty hours allowed by federal law.

Recommendation:

We recommend that the Bureau of Employee Relations revise Article 9 in the various collective bargaining agreements so that it complies with the Fair Labor Standards Act.

Auditee Response:

The Bureau of Human Resources issued a memo dated January 26, 1996, directing all state departments with any FLSA-covered employees over the FLSA maximum accumulations to pay the employees in cash or give the employees the time off immediately. It further directs the departments not to allow the accumulation of overtime beyond the FLSA limits in the future.

In addition, we are attempting at the bargaining table to change the language relating to the accumulation of compensatory time, so that the language in the contract is consistent with the federal law.

(118) Bureau of General Services Central Fleet Management

Finding: Errors in depreciation expense calculations/Records missing

Central Fleet Management depreciation expense schedules for the period from July through December 1994 could not be located. Therefore, we were unable to verify that depreciation expense for the period was calculated correctly. The agency now keeps two copies of the schedules.

We also noted that for one of the twenty-five vehicles tested, depreciation expense was not recorded for the eight months of the fiscal year that the vehicle was in use. This appeared to be the result of a computer programming problem.

Central Fleet Management uses a computer program to determine monthly depreciation expense. The program automatically adds depreciation expense for the month in which it is run. Because Central Fleet Management determines depreciation expense at the beginning of the following month, it overstates depreciation expense for the period just ended.

Recommendation:

We recommend that Central Fleet Management review the computer logic to ensure that it properly calculates depreciation expense. We also recommend that the agency run the depreciation program in the month for which depreciation is being calculated.

Auditee Response:

We agree with the finding and recommendation and will take the necessary steps to comply.

(119) Bureau of General Services
Division of Purchases

Finding: Lack of established procedures

There are currently no written formal procedures that would prohibit a member of the Work Center Purchases Committee from taking any action on contracts in which they have an actual or potential conflict of interest.

Title 5, M.R.S.A. § 1826-c, 3(E) provides that ". . . procedures be developed and implemented to ensure that any member of the committee who has an actual or potential conflict of interest with respect to any contract under consideration by the committee be prohibited from taking any action on that contract in his capacity as a committee member".

Recommendation:

We recommend that formal written procedures be established that would prohibit the Work Center Purchases Committee from taking any action on contracts in which they have actual or potential conflicts of interest.

Auditee Response:

We agree with the finding. We note that abstentions have occurred when a potential personal conflict has existed. A meeting of the Work Center Purchases Committee is scheduled for August 28, 1996. This issue will be included on the agenda for discussion.

Department of Administrative and Financial Services

(120) Bureau of General Services
Division of Purchases

Finding: Noncompliance with request for proposal requirements

Executive Order #7 establishes review and authorization requirements for all major state agency purchases. The order states that ". . .prior to any State agency award of any grant contract to an independent party, the awarding agency must receive the approval of the Purchases Review Committee or the Director of the Division of Purchases". Title 5 M.R.S.A. § 1825-B, paragraph 1, *bids, awards & contracts*, provides that ". . .the Director of the Bureau of General Services shall make purchases of goods or services needed by the State or any Department or Agency of the State through competitive bidding". On February 13, 1995, the Office of the Governor issued a memorandum to all state agencies establishing basic standards regarding contract commitments. According to the memorandum, ". . .wherever possible, competitive bidding through request for proposals should be used".

We reviewed grant agreements to determine whether the division followed the request for proposal procedures. Of the ten grants selected for examination, one was not competitively bid via the request-for-proposal process (Grant No. G495037). Additionally, one of the ten grant contracts could not be located on file.

Recommendation:

We recommend that the department follow the applicable state statutes and Governor's Executive Order #7 to ensure that:

1. Request for proposals are used in cases where competitive bids are required;

2. Grant contracts are awarded through a competitive bid process; and

Finally, we recommend that the department retain all contracts on file in accordance with the state's policy for retaining records.

Auditee Response:

Agency did not respond.

Department of Administrative and Financial Services

(121) Bureau of General Services
Division of Purchases

Finding: Depreciation expense not consistently applied; Salvage value not used in calculating depreciation

We found that the division did not depreciate fixed assets according to agency policy. If an asset is purchased before the fifteenth of the month, depreciation expense should be recognized during the month of purchase. If the asset is purchased after the fifteenth of the month, depreciation expense should be recognized the following month. Of the fifteen items reviewed, we noted that four assets were depreciated before the period established by agency policy. We also noted that the division did not consider salvage value in any of the depreciation calculations that we reviewed.

Recommendation:

We recommend that the division adhere to established policy when depreciating newly acquired assets. We further recommend that it consider the salvage value of equipment when calculating depreciation.

Auditee Response:

We agree with the finding and recommendation and will take the necessary steps to comply.

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(122) Bureau of Taxation
Revenue Processing Division

Finding: Inadequate documentation of tax return filing dates

Title 36 MRSA § 186 states, "Any person who fails to pay any tax imposed under this Title...on or before the last date prescribed for payment shall be liable for interest on the tax calculated from that date." Further, section 187-B states, "Any person who fails to make and file any return required under this Title at or before the time the return becomes due is liable for...penalties."

Department of Administrative and Financial Services

The filing date is defined as the date received by the Bureau of Taxation or as stated in title 36 MRSA § 153:

> If any document or payment required or permitted by this Title to be filed or paid is transmitted by the United States Postal Service to the person with whom or to whom the filing or payment is to be made, the date of the United States Postal Service postmark stamped on the envelope is deemed to be the date of filing or payment if that document or payment was deposited in the mail, postage prepaid and properly addressed to the person with whom or to whom the filing or payment is to be made." The filing date should be used to calculate the amount of interest and penalties due, if any.

We tested a sample of tax returns and refund applications for specific taxes, e.g., insurance premium tax returns and special fuel tax refund applications. The Bureau of Taxation-Revenue Processing Division did not stamp receipt dates on some returns or retain the mailing envelopes with the postmarked dates. Therefore, we could not determine the filing dates on these returns and applications. Likewise, the Bureau of Taxation could not determine if the taxpayers complied with statutory filing deadlines and could not accurately determine the amount of interest and penalties due the state, if any.

Recommendation:

We recommend that the Bureau of Taxation implement a policy to date-stamp documents and retain postmarked envelopes for all tax returns and refund applications received so it can 1) verify compliance with statutory filing deadlines, 2) calculate required interest and penalties due, and 3) support these determinations if reconsideration are requested by taxpayers.

Auditee Response:

The Bureau of Taxation receives in excess of 1 ½ million tax returns, refund requests, etc. per year. The cost of retaining, handling and storing envelopes except in very special situations is beyond its current resources. Also bear in mind that even when envelopes are generally retained they may become disassociated from the relevant return or they may be unreadable with regard to the postmark date, rather than retained envelopes the Bureau uses a proxy for the postmark date. Depending on the application the date a return is signed, a date of receipt, a processing date, etc. may be used.

Department of Administrative and Financial Services

(123) Bureau of Taxation
Revenue Processing Division

Finding: Taxation audit and collection efforts not reported in accordance with generally accepted accounting principles (Prior Year Finding)

Title 36 MRSA § 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. For the fiscal year ended June 30, 1995, the Bureau of Taxation has charged $1,779,908 to tax revenue for contract audit and collection efforts. As a result, fiscal year 1995 revenues and expenditures are understated by$1,779,908.

Recommendation:

We recommend that the Bureau of Taxation provide in writing to the State Controller information necessary to properly report 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 the State Statutes as they relate to the handling of this issue. The Bureau codes § 113 related expenditures to activity account 1037, thus the Controller has the data available to record the recommended journal entry in accordance with General Accepted Accounting Principles.

Department of Administrative and Financial Services

(124) Bureau of Taxation
Sales/Excise Tax Division

Finding: Insurance Company Tax rates not enforced properly

Title 36 MRSA § 2519 states:

> Any insurance company incorporated by a state of the United States or province of the Dominion of Canada whose laws impose upon insurance companies chartered by this State any greater tax than is herein provided shall pay the same tax upon business done by it in this State, in place of the tax provided in any other section of this Title. If it is not paid as provided..., the Superintendent of Insurance shall suspend the right of said company to do business in this State."

We noted two companies incorporated in other states that have higher insurance premium tax rates than Maine but neither company paid the higher rate. The total of the two underpayment was $120. We could not determine the extent of potential underpayments for all insurance companies incorporated out-of-state.

Recommendation:

We recommend that the Bureau of Taxation enforce the requirements of 36 MRSA § 2519.

Auditee Response:

Employee performing this function was relatively new and unaware of the reciprocal tax rate provision in Maine Law. Employee has now been trained to recognize situations where the insurance company is required to report a higher rate of tax. The supervisor will periodically review the processing of the tax returns. A review of FY 95 returns will be made to insure that significant reciprocal assessments have not been overlooked.

Department of Administrative and Financial Services

(125) Bureau of Taxation
Sales/Excise Tax Division

__Finding:__ Motorboat User Gasoline Tax transfers exceed statutory limits (Prior Year Finding)

The Bureau of Taxation transfers motorboat user gasoline tax revenue monthly from the Highway Fund to the Special Revenue accounts of the departments of Conservation and Marine Resources. Title 36 MRSA § 2903-A authorizes a maximum transfer of $2.0 million, less refunds paid for commercial motorboats.

During fiscal year 1995, the bureau transferred $134,000 more than the statute authorized.

__Recommendation:__

In order to comply with 36 MRSA § 2903-A we again recommend that the Bureau of Taxation monitor the amount of gasoline tax transfers. We further recommend that the bureau return the excess amount to the Highway Fund.

__Auditee Response:__

An adjustment was made to the first journal transfer in fiscal 1996 to correct the referenced error. To avoid future occurrences a lotus spreadsheet has been developed to insure no transfers above the $2 million threshold will be recorded.

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(126) Bureau of Taxation
Sales/Excise Tax Division

__Finding:__ Snowmobile User Gasoline Tax transfers less than required by statute

Title 36 MRSA § 2903-B requires the Bureau of Taxation to transfer one-half of one percent of the total gasoline tax revenue (representing snowmobile user receipts) from the Highway Fund to the General Fund of the Department of Inland Fisheries and Wildlife and the Special Revenue Fund of the Department of Conservation. During fiscal year 1995 the bureau transferred $6,600 less than the amount required by statute.

Recommendation:

In order to comply with 36 MRSA § 2903-B, we recommend that the Bureau of Taxation monitor the amount of gasoline tax transfers. We further recommend that the Bureau transfer $6,600 to the Department of Inland Fisheries and Wildlife and the Department of Conservation.

Auditee Response:

The discrepancy of $6,600 arises from comparing two different twelve month periods and the relevant journal transfer amounts. One period began July 7, 1994 and ended June 2, 1995. The other period began with August 8, 1994 and ended with July 6, 1995. It appears that the monthly transfers have in fact been consistent with the statutory requirements of 36 MRSA § 2903-B, thus no error in transfer amount exists.

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(127) Bureau of Taxation
Sales/Excise Tax Division

Finding: Special Fuel Off-Highway Tax refund for unauthorized period

One Special Fuel Off-Highway Tax refund for $1,322 that we examined in an audit sample was paid later than authorized by statute. Title 36 MRSA § 3218 states, "Applications for refunds shall be filed with the State Tax Assessor within 15 months from the date of purchase.". The application for this refund was filed more than seventeen months from the date of purchase.

Recommendation:

We recommend that the Bureau of Taxation monitor special fuel tax refund applications to ensure that the application periods do not exceed the statutory limits.

Auditee Response:

Personnel involved with this function have been trained to recognize timely refund claims. The supervisor will periodically review the processing of refund claims.

Department of Administrative and Financial Services

(128) Bureau of Taxation
Sales/Excise Tax Division

<u>Finding:</u> Special Fuel Off-Highway tax refunds not paid on time/interest not paid on late refunds

Title 36 MRSA § 3218 states that ". . .interest shall be paid (to off-highway users) from the date of receipt of the monthly claim for all proper claims not paid within 30 days of receipt".

The Bureau of Taxation did not pay refunds on time for seven of nine Special Fuel Off-Highway refunds that we examined. These payments totaled $11,034 and ranged from thirty-eight days to sixty-eight days after the bureau received proper claims for refunds. In addition, the bureau did not pay interest on these refunds in accordance with the statute requirements.

<u>Recommendation:</u>

In order to comply with statute we recommend that the Bureau of Taxation establish procedures to pay Special Fuel refunds within the time requirement and to pay interest on late refunds.

<u>Auditee Response:</u>

Employee performing this function was relatively new and unaware of this part of the law. Employee has now been trained to process refund claims within 30 days of receipt. The supervisor will periodically review the processing the tax returns.

(129) Bureau of Taxation
Sales/Excise Tax Division

<u>Finding:</u> Fire Investigation and Prevention Tax distributed incorrectly

According to 25 MRSA § 2399 ". . .75.7% of receipts from Fire Investigation and Prevention tax will be set aside for Public Safety use and 24.3% will be set aside for fire training and education." In a sample of Fire Investigation and Prevention Tax cash receipts statements, the tax on one statement was distributed using percentages that were rounded up or down. Consequently, the Public Safety account was over-credited and the fire training and education account was under-credited by $207.

Recommendation:

We recommend that the Bureau of Taxation distribute the Fire Investigation and Prevention tax in accordance with the statute.

Auditee Response:

Distributions will be computed using percentages as provided in the statute.

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(130) Bureau of Taxation
Sales/Excise Tax Division

Finding: Inadequate Cigarette Excise Tax subsidiary ledger/Bond and license applications not on file

Title 36 MRSA § 4366 authorizes the State Tax Assessor to allow licensed cigarette distributors or dealers to purchase cigarette stamps on account, provided a bond has been filed with the State Tax Assessor in the amount of stamps purchased and payment is made within thirty days.

The Bureau of Taxation-Sales/Excise Tax Division posts orders and payments to a computer spreadsheet system as its subsidiary accounts receivable ledger. The detail balance is a running balance and therefore it is difficult to recreate balances at any time during the audit period. Also, the division did not maintain a file of bond certificates and distributor licenses. Consequently, the division was unable to monitor or demonstrate compliance with 36 MRSA § 4366.

Recommendation:

We recommend that the Sales/Excise Tax Division prepare a Cigarette Excise Tax subsidiary ledger that details purchases, payments and outstanding balances by taxpayer. We further recommend that the division maintain records of distributor/dealer licenses and bond certificates.

Department of Administrative and Financial Services

Auditee Response:

The system reviewed by the auditor was a Lotus spreadsheet which provides the information being recommended. However, the major difference is that payments are offset against the invoice being paid rather than against the outstanding balance. This allows us to quickly determine which invoices are delinquent per taxpayer's ledger card at the end of each month or create a file for each month on a disc. Corrective action has been taken to insure proper maintenance of records of distributor/dealer licenses and bond certificates.

(131) Division of Financial and Personnel Services

Finding: Accounts receivable records not regularly reconciled

Personnel from the Department of Administrative and Financial Services (ADFIN)-Division of Financial and Personnel Services are responsible for maintaining the accounts receivable records relating to promotional allowances for liquor sales.

Our review of the internal control structure for promotional allowances for liquor sales revealed that accounts receivable records are not reconciled to the Controller's records on a periodic basis. During the 1995 fiscal year, ADFIN personnel had reconciled the accounts receivable records only one time, March 31, 1995, to the Controller's records.

At June 30, 1995 the accounts receivable balance for promotional allowances totaled $53,000.

Recommendation:

We recommend that ADFIN personnel reconcile the accounts receivable records to the Controller's records on a quarterly basis.

Auditee Response:

We agree and will take steps to ensure that the accounts are reconciled quarterly.

Department of Administrative and Financial Services

(132) Division of Financial and Personnel Services

Finding: Revenue not recognized on the accrual basis of accounting (Prior Year Finding)

The *Governmental Accounting and Financial Reporting Standards*, section 1600, requires proprietary funds to recognize revenue on the accrual basis of accounting.

Title 28-A, M.R.S.A. § 352 authorizes the Bureau of Alcohol and Liquor Operations (BABLO)-Merchandising Division to sell and ship liquor to agency liquor stores before receiving payment for the merchandise.

We noted that at June 30, 1995 the Department of Administrative and Financial Services (ADFIN)-Division of Financial and Personnel accrued $265,226 in revenue earned, but not yet collected. However, a review of ADFIN accounting records revealed that it had not accrued $76,047 in revenue for sales made on or before June 30, 1995 and that it did not have a system in place to ensure that all revenue earned, but not yet collected, was accrued at June 30, 1995.

Recommendation:

We recommend that ADFIN recognize and record all revenue on the accrual basis of accounting.

Auditee Response:

We agree with the recommendation of the auditor. We did recognize all the revenue that we were aware of during the closing when we made our accruals. In mid June of each year, we meet with Alcoholic Beverages personnel to discuss the closing and our requirements for information to facilitate an accurate closing. Unfortunately, there was an error made in identifying "old year" revenues and our accrual for the year was off by approximately $76,000. This amounted to about .011% of total sales.

Department of Administrative and Financial Services

(133) Division of Risk Management

Finding: Claim payments not supported

We examined all claims over $10,000 that were paid. Of the sixteen payments examined, we could not substantiate the validity of five claim payments totaling $654,500 because the claim files supporting the payments had been destroyed. According to Risk Management personnel, the files were destroyed because the record retention dates had passed (three years after date of loss) and the files were no longer needed since the claim had been settled. State Archives personnel had no record of an official retention policy for Risk Management claims documentation.

Recommendation:

We recommend that the Risk Management Division retain documentation supporting claim payments until after the records are audited. We further recommend that the division consult with State Records Management personnel in order to establish a reasonable retention period after the date of settlement for these records.

Auditee Response:

We will consult with Archives to establish a more appropriate retention schedule for records related to old claims.

Department of Agriculture

(134) Potato Marketing Improvement Fund
Seed Potato Board Fund

Finding: No formal policy for the recording and depreciation of fixed assets

During our review of Enterprise Fund fixed assets within the Department of Agriculture, we noted that the department has no formal policy for the accounting of fixed assets. As such, the department depreciated some fixed assets over unreasonable time periods; did not assign salvage values to the fixed assets; and depreciated some items which should have been expensed. Also, the department has not reconciled fixed assets with the Controller's records as of June 30, 1995. A variance of approximately $32,000 exists between the department's and the Controller's records.

Recommendation:

We recommend that the Department of Agriculture develop and implement a clear policy for the recording and depreciation of fixed assets to include the following:

1. Determination of cost basis of asset;
2. Identifying reasonable salvage values, if applicable;
3. Assignment of reasonable lives to the assets;
4. Development of Depreciation Schedule which identifies
   a. Cost basis
   b. Date of acquisition
   c. Date first placed in service
   d. Date sold/scrapped
   e. Accumulated depreciation
   f. Current period depreciation
   g. Book value of asset;
5. Periodic review of schedule for accuracy and reasonableness; and
6. Annual physical inventory of fixed assets.

We also recommend that the Department of Agriculture accounting personnel reconcile the fixed asset and accumulated depreciation detail to the Controller's records. We also recommend appropriate journal entries be made to bring these accounts up to date. This reconciliation process will ensure the accuracy of financial information for both management and financial reporting purposes.

Auditee Response:

I concur with your finding. The Department of Agriculture will initiate the steps necessary to implement your recommendations.

Department of Defense and Veterans Services

(135) Maine Emergency Management Agency

Finding: Incorrect recognition of revenue and expenditures

Text of finding can be found in the Management Letter Findings and Recommendations finding No. 107.

Department of Education

(136) Bureau Child Development Services

Finding: Weakness in the fiscal operations of Child Development Services

Legislation in 1989 established the Child Development Services (CDS) - State Intermediate Education Unit with the mission of coordinating services delivery for eligible children, birth to age six, who had disabilities. Initially, Child Development Services operated the regional local sites and processed disbursements through its central office in Augusta. Several years ago the regional sites became independent entities significantly changing the Child Development Services function in coordinating these services. Currently, Child Development Services receives several million dollars of funds, all from the state, originating from both federal and General Fund appropriations. Child Development Services disburses the majority of its funds to the regional sites.

Recommendation:

We recommend that the department review the current fiscal process and organizational structure of CDS. The fiscal functions of CDS could easily be performed utilizing MFASIS. Improved internal control over program transactions would be realized because the transactions would be subject to the controls built into the state's accounting system.

Auditee Response:

The Department expects to implement direct access by July 1, 1997.

Department of Environmental Protection

(137) Bureau of Hazardous Material & Solid Waste Control

Finding: No procedures to reimburse municipalities at the reduced cost share rate of fifty percent

Title 38, M.R.S.A. § 1310-F promulgates the state's cost share rate to be applied for reimbursement of landfill closure costs. Effective April 20, 1994 the statute was revised to reduce the state's share of certain closure costs from 75 percent to 50 percent.

The Department of Environmental Protection (DEP) does not have procedures in place to identify those municipalities or costs subject to the reduced rate. During the 1995 fiscal year, DEP reimbursed municipalities a total of $19 million for landfill closure costs using the 75% cost share rate. No costs were paid at the 50 percent rate. We were unable to determine whether municipalities should have been reimbursed at the 50% cost share rate, or the amount of funds that may have been disbursed at an incorrect rate.

Recommendation:

We recommend that DEP implement procedures that will identify those municipalities with closure costs subject to the cost share rates, as identified in 38 M.R.S.A. § 1310-F, 1-B. Further, we recommend that DEP reimburse those municipalities at the correct rates.

Auditee Response:

The Bureau of Remediation and Waste Management administers the payments to municipalities for the state's share of landfill closure costs. The bureau has reviewed reimbursements to 48 municipalities made during fiscal year 1995.

All municipalities were reimbursed at the 75% rate based on:

1. *Closure agreements executed before July 1, 1994; documentation for agreements included formal agreements, closure orders, agreements for closure under reduced procedures for small landfills, and existing DEP evaluations and correspondence with municipalities actively involved in the closure process; and*
2. *Agreement to reimburse three municipalities which complied with the closure process but were modestly late in the submission of agreements because of administrative problems. this action was deemed fair and consistent with the likely results of any mediation process.*

Department of Environmental Protection

As a result of the review by the Department of Audit, the bureau is reviewing procedures to assure future reimbursements at appropriate rates and may seek clarification of current statutes to further assure appropriate reimbursement.

Department of Human Services

(138) Office of Management and Budget
Division of Financial Services

Finding: Collection effort inadequate for checks with non-sufficient funds

The Department of Human Services (DHS) does not have established procedures for seeking reimbursement from an absent parent for child support checks that are returned to the bank due to non-sufficient funds (NSF) or for the $20 NSF fee.

To recover revenue losses related to child support collection checks that are returned to the bank due to NSF, DHS should pursue reimbursement from the payor of each check.

Recommendation:

We recommend that DHS determine the best method for seeking reimbursement for child support collection checks that are returned to the bank due to NSF, along with the $20 NSF fee, and act to implement those procedures.

Auditee Response:

Agency did not respond.

Department of Human Services

(139) Office of Management and Budget
Division of Financial Services

Finding: Accounts receivable not collectible (Prior Year Finding)

At June 30, 1995, financial records of the Department of Human Services (DHS)-Division of Financial Services showed $1,042,667 due to DHS from the Medicaid Enhancement program. Department officials said that DHS no longer qualified for these funds and that the accounts receivable would not be collected.

Recommendation:

In order to reflect actual amounts due to the state we again recommend that DHS prepare the appropriate journal entry to reverse the original entry establishing the federal receivable of $1,042,667.

Auditee Response:

The Department of Administration will be sending out a request for A/R write-offs to all Departments in March of 1997. The necessary forms will be filled out to write off the Medicaid Enhancement Funds of $1,042,667 as of June 30, 1995.

These forms will be presented to the Commissioner of the Department of Administration at the end of April 1997.

Judicial Department

(140) Administrative Office of the Courts

Finding: Revenue and expenses not recorded/Funds not deposited in state depositories/Bank account established outside the control of Treasurer and Legislature

Judicial Department

In November 1994 the Administrative Office of the Courts established a demand deposit account to accept General Fund money from persons requesting transcripts of court proceedings recorded on audio tape. Expenses involved with the production of those transcripts were also paid from this account. The account was established without the knowledge or approval of the Office of the Treasurer of State and the deposits to and disbursements from the account have not been reflected in the Judicial Department operating budget that was approved by the Legislature. During the six months of fiscal year 1995 for which the account was active, $81,786 was deposited and payments totaled $54,431.

According to 4 MRSA 26 the Judicial Department is required to use the services and be included in systems established by the bureaus within the Department of Administrative and Financial Services. Receipts, disbursements, and other financial transactions should be included in MFASIS, the state accounting system, and not be issued outside the system. Further, 4 MRSA 24 requires that the State Court Administrator prepare the consolidated court budget according to procedures prescribed by the State Budget Officer. The operation of this account outside the budget process allows the transactions to escape the process of funding appropriation and allotment.

The collection or receipt of public money is governed by 5 MRSA 131 and requires that any state department or agency pay the funds immediately into the State Treasury without any deductions on account of salaries, fees, costs, charges, expenses, refunds, claims or demands of any description whatsoever. Depositing the funds into an account outside the control of the Treasurer's Office is in conflict with this statute. Departments and agencies are prohibited from establishing trust funds, escrow accounts or other accounts that would not be specifically allocated by the Legislature under 5 MRSA 135-A. By establishing an account not specifically allocated by the Legislature, the Judicial Department is not complying with the statute.

Recommendation:

The Judicial Department should arrange with the State Budget Office to secure sufficient allotment to allow for the conduct of this work within the framework of the normal budget process. The account currently established to accept and disburse funds should be closed and the funds in the account should be correctly recognized.

Judicial Department

Auditee Response:

The Judicial Department requested through the fiscal year 1996 Supplemental Budget Bill, L.D. 1759, an appropriation of $50,000 for FY '97 to allow the courts to pay for the production of transcripts by outside contractors. This bill has been approved and enacted by the Legislature in March of 1996.

To enable a smooth transition, the Judicial Department will be closing the demand deposit account, established in November 1994 and currently being used for this purpose, on June 30, 1996 and will be utilizing the appropriation established as of July 1, 1996 for the payment of transcripts. The revenue received as of July 1, 1996 for this purpose will be deposited to the General Fund in accordance with 5 MRSA 131.

Department of Labor

(141) Bureau of Employment Security

Finding: Delinquent Unemployment Compensation Tax receivables not promptly estimated

On a case by case basis Department of Labor field examiners investigate employers who fail to file quarterly reports on wages paid to employees and estimate taxes receivable based on individual employers' prior wage history. There are no procedures to ensure that field examiners promptly estimate receivables. A review of the delinquency report at June 30, 1995 revealed numerous employer accounts that had *No Report Received* notices for several consecutive quarters. The Department of Labor did not estimate the amount of taxes receivable that was due from these delinquent employers. As a result, the unemployment compensation tax receivable is understated at June 30, 1995.

Recommendation:

In order to ensure that receivables are recorded in the correct fiscal period, we recommend that the department establish written procedures to promptly estimate unemployment compensation tax receivables.

Auditee Response:

The Bureau will establish written procedures to estimate unemployment compensation tax receivables to assure that they are recorded in the proper fiscal period. This will be part of the tax re-write to be completed 12/31/96.

(142) Bureau of Employment Security

Finding: Collection of Unemployment Compensation Tax receivables not adequately planned

The Department of Labor (MDOL) notifies employers of outstanding unemployment compensation tax receivable balances through written notices that request payment of contributions or state penalties and interest due. If employers do not respond to these notices the Division of Unemployment Compensation may collect the outstanding balances through alternate methods, e.g., liens on company assets and attachment of future state income tax refunds. The division must request a special computer program to initiate the attachment process. During fiscal year 1995, the division did not request the computer program. Therefore, MDOL did not collect any tax receivable balances through the attachment of state income tax refunds. Better planning of collection procedures would have resulted in greater collection efforts thereby decreasing the amount of future uncollectible receivables.

Recommendation:

We recommend that the Division of Unemployment Compensation plan its collection efforts in order to maximize collections and decrease future uncollectible receivables.

Auditee Response:

The Bureau has revised its computer cross-match program to accommodate the specifications of the Bureau of Taxation and has offset the appropriate state income tax refunds. The Bureau plans to take timely action to maximize its collection efforts in the future.

State Department

(143) Bureau of Motor Vehicles

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

We determined that the only permanent record of motor vehicle registration forms issued to municipalities is in manual logs maintained at the Bureau of Motor Vehicles (BMV) stockroom. Failure to maintain a record of the issuances in a backup location or by computer is a compromise to accountability if the stockroom records become lost.

Also, control procedures are insufficient to ensure that all collections and registrations issued by municipal agents are reported to BMV. There is no reconciliation of the number of registration forms assigned and distributed to agents versus the number of registration forms that agents issued or voided or of registrations that were reissued under another form (tax receipt) number.

Recommendation:

We recommend that BMV maintain a record of motor vehicle registration tax receipt numbers issued to municipalities in a separate backup location from the stockroom as a safeguard in case stockroom records should become lost.

We also recommend that BMV develop a plan to allow the bureau to periodically reconcile the number of registration forms issued by BMV to municipalities to the number of municipal issuances, voids or reissues. A reconciliation would help ensure accountability for all registration forms and attendant collections.

Auditee Response:

The finding that the manual logs utilized to maintain records of motor vehicle registration forms issued to municipalities is insufficient is not a prior year finding. The Bureau will take action to implement and maintain a electronic database on a personal computer, with appropriate back up procedures, to replace the manual logs.

The finding that the control procedures for ensuring collections and registrations issued by municipal agents are reported to the Bureau is a prior year finding. Previously, the Bureau responded that the desired level of control cannot be accomplished within the capabilities of the current manual system. The Bureau also responded that an electronic registration system employing personal computer technology was being piloted. That pilot has proved successful and has been expanded to 27 municipalities. Continued expansion is anticipated. The Bureau also *is planning to pilot the use of bar codes on re-registration forms, which should improve the accuracy of the information collected.*

Additionally, the Bureau is currently engaged in facilitated sessions with the Bureau of Information Services to determine the desired features of a new motor vehicle database and software application. The controls recommended by the Department of Audit will be included in the detailed analysis of features required in a new system.

(144) Bureau of Motor Vehicles

Finding: Excessive processing time for bank deposits

The Bureau of Motor Vehicles (BMV) Main Office processed $31.5 million of revenue in fiscal year 1995. We determined that the time between collections and bank deposits averaged about 2 days. However, the time between collections and deposits for the Division of Commercial Vehicles and Reciprocity averaged about 3 days. This division accounted for approximately 69% of total Main Office collections for the State of Maine and for other states under reciprocity agreements.

Title 5 MRSA section 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, or for the use of any state department or agency, shall pay the same immediately into the State Treasury, without deductions on account of salaries, fees, costs, charges, expenses, refunds, claims or demands of any description whatsoever.

Recommendation:

We recommend that BMV reduce the average processing time for collections to be in compliance with State statutes. Reduced processing time would allow for reduced control risk; more timely bank deposits; recognition of revenues in the proper accounting period; and improved customer service.

State Department

Auditee Response:

Since this audit finding was reported, the Bureau set up a team to review the processes and procedures for revenue collections and deposits. The Bureau plans to ensure that personnel are informed of the need for timely collections and deposits, and that procedures designed to accomplish this task are followed.

Department of Transportation

(145) Bureau of Finance and Administration

Finding: Incorrect valuation for Island Ferry Service Balance Sheet accounts

The Department of Transportation (MDOT) made an effort to correctly record the values of Fixed Assets, Fixed Asset depreciation, and Donated Surplus in the Island Ferry Service Enterprise Fund. However, values in the accounts are incorrect, as shown below.

1. Donated Surplus (Contributed Capital)
   This account value was adjusted by journal entry on June 30, 1995 to $12,624,164. The account should reflect the remaining depreciable value of donated fixed assets. The depreciable value is $12,480,762, a difference of $143,492; thus, the Controller's records are overstated.

2. Equipment
   This account for MDOT's subsidiary records is overstated by $11,312. In addition, the value of the Ferry Service Ticket System, a donated fixed asset valued at $101,971, is not on the MDOT's subsidiary records.

3. Land
   This account does not reflect the value of Land Parcels 1 and 2 that were obtained by eminent domain on June 19, 1995 for the Rockland Terminal construction. The value of the land is $93,000, subject to the State Claims Commission reevaluation decision after fiscal year 1995.

4. Ferry Service List of Fixed Assets - Donated Equipment for fiscal year 1995
   The ferry boat Neal Burgess has accumulated depreciation that is overstated by $107,218. This error is in addition to that discussed in 2 above.

Recommendation:

We recommend that the Department of Transportation adjust the list of the Island Ferry Service fixed assets and the Controller's records to correctly value the balance sheet accounts.

Auditee Response:

We concur with paragraph 1, 2, and 4 and have made the necessary accounting transactions in fiscal year 1996.

We concur with paragraph 3, but the land acquisition transactions are recorded in the Work In Progress account in the fiscal year 1996 financial reports. The land account will be increased when the project is complete and the improvement is put in service.

(146) Bureau of Finance and Administration

Finding: Incorrect valuation for balance sheet accounts for Augusta State Airport

In fiscal year 1995 certain assets were added to the Augusta State Airport Enterprise Fund. Their values for cost and accumulated depreciation, if appropriate, were recorded in the Controller's records and on the Augusta State Airport's list of fixed assets.

1. Two assets had accumulated depreciation that was incorrectly computed as shown below:

Asset/Year Donated	Cost	Accumulated Depreciation Per Asset List	Accumulated Depreciation Per Auditor	Difference
Runway 2/93	$1,284,051	$121,001	$149,806	($28,805)
Runway 2/93	197,774	19,777	23,074	(3,297)
Total	$1,481,825	$140,778	$172,880	($32,103)

As a result of the incorrect computations for accumulated depreciation, the list of assets and the Controller's records understate accumulated depreciation by $32,102.

2. One asset, donated land, was incorrectly valued. The land purchased from the City of Augusta was valued at $17,123 but should have been valued at $27,123.

Recommendation:

We recommend that the Department of Transportation correct the stated value of the Augusta State Airport Enterprise Fund accumulated depreciation and land listed on the Augusta State Airport's fixed assets and the Controller's records.

Auditee Response:

We concur. Correcting adjustments were made during fiscal year 1996, however, additional adjustments are still pending.

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(147) Bureau of Finance and Administration

Finding: Incorrect valuation for balance sheet accounts for Ports and Marines

Two errors were made in computing accumulated depreciation of assets in the Ports and Marines Enterprise Funds. This caused accumulated depreciation (BS 0120) to be misstated on the Controller's records.

1. The number of months of depreciation were stated incorrectly for the drydock in Portland. This caused the value for the accumulated depreciation of the drydock to be incorrect and caused the value of balance sheet account for donated surplus to be understated.

The values and differences are shown below:

Accumulated Depreciation Per MDOT	Accumulated Depreciation Per Auditor	Difference
$5,907,673	$4,806,732	$1,100,941

2. Accumulated depreciation for the five structures and improvements at Great Diamond Island and the Lincolnville Sanitary Facility was overstated by $30,942 which caused balance sheet accounts on the Controller's records to be in error.

Recommendation:

We recommend that the Department of Transportation correct the value for the accumulated depreciation of the drydock and the five structures and improvements on the Ports and Marines list of fixed assets and correct the value of both the accumulated depreciation and the donated surplus accounts on the Controller's records.

Auditee Response:

We concur. Correcting adjustments were made during fiscal year 1996, however, additional adjustments are still pending.

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(148) Bureau of Finance and Administration

Finding: Inaccurate list and vague descriptions of assets for Augusta State Airport

A review of assets belonging to the Augusta State Airport showed that not all assets were listed. The missing items include a 1994 Buick sedan, a 1987 Dodge station wagon, a 1995 International Harvester tractor and a Radio Facility/heating system replacement. The cost of the sedan was $11,657 and the cost of the work repairs on the Radio Facility was $60,000. A recently purchased V-plow was in a field and not in service because it did not work well. This asset could not be identified on the list of assets.

In addition, the descriptions of assets on the Department of Transportation's list are vague and do not always allow the reader to identify the asset on the list with the physical asset. Vehicles should be identified by a description and vehicle identification number. Other assets should be identified with detailed descriptions such as serial and/or model numbers, year of manufacture, and sizes and colors.

Recommendation:

We recommend that the Department of Transportation 1) record all assets on the Augusta State Airport list of fixed assets; 2) sell idle property; and 3) identify assets sufficiently to ensure that persons unfamiliar with the inventory can identify assets.

Auditee Response:

We concur with the recommendations. It is our intent to utilize the MFASIS Fixed Asset system that should be available for fiscal year 1997.

(149) Bureau of Finance and Administration

Finding: Inadequate use and control of journal vouchers

In the normal course of accounting for departmental expenditures payments are made using payment vouchers (PV) or Internal Payments (IP). Occasionally adjustment, corrections and reallocations are required and these are carried out using journal vouchers (JV).

During the course of our examination, we reviewed changes in account balances - fiscal year 1994 versus fiscal year 1995. A number of accounts and organizations (report & appropriation) reflected abnormal variances. Further investigation showed that these shifts occurred as a result of journal voucher activity. We reviewed journal vouchers in detail to determine the nature of these transactions and their acceptability. We found the following:

1. The use of journal vouchers to create temporary allotment which violates state budget policy according to 5 MRSA§1667;

2. Explanations which are incorrect or misleading;

3. Vouchers which are approved by subordinates; and

4. The transfer of amounts via journal voucher which lack a sound accounting basis.

Department of Transportation

Recommendation:

A thorough understanding of the problems causing the excessive and use of journal vouchers must be established before a solution can be implemented. Examples of these include the following:

1. More accurate allotment projection;
2. Disclosure of residual net effect balance adjustments;
3. Adhering to budget guidelines;
4. Ensuring that all journal vouchers are based on a sound accounting rationale;
5. Reduction in the number of reporting organizations used; and
6. A tightening of controls over journal vouchers, i.e., approvals and descriptions.

Auditee Response:

We understand the concern over the use of journal vouchers, however, there are inherent difficulties interfacing a capital improvement project accounting system with the MFASIS accounting system. The main area of concern appears to surround the fact that projects have a time frame of several years and the State accounting system is based on a one year time frame. We are continuously investigating ways to improve the recording and reporting of the project accounting system in order to maintain generally acceptable accounting standards.

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(150) Bureau of Finance and Administration

Finding: Capitalization of construction period interest on constructed fixed assets

The *Financial Accounting Standards Board Statements of Financial Accounting Standards* Nos.34 and 62 established standards of financial accounting and reporting for capitalizing interest cost as part of the historical cost of acquiring certain assets.

The Department of Transportation has not capitalized construction period interest for constructed fixed assets of the Enterprise Funds.

Department of Transportation

Recommendation:

We recommend that the Department of Transportation develop and implement procedures to capitalize construction period interest on constructed fixed assets in accordance with *Statements of Financial Accounting Standards* Nos.34 and 62.

Auditee Response:

We will review this recommendation with the State Controller's Office.

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(151) Bureau of Finance and Administration

Finding: Economic lives for owned and leased property inconsistently determined and undocumented

The Financial Accounting Standards Board (FASB) *Statement of Financial Accounting Standards* (SFAS) No. 13, *Accounting for Leases*, defines capital and operating leases, the criteria for classifying each type of lease, and the accounting, reporting and financial statement disclosures required by lessees and lessors. One criterion requires any lease with a term equal to or exceeding 75 percent of the estimated economic life of the leased property to be capitalized.

Management is responsible for establishing accounting estimates. This includes but is not limited to 1) accumulating relevant, sufficient, and reliable data on which to base the estimate; 2) developing assumptions that represent management's judgment of the most likely circumstances and events with respect to the relevant factors; 3) determining that the accounting estimate is based on assumptions and other relevant factors; and 4) presenting the estimate in conformity with applicable accounting principles.

The Bureau of Finance and Administration estimated the economic life of vehicles leased by Motor Transport Services as seven years. No documentation was available to support this estimate. The bureau estimated the economic life of similar owned assets as five years for depreciation purposes. Economic useful lives should be the same for both owned and leased assets. The inconsistency results in either misstating depreciation expense or misclassifying leases.

Recommendation:

We recommend that the Bureau of Finance and Administration establish, document and consistently apply a reasonable estimate of economic life. For the vehicles in question a reasonable estimate would be five to seven years.

Auditee Response:

We concur. The Bureau of Finance and Administration, in conjunction with Motor Transport Service personnel, will undertake a review of the applicable assets to align depreciable lives with estimated economic useful lives. Those estimates will be documented and published.

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

Finding: Poorly defined and coordinated financial arrangements with local government projects

The Department of Transportation (MDOT) shares the cost of many construction projects with local governments. Accounting and administrative controls for these projects are inadequate. Amounts that are not promptly reimbursed to the Department of Transportation by 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.

Our examination of project agreements disclosed that the Department of Transportation had not billed the City of Auburn for project 5643.00; this was still not been billed as of March 29,1996. It appears, based on the cost of work completed, that approximately $514,000 for this project should have been billed and a receivable established at June 30, 1995. Billings on several other projects were not timely resulting in accounts receivables being understated by an additional $315,000 at year-end.

Subsequent period examination disclosed a continued weakness in this area. The Construction Division sent a letter to Bethel on January 3, 1996 requesting payment of $184,906.83 for one project. The Bureau of Finance and Administration was not informed of this billing and consequently no formal accounts receivable has been established.

The MDOT lines of communication are not effective in ensuring that all parties are kept informed on billing, account and collection status activities.

Recommendation:

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

1. Provide the Bureau of Finance and Administration with current and complete information on all amounts disbursed that must be reimbursed to the department, and ensure that the Finance Division properly account for this information on the state accounting records; and

2. Improve communication between the Bureau of Finance and Administration, Project Management and Program Divisions on the status of accounts receivables.

Auditee Response:

We concur. The financial responsibilities of the cost sharing agreements with local governments entities is currently being reviewed with the intent of developing an administrative policy to define the responsibility and procedures to properly manage these agreements.

(153) Bureau of Maintenance and Operations Motor Transport Services

Finding: Closed work orders included in Work-in-Progress inventory

During our review of Work in Progress Inventory, we noted that several closed work orders totaling $738,187 were included in the balance. They represent work orders that have recently been closed and are on hold to allow time to ensure that all costs have been included in the work order. Because of the job status coding, the inventory accounting system does not recognize these work orders as closed work orders, but rather includes them as part of Work-in-Progress.

Recommendation:

We recommend that at year end the department make an adjustment to include these work orders in the accounting for closed work orders.

Auditee Response:

We concur. Motor Transport Service will adjust the Work in Progress programming to properly reflect closed work orders for June 30.

(154) Bureau of Maintenance and Operations Motor Transport Services

Finding: Inadequate controls over inventory

Because of a lack of personnel, the smaller stockrooms do not have adequate segregation of duties over inventory procedures. In these locations one person is responsible for ordering, receiving, and issuing stock, as well as recording the inventory and performing the physical count. Because of the inadequate segregation of duties, controls over inventory in these locations do not provide reasonable assurance that the inventory is properly safeguarded against loss and/or correctly accounted for.

Recommendation:

We recommend that recording of inventory transactions be performed by an individual who is not responsible for the acquisition, issuance or physical count. If adequate segregation cannot be achieved then the department should consider developing and implementing some controls that compensate for this.

Auditee Response:

We concur. A system of cyclic counts is in place at all Motor Transport Service locations with inventory. Motor Transport Service personnel in conjunction with Finance & Administration will review procedures in an attempt at improving compensating controls.

(155) Bureau of Maintenance and Operations Motor Transport Services

Finding: Variances found in inventory counts

A sample of twenty-five randomly selected inventory items at the main warehouse in Augusta, resulted in variances between the recorded inventory and a physical count of eight items. The warehouse manager was not able to reconcile the differences between the report and the auditors' count due to the inability to generate a report from the inventory system showing activity on June 30, 1995. The count was made from a listing generated at the close of business on June 29, 1995. The variances represent a sample error of .46 percent. This projects to a population error of $21,853.

Recommendation:

We recommend that the department generate a report of daily activity on June 30, 1995 to justify the reconciliation of the inventory physical count.

Auditee Response:

We concur. Motor Transport Service will generate an inventory listing as of June 30 of each fiscal year.

Office of the Treasurer of State

(156) <u>Finding</u>: Inadequate reconciliation of Employment Benefit cash accounts

The Office of Administrative Services at the Maine Department of Labor (MDOL) reconciles the Employment Benefit cash accounts to its general ledger and to the Controller's cash on a monthly basis. The Office of the Treasurer of State (Treasurer) is responsible for reconciling the Employment Benefit cash balance, according to the Treasurer's records, to the Department of Labor's (MDOL) general ledger balance. The Treasurer's office did not prepare an accurate cash reconciliation for the Benefit cash account for the month of June 1995. A revised reconciliation was prepared during fieldwork; however, the revised reconciliation continued to have an unidentified variance of $3,000.

As stated in the *Codification of Statements on Auditing Standards*, Section 642.23, one of the primary control procedures designed to deter and detect errors and irregularities that could occur in the processing of transactions and the handling of assets is the monthly reconciliation of bank accounts. The reconciliations should be performed by persons who have no incompatible duties, i.e., persons having physical custody of the assets. In addition, the reconciliations should be reviewed by a second person to verify their accuracy.

<u>Recommendation</u>:

We recommend that the Treasurer's office reconcile the Employment Benefit cash account each month. It should identify, research and resolve all material variances, and have a second person review the reconciliation to determine its accuracy.

<u>Auditee Response</u>:

The Treasurer's office reconciles the benefit account based on information supplied by MDOL. Presently, MDOL is out of reconciliation with the bank causing reconciliation problems with the Treasurer's office. Currently, the account balances with deposits shown the Treasurer's office (and) used as adjustments. Once MDOL reconciles with the bank, the Treasurer's office shall transfer the deposits still outstanding to Abandoned Property which eventually will end up in the General Fund.

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(157) Division of Abandoned Property

<u>Finding</u>: Excess Abandoned Property funds not transferred to the General Fund

According to 33 MRSA, §1857, "At the end of each year, or more often, the administrator (of Abandoned Property) shall transfer to the General Fund all money in the Abandoned Property Fund that is in excess of $150,000". At the end of fiscal year 1995, the Abandoned Property Fund had approximately $280 thousand remaining in the fund after a transfer of $2.9 million to the General Fund, thus exceeding the statute limitation by $130 thousand.

Recommendation:

We recommend that the Division of Abandoned Property comply with statutes governing abandoned property and transfer all required funds to the General Fund at the end of each fiscal year.

Auditee Response:

The balance was not drawn down to $150,000 because there were many claims pending (some large) that would have necessitated a reverse journal entry of over $100,000 after July 1 in order to meet the owners' demands. In July alone we paid over $200,000 in claims and of more than $30,000 in bills.

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(158) Division of Abandoned Property

Finding: Abandoned property not publicized within time constraints

We examined five reports on abandoned property that were filed with the state. The division did not promptly publicize three of the properties in newspapers. In one instance, the property was never publicized.

According to Title 33 MRSA, §1852, "Within 120 days of the filing of the report. . .the administrator shall cause to be published in at least 2 newspapers of general circulation in this State, at least once, a notice and listing of all abandoned property reported to the administrator".

Office of the Treasurer of State

Recommendation:

We recommend that the Division of Abandoned Property implement procedures to ensure compliance with statutes governing abandoned property and publication of all property within the one hundred twenty-day time period.

Auditee Response:

We would agree with the finding. We would need additional personnel to be able to meet the time constraints of 2000 holders reporting to us each November 1. However, another possibility is to revise the Statute to read, "Within one calendar year of the filing of the report. . . ." This would be more in line with reality.

Appendices

State of Maine
Status of Unresolved Significant or Material Findings and Recommendations
For the Years Ended Prior to June 30, 1995

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) 1993	1994	1995
Department of Administrative and Financial Services			
Accounting system does not comply with GASB principles	69	N/A	56
Department of Administrative and Financial Services - Bureau of General Services			
Incomplete General Fixed Assets Account Group records	69	N/A	59
Department of Administrative and Financial Services - Bureau of Taxation			
Inadequate tax reconciliations	71	N/A	86
Department of Human Services			
Federal funds used for state purposes/ State funds used for federal purposes/ Budget process circumvented	N/A	33	102

State of Maine
Unresolved Prior Year Questioned Costs
As of June 30, 1995

Year	State Agency & Federal Program	Federal Agency	CFDA Number	Amount
	Administrative & Financial Services:			
1992	Various Federal Programs	Various	Various	$5,800,000
1993	Various Federal Programs	Various	Various	3,600,000
	Total Administrative & Financial Services			$9,400,000
	Economic & Community Development:			
1991	Community Development Block Grant	HUD	14.228	$ 12,526
1992	Community Development Block Grant	HUD	14.228	33,367
1993	Community Development Block Grant	HUD	14.228	41,278
1993	Community Development Block Grant	HUD	14.228	28,845
1993	Community Development Block Grant	HUD	14.228	32,634
1994	Community Development Block Grant	HUD	14.228	20,193
	Total Economic & Comm. Development			$168,843
	Education:			
1992	Chapter 1 - Programs - LEA's	ED	84.010	$ 27,189
1992	Vocational Education - Basic Grants	ED	84.048	49,176
1992	Various Federal Programs	ED	Various	56,823
1993	Various Federal Programs	Various	Various	363,231
1994	Chapter 1 - Programs - LEA's	ED	84.010	20,638
1994	Various Federal Programs	Various	Various	376,594
	Total Education			$893,651

State of Maine
Unresolved Prior Year Questioned Costs
As of June 30, 1995

Year	State Agency & Federal Program	Federal Agency	CFDA Number	Amount
	Human Services:			
1990	Food Stamps - Admin	USDA	10.561	$ 1,810
1990	Child Support Enforcement	HHS	93.563	141,174
1990	Vocational Rehabilitation Services	ED	84.126	1,460
1991	ADMS Block Grant	HHS	93.992	7,978
1991	Food Stamps	USDA	10.551	2,441
1992	Various Federal Programs	Various	Various	83,387
1993	Social Security - Disability Insurance	HHS	93.802	135,822
1993	Various Federal Programs	Various	Various	506,698
1994	Women, Infants, and Children	USDA	10.557	3,118
1994	Vocational Rehabilitation Services	ED	84.126	99,641
1994	Social Security - Disability Insurance	HHS	93.802	132,488
1994	Various Federal Programs	Various	Various	35,050
	Total Human Services			$1,151,067
	Maine State Retirement:			
1992	Various Federal Programs	Various	Various	$248,483
	Total Maine State Retirement			$248,483
	Total			$11,862,044

Note: A. 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.

B. For the complete federal program name see the Schedule of Federal Financial Assistance.

C. The Maine State Retirement System became a quasi - state agency as of December 1993 and is now considered a component unit of the State of Maine.

State of Maine
Summary of Questioned Costs
By Federal Agency
For the Year Ended June 30, 1995

Federal Grantor Agency	CFDA Number	State Agency	Amount	Finding Number
U. S. Dept. of Agriculture	10.551	Human Services	$ 13,285	58
Total U. S. Dept. of Agriculture			13,285	
Federal Emergency Management Agency	83.516	Defense & Veterans Serv.	1,312	31
Total Fed. Emergency Management Agency			1,312	
U. S. Dept. of Health & Human Services	93.563	Human Services	423	64
	93.575	Human Services	312	51
	93.575	Human Services	94,864	52
	93.658	Human Services	195	54
Total U. S. Dept. Health & Human Services			95,794	
U. S. Dept. of Housing & Urban Development	14.228	Economic & Comm. Dev.	39	36
	14.228	Economic & Comm. Dev.	77,510	38
	14.228	Economic & Comm. Dev.	713	39
	14.228	Economic & Comm. Dev.	3,000	40
Total U. S. Dept. of Housing & Urban Dev.			81,262	
U. S. Dept. of Labor	17.246/	Labor		
	17.250	Labor	693	92
Total U. S. Dept. of Labor			693	
U. S. Dept. of Transportation	None Available	Transportation	48,534	100
Total U. S. Dept. of Transportation			48,534	
Various	Various	Human Services	343,915	81
Total			$584,795	

State of Maine
Summary of Questioned Costs
By State Agency
For the Year Ended June 30, 1995

State Agency	CFDA Number	Federal Agency	Amount	Finding Number
Dept. of Defense & Veterans Services	83.516	Emergency Management	$ 1,312	31
Total Dept. of Defense & Veterans Ser.			1,312	
Dept. of Economic & Community Development	14.228	Housing & Urban Dev.	39	36
	14.228	Housing & Urban Dev.	77,510	38
	14.228	Housing & Urban Dev.	713	39
	14.228	Housing & Urban Dev.	3,000	40
Total Dept. of Economic & Community Development			81,262	
Dept. of Human Services	10.551	Agriculture	13,285	58
	93.563	Health & Human Services	423	64
	93.575	Health & Human Services	312	51
	93.575	Health & Human Services	94,864	52
	93.658	Health & Human Services	195	54
	Various	Various	343,915	81
Total Dept. of Human Services			452,994	
Dept. of Labor	17.246/	Labor		
	17.250	Labor	693	92
Total Dept. of Labor			693	
Dept. of Transportation	None Available	Transportation	48,534	100
Total Dept. of Transportation			48,534	
Total			$584,795	

State of Maine
Summary of Federal Findings
by Federal Grantor Agency
For the Year Ended June 30, 1995

Federal Grantor Agency	CFDA Number	Program	Finding Number (Schedule B and C)
U.S. Dept. of Agriculture	10.551	Food Stamps	28,57,58,59
	10.557	Special Supplemental Food Program - Women, Infants and Children	67,68
	10.558	Child and Adult Care Food Program	50
U. S. Dept. of Education	84.010	Chapter 1 Programs - Local Educational Agencies	41,42
	84.027	Special Education - State Grants	46
	84.048	Vocational Education - Basic Grants	43,44
	84.126	Vocational Rehabilitation Services	47
	Various	Various	45
Federal Emergency Management Agency	83.516	Disaster Assistance	29,30,31,32,33,34
	Various	Various	35
General Services Admin.	39.003	Donated Surplus Property	6,26
U.S. Dept. of Health & Human Services	93.560	Family Support Payments to States - Assistance Payments	60,61
	93.563	Child Support Enforcement	16,62,63,64,73
	93.575	Payments to States for Child Care Asst.	51,52,53
	93.658	Foster Care Program	54
	93.667	Social Services Block Grant	55
	93.778	Medical Assistance Program	14,56,65,66,69,70,71, 74,75
	93.959	Substance Abuse Block Grant	48,49
	Various	Various	72,76,77,78,79,80,81, 82,G
U.S. Dept. of Housing and Urban Devel.	14.228	Community Development Block Grant	36,37,38,39,40
U.S. Dept. of Labor	17.225	Unemployment Insurance	93
	17.246/	Employment & Training Assistance	83,84,85,86,87,88,89,
	17.250	Job Training Partnership Act	90,91,92
	Various	Various	94
U. S. Dept. of Transportation	20.205	Highway Planning and Construction	97,98,101,102,
	N/A	Indian Grants Economic Development	100
	Various	Various	99
		Various Other Federal Programs	22,23,24,25,27,95,96, 103,104

State of Maine
Summary of Findings/Conditions
by State Department
For the Year Ended June 30, 1995

Department	Material Weakness	Reportable Condition	Federal Finding	Management Letter	Total
ADFIN	4	10	7	29	50
AGRI				1	1
DECD			5		5
DEP				1	1
DHS	1	4	33	2	40
DVS			7	1	8
ED		2	7	1	10
EXEC			2		2
JD				1	1
MDOL		4	12	2	18
MDOT	2		6	11	19
MHMR			2		2
SD				2	2
TREAS		1	2	3	6
TOTAL	7	21	83	54	165

State of Maine
Legend of State Agencies/Departments
For the Year Ended June 30, 1995

Abbreviations	**Agency/Department**
ADFIN	Administrative and Financial Services
AGRI	Agriculture, Food and Rural Resources
DECD	Economic and Community Development
DEP	Environmental Protection
DHS	Human Services
DVS	Defense and Veterans' Services
ED	Education
EXEC	Executive
JD	Judicial
MDOL	Labor
MDOT	Transportation
MHMR	Mental Health and Mental Retardation
SD	State Department
TREAS	Office of the Treasurer of State