

MAINE STATE LEGISLATURE

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MAINE PUBLIC DOCUMENTS

July 1, 1938 - June 30, 1940

STATE OF MAINE

Twenty-first Report
of the
Department of Audit



For Period
July 1, 1939 to June 30, 1940

WILLIAM D. HAYES, C. P. A.
STATE AUDITOR



STATE OF MAINE
State Department of Audit
Augusta

August 30, 1940.

In accordance with the provisions of Section 4, Article VI, Chapter 216, of the Public Laws of 1931, the Department of Audit submits herewith its report for the fiscal year ended June 30, 1940. Because of changes in personnel, and for other reasons, the presentation of data in this report will be found to differ materially from that of previous reports.

William D. Hayes

State Auditor.

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HISTORY OF YEAR 1939-1940

As a result of published claims that there were material discrepancies in the financial reports of the State of Maine, under date of February 28, 1940 the Executive Council voted to have an audit made by the accounting firm of Ernst & Ernst of "the financial accounts of the State for the fiscal years 1937-38 and 1938-39." During the progress of this audit, apparent defalcations by William A. Runnells, then State Controller, developed. This led to request for, and receipt of, resignations during April, 1940, from the Controller, the State Auditor and the Deputy Treasurer; the request for resignation of the Treasurer without receiving the same; and the voluntary resignation of the Commissioner of Finance. Mr. Runnells has since been indicted for embezzlement and larceny from the State of Maine. No evidence or claim of any misappropriation of funds or other definite irregularities has developed regarding any of the other officials listed above.

Ernst & Ernst made their report, as of June 30, 1938 and 1939, under date of May 11, 1940, which was printed for distribution to the Legislature and other interested persons. This report showed the Sinking Fund Reserve of the State as of June 30, 1939 to be \$1,817,847.92 instead of the \$185,734.24 shown in published reports of the Controller, over and above unrecognized assets listed by them to a net amount of \$724,736.50. The Department of Audit has reviewed this report quite carefully, with particular reference to the principle and computation of adjustments in Sinking Fund Reserve account; and is in agreement therewith with a few minor exceptions.

In their report dated May 11, Ernst & Ernst gave a figure to that date of the amount of the defalcations of the previous Controller as \$157,514.18; but intimated that this figure might be changed in their final report on this matter. No further report has been issued by them, but under date of August 28, 1940, they write "The amount of the defalcation has not changed any since our published report," intimating that their final report will simply give further details and analysis of this matter.

In July the Executive Council, at the request of our Department joined in by the Controller, Attorney General, and others,

authorized Ernst & Ernst to bring their audit down to, and certify balance sheet as of June 30, 1940.

The present State Auditor was appointed and qualified April 19, 1940. He found that his predecessor's request for an appropriation of \$27,000 for each year of the present biennium had been cut by the Budget Officer to \$25,000 and by the Legislature to \$20,000,—an amount which, after allowance for the salary of the auditor and other overhead expense, allowed of only two men and part of another being available to perform the "continuous post audit of the accounts . . . kept in the department of finance, or in the other departments and agencies of the state" called for by Legislative enactment quoted above; to which condition attention had been called in reports of the previous State Auditor. Steps were immediately taken which resulted in obtaining from the special session of the Legislature an increase in the appropriation to \$47,000 for the fiscal year beginning July 1, 1940.

The work of the "Municipal Division" in handling and supervising audits of towns, counties and other organizations external to the State itself, has progressed during the year 1939-40 in a satisfactory manner, with 9 field men, a "municipal auditor" and two clerks. This division virtually, if not quite, pays its own way through charges for work performed; all as discussed at some length in a separate section of this report.

The work of the Department of Audit on the books of the State of Maine,—i. e. exclusive of work of the Municipal Division,—during the year just ended falls naturally into three periods:

1st: From July 1, 1939 to early in March, 1940, during which lack of personnel made impossible any real audit work, other than in the case of a few relatively unimportant departments and agencies, and further work in attempting to bring up to date the work on automobile registrations, with no consistent coverage of the Controller's or Treasurer's office or such important departments as Highway, Health and Welfare, Liquor, etc.

2nd: The period from early in March to early in May, when the same reduced personnel was largely engaged in preparing primary data for, and assisting in, Ernst & Ernst's audit as of June 30, 1938 and 1939.

3rd: The remaining few weeks till the end of the fiscal year on June 30th, when a little auditing of relatively unimportant departments was resumed, but the main effort concentrated on assembling personnel and perfecting the organization for the coming year.

PLANS FOR 1940-1941

After consulting with the Attorney General, the following interpretation was placed on the statutory responsibilities of the Department of Audit which will govern their work in the future; based on the provisions of Section 1 of Article I and Sections 1, 3, and 4, of Article VI of Chapter 216 of the Public Laws of 1931:

1. No responsibility exists for coverage by the Department of Audit of the Judiciary (including municipal and trial justice courts), State Normal Schools, Executive Council, University of Maine, Port of Portland Authority or the Legislature, except as special arrangements are made therefor.

2. Responsibility does exist for coverage of all remaining departments and agencies of the State; the word "agencies" being for this purpose defined as follows: "Those units which are directly controlled in detail by State officers; whose real and personal property is owned directly by the State of Maine; whose bills are paid by checks of the State; whose officers have power to bind the State; and which have not a separate corporate entity."

As soon as the additional appropriation for 1940-41 was assured late in June, the personnel of the Department was gradually increased until on July 1 we had a total of 16 men for work on the State's books, which with the State Auditor, two clerks, and 12 in the Municipal Division (as last year), made a total personnel of 31.

The organization for audit work in the State departments is built up on the "resident auditor" basis, certain men being assigned virtually permanently to certain departments with whose problems they are already beginning to thoroughly acquaint themselves; all as shown in tabular form in Exhibit G herewith.

Of the work performed by the Department of Audit during the year just ended, that on the books of municipalities and counties alone was paid for by outside parties, at rates which very nearly or quite covered the total cost thereof. Effective July 1, 1940, in addition to the towns and counties, all audits of State aided academies and of normal schools are to be billed.

FINANCIAL STATEMENT OF THE STATE OF MAINE AS OF JUNE 30, 1940

The audit of the State of Maine as of June 30, 1940 was performed jointly by personnel of the State Department of Audit and of the accounting firm of Ernst & Ernst, resulting in the joint certification by the State Auditor and Ernst & Ernst of all figures in exhibits forming part of the Controller's report dated August 20, and published in newspapers August 22, 1940. We include herein the following exhibits, copied with a few minor changes in wording from this report of the Controller.

Exhibit A: General Balance Sheets of the State of Maine.

B: Revenue, Receipts and Expenditures.

C: Expenditures.

D: Sinking Fund Reserve.

In each case (except Exhibit D) figures for the current year are shown in parallel columns with similar figures as of June 30, 1939, the latter taken from Ernst & Ernst's report dated May 11, 1940, and differing from figures in last year's Controller's report.

Because of the joint certification mentioned above; and because of the fact that the Controller accompanied the same figures in his report dated August 20th with full discussion (with which in general we are in agreement); no necessity for further certification or discussion is indicated at this time.

We feel that this Balance Sheet of the State of Maine as of June 30, 1940, together with the supporting schedules, sets forth all matters more accurately, understandably, and conservatively than have similar figures for years past,—if ever. Changes which are now being jointly arranged by the Controller and State Auditor will, it is felt, enable an even clearer statement another year of the affairs of the State.

ASSETS NOT RECORDED ON GENERAL BOOKS

With the exception of State Taxes and a few other closely related items, it has for years been the policy not to include in the assets of the State of Maine any receivable or inventory items, or to record the same on the books of the State. This policy has lately been reversed enough to in effect include items of this nature held by the Liquor Commission thru inclusion of the net capital of this commission in the assets of the State.

Exhibit E lists receivables totalling \$827,196.55 as of June 30, 1940, which we found or of which we were furnished record by the various departments, institutions, etc.; plus a \$50,000 estimated inventory of garage supplies; none of which are included in any way in the year-end closings as of June 30th. As covered elsewhere, these have not been thoroughly verified by us,—in fact we believe them to be materially overstated from the standpoint of realizable value thru errors, uncollectibility, etc. As evidence of this, items totalling \$2,900.47 included above under the Highway Commission, and \$2,967.26 included under the Maine State Prison, are being recommended to the Governor and Council on August 28, 1940 for cancellation as utterly uncollectible, with several times that amount probable to later be similarly recommended.

In addition to the assets not recorded on general books as listed in Exhibit E, there are of course many other less liquid assets of the State, running way into the millions, which are not carried on the books in any way; among which may be mentioned land and buildings owned by the State (including the State House, Blaine Mansion, thirteen institutions, etc.); highways and bridges, State-owned equipment, such as automobiles, trucks, road machinery, etc.; unconsumed supplies of all kinds in State offices, institutions, etc.; and other similar items of a nature which, while always included as assets on commercial books, are not usually so considered in governmental accounting.

UNLISTED LIABILITIES

As far as we know, all liabilities of the State of Maine, whether due or accrued, are truly set forth on the Controller's balance sheet as of June 30, 1940; with only two exceptions: There is no inclusion of current bond interest accrued on June

30th in the sum of \$340,925.82 not yet due or payable, which again would be included in commercial accounting but is not usually so handled in governmental accounting; and commitments or encumbrances, against appropriations yet to be made, for goods, services, etc. for which the State was committed on June 30th but bills for which dated prior to or after June 30th, had not been received on July 31st when the books were actually closed.

MUNICIPAL AUDITS

Revised Statutes, Chapter 5, Section 97, as amended by Chapter 216, Public Laws of 1937, provide for annual audits of cities, towns, plantations and village corporations to be made "either by the state department of audit or by qualified public accountants"; the law further specifies "The term 'qualified' as here used shall be construed to mean that said audit shall be conducted by an accountant or auditor whose competency shall be approved by the State Auditor."

In accordance with the above law, 246 audits for the 1939 municipal year have been performed or are planned by the regular personnel of the Department of Audit, and 260 by 43 outside auditors; of which 506 audits, 394 have been completed by August 22nd. The writer feels it to be the best policy for the regular personnel of our Department to handle not over 35 to 40% of the various municipalities, leaving the balance to be handled by outside "qualified" auditors.

It is now planned to issue this fall a list of "qualified public accountants" to handle this outside work, after thorough investigation by questionnaire, etc. of those who have handled municipal audits in the past two years; with the thought that this list will be limited in accordance with statutory provisions to really "*public* accountants"; if practical, so distributed over the State that there will be a minimum travel expense to each municipality for some one of the auditors thus qualified; the number of qualified auditors will be limited since it has been proved that municipal audit work is enough of a specialty, so that any auditor to be of real value for this work should handle enough municipalities each year to enable him to become a specialist along this line, and that satisfactory results are not attained

when, as this year, 37 municipalities are covered by 31 different auditors, no one of whom handled over 3 municipalities. In addition, the standard of work performed by qualified auditors must hereafter at least approach the standard being set for our own men, which was not the case during the present year.

There was included in last year's report a table of comparative statistics of the various cities and towns of Maine, which proved of material value and interest to many. Delay in issuing the 1939 report until the very last of the year, after the previous year's municipal audits were virtually complete, allowed the inclusion therein of figures on nearly all the various municipalities. The publication of this year's report in August as provided by law would allow of the inclusion in this table of the figures for only a limited number of municipalities; for which reason this table is omitted entirely from this report, with the plan that the same will be published as a supplemental report probably in December of this year; and the further thought that the continuation of this separate report each year would seem necessary if the most valuable results are to be obtained, thru the inclusion in one table of the figures of all municipalities for the same municipal year.

The maximum value of such a table is decreased materially by the range in closing dates of the various municipalities, which close their books at various dates from October 31 to March 31, even though the bulk of them close their year in February or March. The comparative value of figures from the different municipalities would be greatly increased were it practical, probably by Legislative enactment, for one common closing date to be established; since it is misleading to compare the figures on any seasonal item, such as tax collections or snow removal expense, of a municipality closing its books on October 31 with those of one closing its books late in March.

All evidence indicates that each year since the first municipal audit law was passed, not only has the type of audit reports steadily improved, but the town and city officials have been increasingly in favor of annual audits and have for that reason cooperated more thoroughly with the auditors in getting their records into better condition. The results obtained from better methods of bookkeeping and annual audits have shown a very

definite trend towards much improved handling of municipal affairs.

In the municipalities audited to date for the last municipal year, the following differences have been found,—some due to errors or carelessness and quickly rectified by the responsible official; others of a more serious nature, have been cared for by the sureties, or in some cases the offending official has received a prison sentence:

Lewiston	\$2,282.41
Auburn	5,074.13
Auburn—Sewer District	5,028.58
Minot	1,490.91
St. Agatha	1,629.66
Monticello	1,408.09
Freeport	506.27
Sedgwick	113.09
Orland	2,262.36
Eastbrook	168.99
Oxford	1,336.06
Kenduskeag	415.01
Lincoln	1,270.92
Milford	558.58
Stetson	90.97
Palmyra	451.24
Smithfield	99.60
Stockton Springs	207.92
Sanford	6,152.49
Oakfield	4,367.32
	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/> \$34,914.60

COUNTY AUDITS

In accordance with the provisions of Chapter 206 of the Public Laws of 1937, the audits of the various counties of the State have been continued during the fiscal year just ended, providing assured figures of well nigh inestimable value to the county officials and to the Legislative Committee on County Estimates. These audits embrace careful investigation of all expenditures, and receipts, with verification of all assets and liabilities carried on the county books, and include examination of fees received by other departments within the counties.

While the majority of the counties in the State are in good financial condition, there is a wide range in this regard between Waldo with no bonded or other indebtedness, to Hancock with temporary loans alone in excess of all taxes due the county. A more careful control of the budget by county officers should show substantial improvement in financial condition of our counties.

In Exhibit F, we submit comparative statement of the liabilities of each of the counties of the State, all as of their last year-end on December 31, 1939.

COURT AUDITS

The auditing of the dockets of various courts of the State was continued until about April 1, 1940, when it was discontinued on account of the opinion of the Attorney General that we had neither responsibility nor legal right to perform such audits under the provisions of the law. This would appear a material step backwards because of the fact that our Department developed data indicating great laxity in handling court funds and paying over proper sums provided by law to the various State departments, etc. As covered under Suggestions, we feel the audits should be resumed; with a possibility that they could to advantage be expanded to include items in which the counties are interested as well as those of the State, and also to include at least test checks to indicate whether any judges were themselves collecting fines even tho the dockets were marked "fines suspended." In the past the entire cost of this work has been borne by our Department; since material benefits would accrue from its resumption on the suggested basis to the counties, fish and game and highway departments through increased cash to them, it is possible that at equity they should divide the cost of the same between them on some equitable basis such as 50%, 30% and 20%, respectively.

LEGISLATIVE COMMITTEES

Joint order H. P. No. 2254 of the special May, 1940, session of the Legislature provided for a "Special Legislative Investigating Committee" whose "partial" and "supplemental" report,

both dated July 22, 1940, summarized their findings and recommendation with particular reference to the Highway Department, Bureau of Printing, Superintendent of Buildings, and Motor Vehicle Registration Division of the Secretary of State's Department,—the latter with particular reference to the 1938 Auburn Robbery.

In addition, the Code Committee, so-called, also created in May by joint action of the two bodies of the Legislature, submitted a preliminary report also dated July 22, 1940, supplemented by S. P. No. 769 and 770 providing for the creating of a Bureau of the Treasury under the Commissioner of Finance, and repeal of the Constitutional provisions relating to the office of the Treasurer of State. The former of these provided for the collection of accounts owed the State of Maine by this newly created "Bureau of the Treasury." These two proposed enactments failed of passage, however, at the special July, 1940, session of the Legislature.

ACCOUNTS RECEIVABLE

In connection with the work of our Department in verifying the assets and liabilities of the State of Maine, lists were furnished us of all accounts receivable carried by the various departments, institutions, etc., as of June 30, 1940. In many cases, these lists were verified by us by direct examination of the departmental records.

We further substantiated them by sending out verification letters on all accounts carried by the Highway Department, and Maine State Prison, and in addition all accounts carried by any department against the various cities, towns, plantations, etc. To date, a high proportion of replies has been received from these various letters.

While this verification develops no evidence of any fraud in handling any of these accounts, with the single exception of those of years ago of the Highway Garage partly or entirely due to defalcations of the previous Controller, in virtually every case it does develop strong evidence of lax methods of recording, collecting, and even charging; which is in process of being corrected in most cases. These conditions have probably lost the State many thousands of dollars during the last few years, thru

both lack of realization of items collectible if currently worked on and thru the presence of conditions leaving the door open to actual fraud inside the departments, as there was in many cases absolutely no control over these accounts. The writer has stated verbally several times that it was the loosest condition so far encountered by him in the State's work; leading him to his oft expressed recommendation that a centralized collection agency be established at the earliest possible date.

In this connection, reference should be had to the list of these items mentioned under the heading "Assets Not Recorded" and supported by Exhibit E.

To the writer, one of the weakest matters in the previous handling of State accounts, cash, etc. is the fact that every separate department, institution, and even divisions not only keeps the only record of accounts receivable originating therein, but attends in a more or less haphazard way to the collection thereof. In but very few cases has there been any really satisfactory control over these accounts, oftentimes they being represented only by copies of unnumbered invoices scattered through various desks. That the sum total of these run into sizable figures may be appreciated from the fact that on page 80 of their report as of June 30, 1939, Ernst & Ernst list items of this nature totalling over \$1,500,000, none of which were carried in the regular books of account or included in the balance sheet as of that date. Frankly, the writer believes that the method of handling these and other accounts receivable of the State in the past has resulted in material and unnecessary losses to the State.

Early in July one Department—Highway and Bridges—set up their own centralized accounts receivable record and collection agency, with probably satisfactory control thereof. This is certainly a step in the right direction and we hope that it may be the forerunner of a general centralized State collection agency for at least all the departments located in Augusta. If in the future some practice can be worked out to control these items for the various departments in the general ledger of the State and include them in the balance sheet at a conservative realizable value, it would appear to the writer as a step forward.

MAINE STATE PRISON

Newspaper articles of some weeks ago purported to quote Ernst & Ernst as authority for the fact that there had been defalcations at the Maine State Prison of around \$200.

Conference with the Ernst & Ernst personnel and inspection of their working papers failed to elicit any very definite data warranting such a newspaper statement,—in fact the only item of which they had found evidence was of around \$30 and that more an error than anything else.

Because of this however, our auditor having charge of the work on institutions was given the Prison as his first assignment, and his work there has approached near enough to completion to warrant our statement that, tho he covered in some detail the entire year ending June 30th, he developed no evidence of any financial wrong doing on the part of any present official or employee of the Prison.

Certain poor methods in use there, are, however, now in process of correction.

PORT OF PORTLAND AUTHORITY

In November of 1939, the accounts of the Maine State Pier to June 30, 1939 were audited by the Department of Audit, and included in our last year's report, which was issued in December. No further work has been done on this and none is planned because of the opinion of the Attorney General that this is excepted by law from the provisions for audit by our Department.

In this connection, reference should be had to the various suggestions regarding this Authority in the "Suggestion" section of this report.

TREASURY DEPARTMENT

Our contacts with the work of the Treasury Department since May 1st, especially as brought to point at the time of the year-end examination, indicate that material progress has been made in overcoming the conditions found to exist there last winter and spring, some at least of which were made the sub-

ject of a special memorandum by Ernst & Ernst under date of May 3, 1940. It is hoped and expected that the improvements thus started will be continued under the detail supervision of the new Deputy Treasurer. In general it may safely be stated that there is a very evident appreciation in virtually all departments of the weakness of the previous methods, and that plans are already being put into force to correct these conditions.

BUREAU OF ACCOUNTS AND CONTROL

We desire to express our sincere appreciation of the work already being accomplished and mapped out for the future by the Controller (who assumed office early in April) and the present Commissioner of Finance (who assumed office in July) in accomplishing as much as they already have in the attempt to put the work of the Bureau of Accounts and Control onto a sound and efficient basis. As this work bears fruit in the coming months, not only inside the division itself but throughout the wide spread State departments and institutions, it will gradually become possible to assemble figures which will more readily submit themselves to analysis and verification.

COOPERATION

With but very few exceptions, and those relatively minor, the Department of Audit has had the full cooperation of the personnel of every department of the State of Maine, and this despite the fact that many of our plans and suggestions were materially at variance with past procedure. This cooperation has been particularly marked in the case of the Controller and Commissioner of Finance.

We also wish to express our appreciation of the support the State Auditor himself has had from the personnel of his own Department, both the sixteen carried over and the fifteen added in the past two months or more. The former have been patient with, and open minded to, the suggested changes of the writer; the latter have (with the writer) gradually acquired knowledge of the ground work of State law, organization, etc., so necessary for any chance of later success. Without the cooperation and ability shown by these various assistants, the start we have made would have been impossible.

SUGGESTIONS

1. At the earliest practical date arrangements should be made to establish centralized control and collections of all accounts receivable, preferably in a bureau under the Commissioner of Finance and entirely separate from all other lines of work or responsibility, under specially trained personnel; the handling of these accounts, on June 30, 1940 grossing over three million dollars, is now scattered among the various departments and institutions, too often with very indifferent control or collection policy.

2. Expense accounts of both department heads and employees should include only such items as are necessarily incurred directly in connection with State business, which usually does not include other than State employees. In this connection reading is suggested of the wording of affidavits on expense accounts.

3. Changes now under discussion in the general accounting procedure of the Bureau of Accounts and Control should be carried through, if possible effective from July 1, 1940, since they will enable a clearer and easier determination of all pertinent facts, at the year-end and at other times.

4. A careful study should be made of the present detailed coding and monthly reporting of receipts and disbursements of various departments, institutions, etc. to determine whether a simpler and more logical arrangement would not only save much time and expense, but yield even more valuable results.

5. A consistent and systematic policy should be established regarding values at which securities held by or in various special and trust funds should be entered on the books; preferably (in the writer's opinion) at actual cost.

6. A thorough and detailed examination should be made of the various "special and trust funds," together with the assets carried therein, to determine whether, through errors in past years, items are carried under this heading which do not belong there, and whether the balances of trust fund liabilities now carried are inaccurate in certain cases.

7. Cash balances still carried in closed banks which have been completely liquidated should be charged off entirely, after proper authority is granted by the Legislature, or the Governor and Council.

8. Early determination should be made as to whether losses in the various special and trust funds from such causes as bank closings, shrinkage in realized values of investments, etc., should be charged to the sinking fund reserve, to the capital liability for the various special and trust funds, or to the account receiving the benefit of income from the fund; or whether in certain cases these losses should be made good by appropriations from general revenue.

9. Every effort should be made, both on the books of account and in later reports, to segregate all assets, liabilities, revenue, and expenditures of restricted funds from those of general funds open to appropriation by the Legislature; with the hope that later balance sheets and analyses of revenue, expenditures and appropriations can be based on this absolute segregation.

10. Investigation should be made to determine whether later balance sheets should not show more truly what assets, if any, properly offset liability for bonds of the State, including sinking funds for the retirement of bonds now carried under special and trust funds.

11. In accordance with the opinion of the Attorney General, all proceeds of both highway and "war" bonds should apparently be segregated in separate bank accounts, apart from general funds of the State.

12. The title of "Sinking Fund Reserve," adopted in accordance with specific Legislative act, should, if possible, be changed to one more truly representative of this account, especially since its very name suggests the reservation of cash or other liquid assets for reduction of bond and other liabilities, which is not in accordance with actuality; while the exact nature and use of this account should be clarified, probably by Legislative enactments. We feel this particularly strongly since it is increasingly apparent to our department that much of the confusion in properly evaluating figures shown in state reports is due to confusion brought about by the name "Sinking Fund

Reserve" attached by law to an account whose balance is offset by no reserve funds, and which in actual use more nearly approaches a "surplus" account.

13. Investigation should be had to determine whether the accounts, reports, etc. of the Liquor Commission, and in some cases the general books of the State, are in line with the statutory provisions regarding such matters as:

1. The inclusion of income and expense of licenses under "store" income and expense.
2. Lack of any record on the books, segregation in setting up statements, and definite employment in determination of sale prices, of the statutory provisions for a "tax" of \$2.20 and 50c, respectively, per gallon on all liquor and wine sold.
3. Granting of "Discounts" from regular sale prices to holders of certain classes of licenses, which sale prices theoretically at least include the above mentioned "tax" specified in the statutes. In this connection reference should be made to Section 7, Chapter 300 of Public Laws of 1933 which authorizes only "prices for *retail* sales which shall be uniform throughout the State"; and also to the fact that the discounts to certain customers, apparently unauthorized by law, amounted to over \$50,000 in the year just ended.

14. Investigation should be instituted to determine whether, by Legislative enactment or otherwise, surplus accumulated by the Port of Portland Authority (amounting to \$66,000 on June 30, 1939), together with cash carried by the State in a special sinking fund "to retire Maine State Pier Bonds" (\$32,468.60 on June 30, 1940), cannot be used to reduce the State's present liability for State Pier bonds (\$290,000 on June 30, 1940); in which connection reference is made to the recommendations along this line on Pages 8 and 9 of the Department of Audit's report of last year.

15. Investigation should be instituted to determine whether a balance now carried by the State in a sinking fund for retirement of Kennebec Bridge bonds (estimated to have a

realizable value of \$140,000) cannot be employed to reduce the present outstanding bonds for this bridge (amounting to \$1,910,000).

16. Investigation should be instituted to determine whether the trust fund of \$3,334.80 having its inception in 1916 when the State acquired the assets previously held by the Maine State Sanitorium Association, included cash of \$2,874.72 largely from unexpended State appropriations, involves any legal or ethical trust liability of the State of Maine; or whether the assets of this trust fund could not more properly be made available for general funds of the State; in which connection reference is made to the recommendations on Page 9 of this Department's report as of June 30, 1939.

17. The payment of salaries at two week intervals in place of the present weekly payments, would save a material amount of labor and expense to the State of Maine.

18. Investigation should be had as to whether there is needless duplication of accounting work, with avoidable expense to the State, in continuing bookkeeping in certain departments, despite the supposed centralization of all accounting in the Bureau of Accounts and Control under the provisions of the 1931 Code.

19. The entire accounting system of the Highway Department should be subjected to a critical survey with the thought in mind of determining whether changes therein are not practical which will put it onto a more efficient basis. At present their accounts are on a calendar year basis, apparently contrary to provisions of Section 13, of Article II, Chapter 216 of the Public Laws of 1931, and certainly contrary to the general control accounts in the Controller's office. Despite the provisions of the law for an annual report to be issued not later than December 31 of each year, the last report, issued in December, 1938, covered the two years of 1936 and 1937. It would also appear that there is needless duplication and conflict between departmental records and those of the Controller's office, as well as an attempt to accumulate a mass of relatively valueless details, oftentimes because lacking certain vitalizing factors, which few if any really employ after publication.

20. Thorough investigation should be had of the possible value of establishing in the Highway Department a centralized purchasing agency under the State Purchasing Agent in accordance with Section 20, Article II, of Chapter 216 of the Public Laws of 1931; under which would also be placed systematic control of the vast quantity of equipment handled by this department, in place of the apparently loose handling of these matters by the various branches of the Highway Department.

(Any consideration of accounting and purchasing problems of the Highway Department should take into full consideration the fact that this department disbursed directly over \$10,000,000 (exclusive of bond retirement) in the year ending June 30, 1940, and that its activities are scattered over virtually every city, town, plantation, and unorganized area of the State of Maine).

21. Investigation should be had of the construction and method of handling the vault in the Treasury Department, with especial thought to the upper section, to see whether the contents is at all times well protected from the hazards of fire, etc.

22. The practicability from the standpoint of sound accounting and clear reporting of deferring until later years the 1936-37 deficiency of over \$2,000,000, (the unamortized balance of which has now been reduced to \$992,111.29) and of making appropriations to cover current deficiencies from "Sinking Fund Reserve" by the Legislature, should be considered very carefully from *all* angles.

23. The practice of leaving all recording and collection of wild land tax in the hands of the same department which assesses the same, might be questioned, especially as the law apparently specifically provides that this shall be collected by the Treasurer. In at least two other cases, charges against municipalities are recorded and collected solely in other departments, apparently contrary to the provisions of the law that they shall be collected similar to State tax by the State Treasurer.

24. The assessing each year of wild land taxes against property owned by the State of Maine under the Forest Commissioner would appear of questionable legality, and as unduly inflating both the State's income and the receivables from such tax.

25. Further study should be made by future sessions of the Legislature looking towards the possibility of establishing the position of the Treasurer on a full time basis, with the combined duties now covered by both the Treasurer and Deputy Treasurer.

26. Material improvement should be demanded in the future in handling all accounts receivable owed the State of Maine, whether in the Treasurer's office, the suggested centralized collection agency, or scattered among the multitudinous departments, institutions, etc. The conditions of poor recording, control and collection policy discovered in connection with our examination as of June 30, 1940 indicates the probability that thousands of dollars have been needlessly lost every year from this cause. This condition is particularly needless in connection with charges against employees of the State, and against other State departments, each of which should certainly be capable of immediate collection in original or adjusted amount, instead of running on for six or eight years as we found to be the practice; while in other cases we saw no evidence that bills or statements had ever been sent out.

27. Verification of payrolls of the various departments now being inaugurated by our office has so far developed no evidence of irregularity, despite the fact that individual checks are being delivered direct to employees; except for the single point that a few cases have been found where there is discrepancy between the division in which work is now being performed and the division to which the employees were authorized by council order, recorded in the Personnel Department, and even the appropriation being charged for the salary. In the case of Federal aid work, this practice might result in particular complications.

28. All figures entered on the general books of the State of Maine, or included in any summations thereof or in determining the standing of the State at any particular time, fail to include accounts receivable carried only in the various departments, grossing as of June 30, 1940 over \$827,000. If any proper way can be worked out to enter these currently as income and assets on the regular books, thus putting the State more nearly onto an accrual basis, much more accurate figures will be obtained on the income and standing of the State.

29. If practical, the accounts receivable carried by the Fish and Game Department and State Police, having their inception in fines imposed by municipal courts for infractions of fish and game laws and highway laws, should be handled on a sound basis of recording, adjustment, and collections; as conditions in these matters have been found to be open to material confusion.

30. Since the provisions of Chapter 245 of the Public Laws of 1937, as amended by Chapter 105 of the Private and Special Laws of the same year for a "tax" of \$2.20 on each gallon of spirits and of 50c on each gallon of wine sold by the Liquor Commission are not being definitely carried out, and since the earlier possible necessity for designating the mark-up as a "tax" is probably not now existent, it might clarify the matter for the Legislature to replace this "tax" by a provision for a percentage mark-up which would yield approximately the revenue desired; especially as the formal and specific label of "tax" brings in the possibility of certain complications.

31. Investigation should be made as to whether the units mentioned in the various appropriation bills should not be used as a basis for the various accounts in the appropriation ledger in the Controller's office, since such would yield data more readily tied into Legislative appropriations.

32. State and even Federal laws in certain cases specify rates at which interest shall be credited the beneficiaries of various trust funds, often as high as 5% and 6%. While such rates were probably justified at the date of the passage of these acts, they are entirely out of line with the present rate of income possible on these invested funds; which leads to the suggestion that, if possible, some revision in the same should be made to put them in line with the present value of money, and thus save material unfair drains on the funds of the State, from other sources and needed for other purposes.

33. Changes in procedure have been blocked out in the handling of the next year's automobile registration and drivers' licenses by the Secretary of State's office which it is hoped will not only speed up the work of this department, but will enable quicker and more assured verification of the same by our department. The effect on this of the projected change over to

photostatic records, at the suggestion of the Legislature, cannot now be foreseen. One relatively minor and further suggestion is that the use of "T" on all truck licenses in place of V, W, X, Y and Z, now used, together with the use of a single series of license numbers for all trucks, would further simplify these matters, if found practical.

34. Inspection of all checks for proper endorsement, which has recently been commenced in the Controller's office, should be continued without fail. The same also holds true regarding the monthly reconciliation of all bank accounts, which is now put onto a sound basis. Theoretically both of these should be handled by the Treasurer's office, tho from practical reasons, it apparently can be better handled by the Controller.

35. Whatever changes are necessary should be made in the accounting and reporting methods in use by the State of Maine to enable the determination without possibility of attack at each year-end of the exact amount by which the State has lived within or beyond its income; since the impracticability of such reduction to one specific figure as of June 30, 1940 has resulted in a very valid criticism of the accounting and reporting methods in use.

36. It has been the practice in the past to prepare balance sheets of many or all of the thirteen State institutions as of the close of each fiscal year; in each of which is carried a figure of "inventory,"—tho largely of equipment,—priced supposedly at cost irrespective of the current use or salvage value of the items included therein. While these figures are never entered on the books or included in the balance sheet of the State, if they are to be gotten out at all, the prices of all inventory items should be reduced to a fair "going concern" value if the articles are of current use value, or to a salvage value if of no probable use value,—even down to zero.

37. In connection with a special investigation of certain matters in the Department of Health and Welfare, undertaken last spring at the request of the then newly appointed Commissioner, evidence was developed indicating a strong possibility that the field supervision of certain sections of the State was being handled more to the advantage of certain employees and their friends than to that of either the State of Maine or its

wards; while later evidence indicates that a clear cut line is not always drawn between appropriations and expenses for administration of this Department, and that for actual assistance to wards of the State. Doubtless both of these are now being corrected by the Commissioner.

38. Appropriation bills carry the proviso that the books of the Controller shall remain open until July 31 of each year in order that all bills applicable to the year ending June 30th may be entered before closing: Chapter 292 of the Public Laws of 1939 provides that the Controller shall prepare and publish on or before August 25 of each year a financial statement of the State as of June 30th. Since this interim of only about three weeks is somewhat short for a really proper closing of books as extended as, of necessity, are those of the State of Maine, and for the preparation of a really well worked out analysis of the outcome of the year, to say nothing of having the same audited by either or both the State Department of Audit or an independent auditor; the suggestion is made that the Legislature provide for further time. Our feeling is that, with proper supervision and the cooperation of departments, virtually all bills can be gotten in by the 15th or 20th of July; while the publication of the Controller's report by August 31st would apparently answer all proper necessities.

39. The question has been raised whether the factors surrounding the work of the Public Administrators appointed by the Governor for each county, under the provisions of Sections 30 to 34 inclusive of Chapter 76 of the Revised Statutes, are not such as to indicate the wisdom of supporting them by regular audits; and, if so, whether such is within the responsibilities and powers of the State Auditor and under what conditions.

40. A question has been raised regarding the disposition of funds remaining in closed banks as dividends unclaimed by depositors, with especial reference to savings banks and trust companies organized under the laws of the State of Maine. Apparently Sections 53 and 85 of Chapter 57 of the Revised Statutes leaves this question a little in the air with particular reference to the trust companies; the clarification of which should be considered by the next Legislature.

41. We suggest that the policy of the Liquor Commission in not turning over currently to the State Treasury money received as deposits on special orders and carrying the same only on memorandum, is not in accordance with sound business. For this should be substituted the practice of turning into the State Treasury all moneys received including the special deposits, and that more thorough records of the same be made.

42. Since the practice of the Liquor Commission in issuing short term beer licenses at rates lower than authorized in the law, tho possibly good business practice, apparently is not supported by the law; we suggest that the practice should either be stopped, or the law changed to authorize the same.

43. We suggest that any necessary changes be made in the method of keeping the cash books in the Treasurer's office to obviate the inflation of recorded cash receipts and disbursements by non-cash (journal) entries; if this is done, it will enable the correct accumulation of receipts and disbursements and will enable reconciliation with the records kept in the controller's office.

44. The Legislature may consider it advisable to amend the provisions of the 1939 supplementary appropriation bill regarding the "Contingent Fund of the Governor and Council," or to omit certain provisions therein from further appropriation accounts.

Chapter 113, of the 1939 Private and Special Laws, contains the following:

"The provisions of Chapter 216, Public Laws 1931 (Article II, Section 10, and Article VI, Sections 3 and 4) shall not apply to the contingent fund of the Governor and Council."

Since the first reference to Chapter 216 quoted above, outlines the powers and duties of the Controller, and the second reference, those of the State Auditor, the effect of this Act is to remove all disbursements from the "Contingent Fund of the Governor and Council" from any control of either the Controller or the State Auditor.

Chapter 107, Private and Special Laws 1939, appropriated \$36,100 (plus \$4,000 carried forward from the previous year) for 1939-40, and \$40,100 for 1940-41 for the "Department of

the Executive"; which included in its blanket appropriation a sum for the Governor's and Council's Contingent Fund for which \$9,700 was indicated in the biennial budget report. The Controller's records show charges to this Contingent Fund in 1939-40 totaling \$9,991.22.

45. Since most of the Accounts Receivable of the various State Departments as of June 30, 1940, which as covered elsewhere herein are not recorded on the general books of the State, contain many items which are absolutely uncollectible for various reasons (including erroneous source, payment without record, age, impossibility of locating debtor, etc.); since the removal of this dead wood from the departmental records will facilitate the proper handling of the active accounts; and since the Governor and Council after obtaining advice from the Attorney General find no authority for authorizing charge-off of such items; the Legislature may consider it wise to place continuing authority for such charge-offs in a group of State officials, which probably should include the Governor, Controller and State Auditor.

GENERAL BALANCE SHEETS

STATE OF MAINE

June 30, 1940

June 30, 1939

RECOGNIZED ASSETS—ALL FUNDS

GENERAL FUND ASSETS

Cash on deposit				
In Treasury	\$4,610,135.03	\$	\$4,449,190.83	\$
Forestry Department	17,914.80	4,628,049.83	7,874.44	4,457,065.27
Balances in closed banks	313,785.86		337,023.36	
Less reserve	265,597.83	48,188.03		337,023.36
Petty cash and change funds		3,578.49		
Accounts Receivable:				
Tax accounts	2,559,070.03		1,753,165.06	
Other	45,093.33		15,937.89	
	2,604,163.36		1,769,102.95	
Less reserve	230,500.00	2,373,663.86		1,769,102.95
Liquor Commission		412,488.99		700,431.86
Bank stock securities	34,412.50		34,412.50	
Less reserve	12,770.00	21,642.50		34,412.50
Appropriation overdrafts, etc.		199,920.40		498,729.91

\$7,687,581.60\$7,796,765.85

LIQUOR COMMISSION

Cash		7,657.59		82,559.92
Accounts receivable	18,765.84		13,809.57	
Less reserve	5,000.00	13,765.84		13,809.57
Inventories		491,974.41		629,898.24
Furniture and equipment	111,146.19			
Less depreciation reserve	94,308.71	16,837.48		35,697.42
Prepaid taxes, rent, etc.		1,356.18		2,354.21
		<u>\$531,591.50</u>		<u>\$764,319.36</u>

BONDED ASSETS

Capitalized expenditures:				
For Highways		22,596,500.00		23,315,500.00
For Toll Bridges		2,750,000.00		2,910,000.00
For 'State of Maine Improvements'		1,700,000.00		1,800,000.00
For State Pier		230,000.00		405,000.00
For War Loan				1,500.00
		<u>\$27,276,500.00</u>		<u>\$28,432,000.00</u>

TRUST FUND ASSETS

Other trusts, guaranty deposits, etc.:				
Cash	610,801.63		637,676.16	
Securities	2,096,920.79		2,096,128.63	
Due from General Fund	10,451.42	2,718,173.84	3,352.14	2,792,156.93
Lands reserved, etc.:				
Farm Lands Loan commission	197,999.72		223,650.31	
Foreclosed property	105,999.43		100,390.43	
Cash in savings banks	182,723.35		177,531.36	
Investments	353,750.00		191,750.00	
Trust Fund—stock securities	4,400.00		4,400.00	
Due from general funds	30,687.66	875,560.16	166,765.10	864,487.20
		<u>\$3,593,784.00</u>		<u>\$3,656,644.13</u>

Exhibit A

GENERAL BALANCE SHEETS

STATE OF MAINE

June 30, 1940

June 30, 1939

LIABILITIES AND RESERVES—ALL FUNDS

GENERAL FUND

Accounts payable	\$	\$1,527,014.91	\$	\$1,160,253.19
Bonds matured, not presented for payment	123,500.00			
Interest on bonds (matured coupons not presented for payment)	29,765.00	153,265.00		
Tax payments received in advance		121,909.43		99,599.22
Public Administrators fund		39,623.75		34,780.08
Receivers fund for defunct banks		13,621.93		18,646.12
Unemployment Compensation Fund		11,320.72		97,602.83
Dog licenses to be refunded		11,027.44		53,453.69
Due to counties		1,312.17		
Interest on state trust funds		1,211.84		
Due trust funds		41,139.08		175,117.24
Unexpended Balances—appropriations:				
For general purposes	4,433,951.88		4,144,259.74	
For special purposes	93,262.91		92,707.66	
For federal projects	410,373.75		648,094.84	
Direct liabilities	483.72		27,206.07	
Credits to accounts receivable	183,798.53	5,127,370.79	219,308.54	5,181,576.85
Surplus and deficiency accounts:				
Sinking fund reserve (Exhibit D).....	961,453.65		1,817,847.92	
Contingent Fund	309,000.00		300,000.00	
Liquor Commission working capital	364,372.18			
	1,625,825.83		2,117,847.92	
Less Deficiency Account—1936-37	992,111.29	633,714.54	1,092,111.29	1,025,736.63
		<u>\$7,687,531.60</u>		<u>\$7,796,765.85</u>

LIQUOR COMMISSION

Accounts payable		116,049.19		45,049.26
Treasury advance				6,900.00
Accrued		2,195.73		11,938.24
Customer advance payments		857.59		
Surplus:				
Earned to June 30, 1935, established as working capital by statute	364,372.18		364,372.18	
Earned subsequent to June 30, 1935, not lapsed to general fund	48,116.81	412,488.99	386,059.68	700,431.86
		<u>\$531,591.50</u>		<u>\$764,319.36</u>

FUNDED DEBT

Bonds outstanding		27,400,000.00		28,432,000.00
Less matured bonds not presented for payment included under General Fund liabilities		123,500.00		
		<u>\$27,276,500.00</u>		<u>\$28,432,000.00</u>

RESERVES FOR TRUST FUNDS

Other trust funds, guaranty deposits, etc.....		2,713,173.84*		2,792,156.93
(*Includes Sinking Fund to retire Kennebec Bridge Bonds.....\$177,183.26 State Pier Bonds..... 32,468.60)				
Lands Reserved Trust Fund		875,560.16		864,487.20

\$3,593,734.00\$3,656,644.13

Exhibit B

REVENUES, RECEIPTS AND EXPENDITURES

	Year Ended	
	June 30, 1940	June 30, 1939
Revenue:		
Taxes	\$15,543,093.62	\$14,848,787.48
Licenses	4,760,410.11	4,511,092.06
Rents	480,521.78	430,393.15
Fees	562,106.02	338,640.54
Sales of Services and Commodities.....	7,025,076.76	6,525,115.54
Interest Earned	90,125.93	96,234.51
Fines	41,404.01	36,882.59
Refunds, Recoveries, etc.	63,374.19	73,665.40
(Including \$26,420.00 recovered from W. A. Runnells April 1940)		
Sales of Equipment	296.07	235.23
Premiums on bonds issued.....	53,550.00	*
	\$28,619,958.49	\$26,861,046.50
Balance of profits of liquor division not entered on general books.....	(287,942.87)	118,886.66
	\$28,332,015.62	\$26,979,933.16
Less beer tax credited to 1936-1937 deficiency, Chapter 100, P. & S., 1939	100,000.00	100,000.00
	\$28,232,015.62	\$26,879,933.16
Other Receipts:		
Grants, Subsidies and Assessments.....	9,897,554.90	10,845,722.46
Other Credits	42,992.97	34,628.49
	\$38,172,563.49	\$37,760,284.11
TOTAL EXPENDITURES†	36,969,745.23	37,664,018.98
	\$1,202,818.26	\$96,265.13
Excess of revenues and receipts over ex- penditures (exclusive of net reduction in funded debt and appropriations charged direct to the Sinking Fund Reserve by acts of the Legislature).....		

*This item was shown as of June 30, 1939,
as a credit to the Sinking Fund Re-
serve in the amount of \$21,890.00.

†Exhibit C.

Items in parenthesis represent deductions.

*Exhibit C***EXPENDITURES**

	Year Ended	
	June 30, 1940	June 30, 1939
Adjutant General	\$206,724.42	\$232,707.71
Attorney General	63,276.16	58,320.18
Bank Commissioner	58,125.19	56,033.45
Bureau of Taxation	375,020.56	369,029.80
Agriculture	455,469.43	436,329.55
Labor and Industry	22,586.01	22,689.96
Bureau of Budget	11,685.97	14,354.11
Examining Boards	44,934.96	39,316.22
Executive Department	39,890.85	54,323.40
Bureau of Accounts and Control.....	150,517.67	164,233.59
Forestry	223,801.87	236,746.86
Bureau of Purchases	20,430.27	27,166.01
Industrial Accident Commission	32,852.65	32,677.77
General Insurance Fund	29,788.59	24,985.40
Inland Fish and Game	547,729.75	510,573.23
Insurance Commissioner	33,270.31	32,318.77
Bureau of Social Welfare	780,621.79	1,504,230.31
Legislative	50,516.45	227,711.33
Division of Charitable Institutions.....	48,795.70	54,024.94
Maine Development Commission	180,191.48	221,501.54
Maine State Library	39,041.99	33,052.13
Maine State Liquor Commission	4,014,268.28	4,068,332.17
Public Utilities Commission	87,459.89	87,817.21
Social Security Fund	4,434,160.83	3,781,373.52
State Boxing Commission	3,235.54	—
Sea and Shore Fisheries	129,130.46	111,831.34
Secretary of State	251,475.62	172,921.32
Emergency Municipal Finance Board.....	331.29	—
State Auditor	46,491.22	45,982.32
Education	2,956,933.83	2,728,671.50
Maine State Racing Commission	11,819.50	13,111.98
Public Health	177,440.39	182,356.29
Bureau of Institutional Service	56,537.12	50,851.25
Maine Real Estate Commission	2,873.84	2,667.59
Unemployment Compensation Commission	3,509,367.34	4,450,496.01
Health and Welfare	2,053,581.63	1,720,664.17

TWENTY-FIRST REPORT

Superintendent of Public Buildings.....	105,134.15	82,534.85
Supreme Judicial and Superior Courts.....	168,271.76	169,364.87
State Park Commission	7,056.90	3,323.09
State Treasurer	1,201,022.87*	1,307,198.46
University of Maine	673,086.36	657,206.26
Institutions	2,335,120.90	2,147,099.97
State Police	334,912.45	314,635.40
Highway	10,758,959.87	10,826,550.95
Miscellaneous Resolves	60,282.57	160,324.94
Public Works Administration	289,695.21	494,954.24
Works Progress Administration	60,351.74	267,719.72
National Recovery Act	—	9,451.92
Auditing Expense (Ernst & Ernst).....	50,471.60	—
Miscellaneous	—	3,251.38
	<hr/>	<hr/>
	\$37,194,745.23	\$38,213,018.98
Less amount charged to Sinking Fund		
Reserve as provided by Chapter 119,		
P. & S. Laws 1939.....	225,000.00	
Chapter 101, P. & S. Laws 1939.....		549,000.00
	<hr/>	<hr/>
	\$36,969,745.23	\$37,664,018.98

*In many of the above amounts charged as expenditures of a particular department there are included items not directly connected with the operating cost of the department. For example, the total expenditure figure for the State Treasurer is made up of the following amounts:

Departmental operations	\$ 24,126.87
Interest on bonded indebtedness	1,026,555.00
To Sinking Fund for Retirement of Kennebec Bridge	
Bonds	10,569.90
Railroad and telegraph tax	135,469.52
Abatements, errors and corrections in tax accounts.....	4,301.58
	<hr/>
TOTAL.....	\$1,201,022.87

*Exhibit D***SINKING FUND RESERVE**

YEAR ENDED JUNE 30, 1940

Balance June 30, 1939 (Per Ernst & Ernst Report)..... \$1,817,847.92

**SUBSEQUENT ADJUSTMENTS AFFECTING BALANCE
AT JUNE 30, 1939****Additions**

Gasoline Taxes receivable at June 30, 1939.....\$ 581,125.49

Deductions

Providing reserves for:

Balances in Closed Banks.....\$265,597.83

Tax Accounts Receivable 225,000.00

Bank Stock Securities 12,770.00

Other Accounts Receivable 5,500.00

\$508,867.83

Segregating Liquor Commission working capital

June 30, 1935 (Chapter 24, Public Laws 1935) 364,372.18

Setting up Liability for Bonds and Bond Coupons

matured and not presented for payment..... 153,265.00 1,026,505.01 445,379.52

ADJUSTED BALANCE JUNE 30, 1939 \$1,372,468.40**1939-1940 ITEMS****Additions**Excess of Revenues and Receipts over Expendi-
tures (Exhibit B) \$1,202,318.26**Deductions**

Net reduction in Bonded Debt.....\$1,032,000.00

Increase in Appropriation balances..... 356,833.01

Appropriation charged direct to Sinking Fund

Reserve by Legislative Act (Chapter 119

Private and Special Laws, 1939)..... 225,000.00 1,613,833.01 411,014.75

BALANCE JUNE 30, 1940..... \$ 961,453.65

ASSETS NOT RECORDED ON GENERAL BOOKS

June 30, 1940

(Exclusive of Interdepartmental Accounts)

ACCOUNTS RECEIVABLE

<i>Department</i>	<i>Amount</i>
Adjutant General	\$ 234.52
Attorney General—Inheritance Tax	28,539.12
Attorney General—Interest	1,771.25
Dept. of Institutional Service—Towns	43,929.68
Dept. of Institutional Service—Paying Patients.....	7,754.78
Bureau of Taxation—Property Division.....	84.00
Bureau of Taxation—Potato Tax.....	2,949.73
Dept. of Agriculture—Markets	11,703.61
Dept. of Agriculture—Plant Industry	3,154.03
Dept. of Agriculture—Animal Industry.....	229.79
Milk Control Board	575.79
Dept. of Health & Welfare—Municipalities.....	114,471.41
Dept. of Health & Welfare—X-ray Service.....	330.00
Dept. of Health & Welfare—Dental.....	585.35
Dept. of Health & Welfare—Pneumonia Serum.....	703.50
Dept. of Health & Welfare—Nursing.....	6,058.00
Dept. of Labor & Industry.....	505.75
Forest Service—Forestry Dist.	731.02
Forest Service—Lands Reserved for Public Use.....	415.88
Industrial Accident Commission	19.48
Maine State Library	51.01
Department of State—Title Division	3,021.75
Department of Education	22,596.89
Maine State Police	27,589.53
State Highway Commission	481,551.44
Augusta State Hospital	11,858.24
Bangor State Hospital	14,198.73
Central Maine Sanatorium	15.92
Pownal State School	2,960.86
State Military & Naval Children's Home.....	2.25
State Reformatory for Men	703.00
Western Maine Sanatorium	697.46
Board of Bar Examiners	140.00
Superintendent of Buildings	325.15
Maine Board of Chiropractic Examiners	219.00
Commission of Pharmacy	67.00
Board of Dental Examiners	6.00
Maine State Board of Registration and Examination of Optometry	225.00
State Board of Registration of Professional Engineers.....	52.50
Board of Veterinary Examiners	25.00
Inland Fish & Game	11,292.97
Maine State Prison	14,838.76
State Department of Audit	10,011.40
	<hr/>
	\$827,196.55
INVENTORY GARAGE SUPPLIES (Estimated).....	50,000.00
	<hr/>
	\$877,196.55

*Exhibit F***INDEBTEDNESS OF COUNTIES**

As of December 31, 1939

	Temporary Loans	Notes	Other Liabilities	Bonded Debt	TOTAL
Androscoggin			\$11,457.07	\$114,400.00	\$125,857.07
Aroostook			4,336.09	73,000.00	77,336.09
Cumberland				387,000.00	387,000.00
Franklin			18,430.96	10,000.00	28,430.96
Hancock	\$35,000.00	\$13,968.52	13,625.66	237,700.00	300,294.18
Kennebec			7,089.55		7,089.55
Knox	22,000.00			58,000.00	80,000.00
Lincoln			159.09	37,635.00	37,794.09
Oxford				144,000.00	144,000.00*
Penobscot			4,057.35	57,000.00	61,057.35†
Piscataquis		24,000.00	4,800.00		28,800.00
Sagadahoc	15,000.00		20,315.83		35,315.83
Somerset		5,000.00			5,000.00
Waldo	0.00	0.00	0.00	0.00	0.00
Washington	60,000.00		14,846.48	400,000.00	474,846.48
York			7,802.12	240,000.00	247,802.12‡
	<u>\$132,000.00</u>	<u>\$42,968.52</u>	<u>\$106,920.20</u>	<u>\$1,758,735.00</u>	<u>\$2,040,623.72</u>

*Sinking Fund \$103,714.20 applicable to Bonded Debt in banks.

†Cash in Treasury \$100,873.51.

‡Cash in Treasury \$128,380.87.

‡Sinking Fund \$41,738.45 applicable to Bonded Debt in banks.

Exhibit G

**ORGANIZATION OF DEPARTMENT OF AUDIT
For the Year 1940-41**

	<i>Personnel</i>	
State Auditor	1	
Clerical	2	
	—	3
Departmental Auditor (C. G. Dudley).....	1	
Bureau of Accounts and Control	1	
Treasurer of State	1	
Bureau of Taxation	1	
Departmental Auditor (C. A. Douglas).....	1	
Highway Commission	2	
Unemployment Compensation Commission	1	
13 State Institutions	1	
Secretary of State (Automobiles).....	3	
Health and Welfare	1	
Liquor Commission	1	
Attorney General, Commissioner of Agriculture, Fish and Game, and Education	1	
Miscellaneous Departments	1	
	—	16
Municipal Auditor (H. E. Crawford).....	1	
Cities and Towns	7	
Counties	1	
Normal Schools	1	
Typists	2	
	—	12
	—	31

STATE OF MAINE

DEPARTMENT OF AUDIT

Work Performed Between July 1, 1939 and June 30, 1940

In accordance with the practice in previous departmental reports, we summarize below the audit work actually performed *during* the year just ended, exclusive of that by the Municipal Division on books of cities, towns, and plantations, and on the books of the various counties; also exclusive of the work done directly to assist Ernst & Ernst in their audit dated May 11, 1940, of all work looking towards the proper closing of the books of the state as of June 30, 1940, and working up the departmental organization to more properly handle the regular audit work after July 1, 1940:

State Treasurer:	Verification of cash on hand at each month-end
Commissioner of Agriculture:	Potato Inspection Service; revenue 1938/39 Division Certified Seed; 1938/39
Health & Welfare Department:	Special audit certain accounts
Bureau of Purchases:	Departmental Supplies 1938/39
Forest Commissioner:	Forestry District, July 1, 1939 to February 29, 1940. Land Agent; 1937 to 1939 inclusive
Insurance Commissioner:	Revenue from Licenses; 1938/39
Port of Portland Authority:	Maine State Pier; 1938/39
Commissioner of Education:	Teachers' Retirement Association; 1938/39 20 State Aided Academies; 1938/39 3 Normal Schools; 1938/39
Secretary of State, Registrar of Motor Vehicles:	Inspection Division, spring 1939 Auto Registration Branches: Augusta, Portland, Bangor, Rockland, Presque Isle, Auburn (incomplete), and Calais branches for the calendar year of 1938
Examining Boards, etc.:	Dental Examiners; 1938/39 Professional Engineers; July 1, 1937 to Sept. 21, 1939 Registration of Nurses; April 1, 1939 to November 27, 1939 Registration of Pharmacy; December 23, 1938 to July 24, 1939.

As covered elsewhere in this report, it will be noted from the above that no consistent audit work was performed on the vital records in such important offices as the Bureau of Accounts and Control, State Treasurer, Highway Commission, Department of Health & Welfare, Liquor Commission, etc.