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STATE OF MAINE

*Maine. State auditors*

Twenty-second Report

of the

Department of Audit



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



HAROLD E. CRAWFORD  
MUNICIPAL AUDITOR  
CHESTER A. DOUGLAS  
CHARLES G. DUDLEY  
DEPARTMENTAL AUDITORS

STATE OF MAINE

State Department of Audit

Augusta

August 30, 1941.

In accordance with the provisions of Section 4, Article VI, of Chapter 216 of the Public Laws of 1931, the Department of Audit submits herewith its report for the fiscal year ended June 30, 1941. From this there is omitted all statements of the general finances of the State, since the same are all so ably covered in the report of the Acting Controller for the same period, the accuracy of which has been certified by the State Auditor.

*William D. Hayes*  
State Auditor.

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## SUMMARY OF YEAR'S WORK

The work of the Department of Audit during the year ended June 30, 1941, has progressed along the general plans outlined in last year's report, with almost no change in personnel or in organization. The very material expansion of personnel as of about July 1, 1940, and the even greater extension of the scope of the work necessary to properly perform the statutory continuous postaudit of all accounts and other financial records of the state government or any department or agency thereof, and at the same time conduct or supervise audits of over 500 municipalities, 16 counties, 6 normal schools, Port of Portland Authority, courts, 44 State aided academies, etc., has brought its material problems of choice and education of personnel and of organization. While further growth and even better results are being worked towards, we feel justified in stating that, with the hearty cooperation of virtually every department and agency in the State, we are beginning to get real results.

The Department of Audit is divided into two distinct divisions; the Municipal Division, (as for years past) under the supervision of Harold E. Crawford; and the Departmental Division, under the joint supervision of Chester A. Douglas and Charles G. Dudley. The Municipal Division conducts or supervises audits of the municipalities, counties, courts, and normal schools; for which charges are made at the rate of \$10 per day and expenses, resulting in no net expense of this division to the State; while the Departmental Division audits the various departments of the State itself, and in addition audits, or supervises audits of all State aided academies and the Port of Portland Authority.

The resident auditor organization inaugurated in July, 1940, for the Departmental Division, has worked out satisfactorily, the men assigned to the various departments becoming increasingly in close touch with the affairs, special problems, and the law governing their assignments.

The department's personnel has been increased from the 31 reported last year to a present total of 36, largely because of its additional duties imposed by Chapter 27 of the Public Laws of 1941. Of these, 15 are in the Municipal Division and 19 in the departmental, the other two being accounted for by the State Auditor and chief clerk. While several individual, and one

rather general, salary increases have been made, the rates paid to the audit personnel still remain as a whole below the outside going market for the high class of people necessarily employed, and materially below those paid many employees of other State departments occupying comparable positions. This latter has resulted in some embarrassment in trying to retain our personnel against competitive bidding, largely from other State departments; in this we have so far been quite successful, except in two cases where another department has been able to pay better wages for less exacting work.

Our appropriation, which totaled \$47,000 for the year ended June 30, 1941, including \$22,000 transfer from the Highway Department, was changed for each of the years ending June 30, 1942 and 1943 to \$37,500 plus an estimated \$12,500 to be charged to the Highway Department for work on their account. We summarize in Exhibit A the outcome financially of our department in the year just ended, on the cash basis shown on the Controller's books, and, for the Municipal Division alone, on the more true accrual basis shown on the books of our own department.

Only one actual defalcation in any State department has shown itself during the year, and that was of a relatively small amount; while in another department, shortages totaling several hundred dollars have so far been neither explained nor made good. It cannot be even estimated how much trouble of this kind has been avoided because the Department of Audit was considered to be actively "on the job." With as a whole the hearty cooperation of the departments, it has been possible to reduce very materially, excessive, illegal, and unnecessary expenditures of one kind and another; in which however there is much yet to be accomplished. Working in cooperation with the Controller's office, material improvement has already been made, and even more is now in process, in the clarity, accuracy and safety of the accounting system in both the Controller's office and virtually every institution and department of the State's government.

Partly at least as a result of work of our department, a number of changes have been made in the statutory administrative laws of the State, in some cases to provide for more efficient handling of various matters, and in some cases to legalize past practices. In addition, the scope of the work of the department has been increased by Chapter 27 of Public Laws of 1941 to include audits of normal schools, trial justices, municipal and superior courts, and the Port of Portland Authority.



Because of the time consumed by the necessity of training such a high percentage of new personnel of the Departmental Division, it has been possible to complete to June 30, 1941 the detailed audit work of but a relatively few departments and institutions of the State other than those of the Controller's and Treasurer's offices, tho the work in all departments is close enough to date to warrant our statement that there is probably little material error therein. Summary of the work performed and facts developed in each of the various departments is shown elsewhere herein.

Possibly in part as a result of the unfortunate happenings revealed in March, 1940, the State personnel has been unusually "audit minded" during the year just ended and especially willing to cooperate with the more extensive and aggressive audit policy. A harder test of success of audit work may come later as the memory of these happenings becomes more and more dulled. Of material assistance to the success of our work has been the increase in the proportion of key positions in the State organization held by, as a whole, younger professional or career men, having possibly a reduced political background.

In his January, 1941, inaugural address, Gov. Sewall stated, "It is his (the State Auditor's) duty to audit and report . . . the accuracy, legality and propriety of administrative expenditures". While this goes slightly beyond the old time conception of an auditor's province, our department is attempting to make good on the responsibilities thus outlined.

It is well appreciated that many matters taken up in this report are on the one hand matters of opinion, and on the other, in effect at least, have elements of criticism of personnel, practices and policies. Regarding the first point, the State Auditor has been governed solely by his own ideas, study and investigation, applying to the State's problems the accumulated experience of 25 years in Public Accounting and business, but entirely lacking in background of experience in State of Maine work or political expediency; in many cases leading to opinions differing from those of others. Regarding the second point, he has been governed solely by what he considered to be for the best interests of the State of Maine, from as near as possible an impersonal viewpoint, and without the slightest desire to criticise.

Whatever our department has accomplished or is now accomplishing has been made possible by the loyalty, cooperation, and ability of our personnel.

## THE LAW

SECTION 4, ARTICLE VI, CHAPTER 216, PUBLIC LAWS  
OF 1931

“The state auditor, . . . shall conduct a continuous postaudit of the accounts, books, records, and other evidences of financial transactions kept in the department of finance, or in the other departments and agencies of the state government. He shall prepare and publish a report, setting forth the essential facts of such audit in summary form, within two months after the close of each fiscal year. If he shall find in the course of his audit evidences of improper transactions, or of incompetence in keeping accounts or handling funds, or of any other improper practice of financial administration, he shall report the same to the governor immediately; if he shall find evidences of illegal transactions, he shall forthwith report such transactions both to the governor and to the attorney general. All such evidences shall be included in the annual reports of the state auditor, and he may at his discretion, make them public at any time during the fiscal year.”

## ACTIVITIES BY DEPARTMENTS

We summarize below the work of the Department of Audit during the year just ended in connection with the various individual State departments and institutions, calling attention to the more important information developed. For the sake of brevity, discussion of a number of small departments is condensed, following more detailed discussion of the larger units; while all are alphabetically arranged.

Detailed reports are on file in our office on all matters covered herein, as well as many others. No attempt is made to give any details of financial transactions of the various units, such being available in the report and books in the Controller's office, or in slightly different form, in the files of the Department of Audit.

## ACCOUNTS AND CONTROL—BUREAU OF

The condition inherited from the Runnells administration of inefficient accounting methods, with too great detail along certain lines, impractical summation, duplication of work done in other departments, and with a resultant mass of figures which meant but little and were for practical purposes not only of limited value but sometimes misleading, has yielded still further to treatment as the year has gone by, thru the untiring work of Mr. Payne, Mr. Rodgers, and now Mr. Mossman. Other material changes in methods planned to be inaugurated as of the beginning of the current year's records, will go a long way towards obtaining real and practical results in accounting for the State of Maine. Changes have been made, and further changes are planned, in the classification of accounts, which, when really on a production basis, will not only reduce very materially the previous unwieldy mass, but will produce much more valuable and systematic summations for current administrative control and for accumulation of historical data. The costly duplication of work in this department with that done in other departments is reduced somewhat, but is still there. As the work of the Controller's office becomes more practicalized, it can be further reduced; but the writer doubts if it can ever be entirely eliminated.

Standardization of accounts and accounting is unquestionably of material value; on the other hand, when carried too far it often becomes impractical and fails to meet, even within rea-

sonable limits, the practical necessities of a unit as far flung and with as diversified problems, as the State of Maine.

It has been impractical for the Controller to spare personnel to properly straighten out records kept in various departments, and coordinate the same with the control records in the Controller's office, with especial reference to the 13 State institutions at a distance from the State House. In this, our department is assisting as far as practical.

The Department of Audit has kept one auditor in the Controller's office, constantly checking the various records and transactions recorded there, working in close contact with the Departmental Auditor.

The data shown in the Controller's report as of June 30, 1941 is based on records currently checked by our department throughout the year; that report, both in arrangement and figures, has been thoroughly checked by our department; we believe it to have been prepared in conformity with generally accepted governmental accounting principles and practices and to be the most accurate and sound Controller's report so far issued by the State of Maine. Our certification of that report precludes the necessity for the inclusion in this report of our department, of any general figures on the State's finances as of June 30, 1941,—in fact, in effect it reads all schedules therein into this Department of Audit report.

#### ADJUTANT GENERAL

The examination of the records of this department disclosed material slackness in the handling of cash, expense accounts, gasoline sales, and equipment, resulting in charges against past and present employees of the department totaling around \$1,000, the liquidation of which apparently is not proceeding very rapidly. A partial cause of these conditions would appear to be the practice, at least in the past, of allowing too many administrative matters, including expense accounts, mail, etc., to be handled by clerks without the knowledge of the Adjutant General himself.

Full reports on these matters were made to the then Adjutant General, and again to Adjutant General Carter when he took office; we hope that steps will be taken both to collect the above items, and to more properly administer routine matters in the future.

## AGRICULTURE

Our department reviewed the records of financial transactions of the Department of Agriculture, with especial reference to the Division of Plant Industry (certified seed), covering the first approximate three-quarters of the year just ended. The form of handling the same was found inadequate to properly safeguard the interests of the State and those with whom it deals; but the suggested outline of proper procedure failed to meet the approval of the Controller's office and was not installed.

## EDUCATION

(Including Teachers' Retirement Association)

The financial transactions of the above were reviewed up to April 30, 1941,—in the case of the Teachers' Retirement Association being brought down to the close of the fiscal year, with full verification of the securities and other assets then on hand.

In the case of the department itself, the accounting records in use were found to be such as failed to furnish the Commissioner currently the data which he desired, leading to our outlining changes therein to accomplish that desired end. Here again the plan outlined failed of approval by the Controller's office, and was not installed.

## FARM LANDS LOAN COMMISSION

A detailed examination was made of the records of this Commission, which handles the investments of the funds of the Lands Reserved for Public Uses Fund, including, under old statutes, loans to owners of farms, many of which have resulted thru foreclosure in State ownership of farm property. This was done because the State Auditor, who is a member of this Commission, did not feel that the records were so handled, or so correlated with the records of the Controller's office and of the State Treasurer, as to readily yield satisfactory monthly and year-end data.

This examination resulted in working out a simple set of accounts which will readily yield data necessary for proper handling of all matters connected therewith, and to answer any questions which may be asked at any time. In this connection, an error in handling the records of a certain type of expenditures had, over the years, resulted in an accumulated error of around \$31,000, for which adjustment was made as of June 30, 1941.

Attention is called to the fact that of the assets of this fund, a material amount is in bank accounts impounded since the bank holiday, on which the final loss is estimated at around \$35,000, for the disposition of which loss, plans should shortly be made. The necessary losses from sale of foreclosed property is being absorbed currently.

FOREST COMMISSIONER  
(Including Forestry District)

The examination of the financial transactions under the Forest Commissioner has resulted in our feeling that there is room for improvement in the routine handling of certain matters and probably in the law behind the same. The Maine Forestry District has its own bank account from which all expenses are paid directly by the check of the Forest Commissioner without reference to the State Controller or Treasurer; while in the past a relatively inactive account has been maintained directly for and by the Forest Commissioner from which a few minor payments have been made.

The above throws an unusual responsibility upon the Commissioner for especial systematic handling of these routine transactions, since he alone authorizes the expenditures, approves the bills therefor, draws the checks paying certain of the same, and is, by one interpretation of the law, not open to either pre- or post-audit in connection therewith.

As far as our examination went, the impression was gained that the full burden of this double responsibility had not always been appreciated, and that the lack of consistently systematic handling of certain routine matters had resulted in needlessly large expenditures by the State of Maine (including the Forestry District) in payrolls, expense accounts and other items.

HEALTH AND WELFARE

In connection with the continuous verification of the financial transactions of this department, we made a material number of suggestions as to possibilities for more efficient handling of many sides of the work; in each case, these suggestions were gladly received and thoroughly gone into by Commissioner Earnest, resulting almost universally in improvements, either now complete or still in progress, which can but result in sizable savings to the State thru better control of all matters. In all

ways, very material progress has been made in the almost Herculean task taken over by Mr. Earnest early in 1940 in gradually putting on an efficient basis the affairs of this department, which disbursed last year approximately \$7,500,000 of State and Federal money into every nook and corner of the State.

Among the things that have already been accomplished has been the organization of a proper centralized accounting division, which now has a satisfactory control of all accounts receivable on which much better collection is now being attained. An improved system is now in force for more speedily and yet efficiently handling the verification, recording and approval for payment of the thousands of bills for assistance to State beneficiaries, as well as to every municipality in the State. Many of these in the past have been for various reasons excessive; a matter which is being worked on and steadily being brought under improved control.

While in all these improvements our department has been of material assistance, the primary responsibility for the outcome of improvements—both accomplished and in process—must rest on Commissioner Earnest and his personnel.

The June 30, 1941, inventory of clothing, etc., was determined to be \$21,753.73, over which future control was then established.

#### HIGHWAY

In our last year's report, we called attention to the wisdom of rather complete rebuilding of the accounting work in this department, including the centralization of the same under one man, closer correlation between the department's records and those in the Controller's office, much closer control of the very sizable quantity of accounts receivable, etc. Close control over accounts receivable was established soon after July 1, 1940, since which date much progress has been made along the other necessary lines. Centralization of departmental accounting was brought about by placing the same under an already employed engineer, whose lack of experience in accounting was partially at least offset by his thorough knowledge of the problems of the Highway Department, and material progress was made along the lines indicated. The vacancy created by his call to army service in May was filled by the rather logical transfer to the position of chief accountant of one of our auditors assigned to this department, who had undoubtedly cooperated very thor-

oughly in the accomplishments from July, 1940. While material progress has been had in obtaining for this department the records which it must have for its own proper administration, much yet remains to be accomplished. One hoped for accomplishment is to make possible the issuance of the statutory detailed departmental reports, without the delays of months and even years, which has been the case in the past. This, with other things, is materially complicated by the fact that the Highway Department is on a calendar year basis while all records in the Controller's office are on a fiscal year.

The work of our personnel assigned to this department, in addition to assistance in installing a proper accounting procedure and providing the necessary forms therefor, included the following: Verification of income, and credits therefor; checking receipts from toll bridges; test checking disbursements, including expenses of administration of gas tax in Bureau of Taxation, Automobile Registration Division of Secretary of State's office, State Police, etc.; test verification of payrolls including road crews; checking of handling of accounts receivable; verification of supply inventory; starting of a system for proper recording of equipment; preparation of summary figures of receipts and disbursements for the year just ended, shown in Exhibit B, etc.

#### INSTITUTIONS

Audit work on the State institutions has embraced the following 13 institutions:

State Prison	Central Maine Sanatorium
Reformatory for Women	Northern Maine Sanatorium
Reformatory for Men	State School for Boys
Augusta State Hospital	State School for Girls
Bangor State Hospital	State Military and Naval
Pownal State School	Children's Home
Western Maine Sanatorium	Maine School for the Deaf

Because of the distance of most of these from Augusta, the condition of the records, and various other factors, it has been as yet impossible to bring these audits to the close of the fiscal year just ended; in fact about all that it has been possible to accomplish has been a general audit of each unit as of June 30, 1940, including, as one time-taking factor, the establishment of a sound inventory of equipment, etc., then on hand; proper con-



trol over accounts receivable (applicable particularly to the State Prison and the two Insane Hospitals); the establishment of sound bookkeeping methods as simple as possible considering the problems of each individual institution, but standardized enough to yield comparable data; an improved control over supply and equipment inventory; the correlation of records at the various institutions with those of the Controller's office, including material simplification and practicalization of the coding in use by the Controller; and in some cases, a more or less complete audit of financial transactions during part or all of the current year. In much of this work our auditors have acted as long arms for, and in close cooperation with, the Controller's office, upon which falls the full responsibility for all records of the departments and institutions, but which has been handicapped by lack of proper personnel available for such work, especially when located outside of Augusta.

In our work on the inventory of equipment, we made adjustments for items which had been worn out, abandoned, or sold, or were otherwise no longer of use value, and adjusted the prices on the balance to the approximate basis of present use value, based on cost, resulting in reduction from previous values totaling \$266,050.65 for the 13 institutions combined.

At the State Prison, accounts receivable were found in rather poor condition, including many unliquidated items years old, or against other departments of the State or officials or employees of the State. Most of these have been now liquidated, or are being recommended for charging off. Replies to verification letters sent out in 1940 to all debtors resulted in information indicating inefficient handling of their repair department and the charges for work done therein, which information was placed immediately before the Warden, Commissioner Leadbetter and Director Hanscom for correction. Similar letters as of June 30, 1941 indicated improved conditions.

Of almost necessity, the accounts receivable at the two State Hospitals include thousands of dollars for the care of patients in years gone by, the early collection of which is very questionable, but few items of which are ripe for charging off. For this condition the officials of the two hospitals are little, if any, to be criticized, since such is a regrettable but natural outgrowth of the basic principles of state hospital operation, and the laws governing the same.

All charges against towns, etc., for care of patients in the

various tubercular sanatoriums are reported to the Bureau of Institutional Service at Augusta, from which they are billed and where all records are kept, and collections made (except for such usually past due items as are turned over to the State Treasurer). While the mechanical handling of these in the past had been without material criticism, suggestions for better control of the same were made which have largely been adopted. It is still felt that the records should be so handled that the income of each of the three sanatoriums would be assembled separately. These accounts, somewhat like those of the State Hospitals, from their very nature involve many items of delayed, if not questionable final, realization; but regarding which, some hesitancy should be had in charging off unduly early or easily.

Lack of consistent methods for handling accounts of patients' money was found at certain of the institutions, as well as trust funds for the benefit of the institutions or their patients; and in addition poor correlation between the institutions' records and those of the Controller's office; virtually all of which has now been corrected, or is in process of correction.

In summary; very little real current audit work was possible at the various institutions, but a lot of seemingly valuable ground work was done which should result in much more efficient handling and recording of many matters in the future. It is still our hope that when we really get caught up with the entire 13 units, at least full time employment of the assistant institutional auditor will not be necessary.

We include as Exhibit C a summary of the more vital data of all 13 units, all as of June 30, 1940 and hence now one year old.

#### LIQUOR COMMISSION

In connection with our continuous verification of financial transactions of this Commission, there was noted many evidences of what in our opinion seemed to be inefficient, improper and extravagant handling of its affairs, among which the following appear worthy of mention:

Unsatisfactory bookkeeping system, improperly tied into the Controller's records.

Excessive attention to statistics, apparently for sake of statistics only.

Excessive number of, and salaries paid to, employees, particularly in the liquor stores.

Illegal handling of discounts, "tax", refunds, etc.

Excessive expense accounts, both of employees and members of the Commission.

Improper use of State-owned cars.

Inefficient purchasing and transportation policy.

Furnishing of expensive data free to outside parties for their own financial benefit.

Insufficient attention to possibilities of salvage.

Unnecessary duplication of personnel, travel expense, etc., through two sets of inspectors.

Reports on these various matters were made during the year to the Commission and to the Controller's office, but without results, despite the fact that the issue was forced and a conference had with the Commission. Changes were made in the law at the 1941 session of the Legislature legalizing certain of their previous practices.

Lack of obtaining cooperation in investigating these matters and making improvements where practical, resulted in the necessity for reporting all matters to the Governor and Attorney General, as provided by law.

During our work, the question often came to us: What is the necessity of a three man commission, with resultant additional expense, and why could this work not be more efficiently handled by a single executive especially fitted by training and experience for such work?

The year-end balance sheet and summary analysis of income and expense, prepared by employees of the Commission and/or the Controller's office, was verified with the books and is in our opinion without material error.

#### POLICE, STATE

The survey of the records of financial transactions in this department has so far been brought down only to the end of November, but will be later completed to the year-end. During the course of this work, evidence was brought out indicating that in the past at least, material work, much of which involved additional expense, had been done by the State Police for other departments under conditions where the financial burden was carried by the State Police, and that in addition pensions had been paid at the expense of the police rather than from the

appropriation from general funds for pensions,—all of which becomes of particular importance since the State Police is supported entirely by funds from the Highway Department, probably because in the early days it was solely a “State *Highway Police*”.

A number of somewhat technical points were also raised as to the complete consistency between the salaries at which certain of the men are carried and the provisions of the statute governing the same, even after consideration of the regulations approved by the Governor and Council.

Suggestions were made regarding the advisability of keeping an equipment register to record cost records of various vehicles operated.

By mutual agreement between the Chief of the Police and the Highway Department, the recording and collection of sums due the State from various courts on account of infractions of highway laws, which had previously been handled on a spare-time basis by a clerk in the State Police, was transferred to the Highway Department where a special man was assigned to this work, which it is hoped will result in much heavier collections for the benefit of the Highway Department.

#### SECRETARY OF STATE

From the audit angle, the work under the Secretary of State is divided into two rather distinct sections,—Motor Vehicle Division, and all other activities.

##### *Motor Vehicle Division:*

The audit work on this division follows the volume and multiplicity of cash transactions in being so sizable as to entirely overshadow all other work for this department. From its start in 1938, our work has been under the supervision of a single auditor who, as time has gone on, has familiarized himself very thoroughly with the procedure indicated in handling the multitudinous transactions involved in issuance of automobile registrations, drivers' licenses, etc., in the Augusta and 6 branch offices, in which he has been assisted since July 1, 1940 by 2 or 3 assistants.

The audits of these activities by our department were commenced only after, and as a direct result of, the “Auburn Robbery” in 1938. For various reasons, including low appropriations

for the Department of Audit and lack of efficient routine in the Secretary of State's office, our department is not even now caught up on this work.

Since our last year's report, the following has been accomplished:

Completion of the audit of the Auburn Branch office for 1938, thus finishing that year's transactions.

Audits of all offices for the year 1939.

Audits of four offices for 1940, with two now in process (one not yet started).

Installation of proper audit control with which the licensing procedure is correlated, so that it has been possible to audit *currently* the work of all offices in 1941, with monthly reports early in the succeeding month.

The completion of the audit of the Auburn branch for 1938 indicated very little change from the figures shown by the preliminary audit soon after the discovery of the shortage there, establishing that shortage in the final sum of \$35,298.50.

The audits of the various branches for 1939 and 1940 indicate minor discrepancies but nothing of any magnitude, or indicating any material shortages; on the other hand, it has made possible suggestions for tightening up and better systemization all along the line, to minimize further troubles. The adoption of suggested changes in procedure in the various offices has made it possible to speed up issuance and recording of both registrations and licenses, deposit currently each day's receipts in their exact sum, and to enable the verification one day by our department of the transactions of each branch for almost the preceding day. This has been accomplished under conditions which should have made possible decreased cost of handling these matters in the Secretary of State's office.

The value of current deposit of all incoming cash and of immediate check between the sums thereof and the licenses and registrations issued, is becoming increasingly apparent. Even now, every few days, discrepancies are found which are immediately taken up and straightened out while fresh in the minds of all concerned: while the clerks in the branch offices are kept currently alert to avoid such errors. Final verification will, of course, be had at the end of the current registration year through count of remaining plates, licenses, etc., but all indications are that this will probably check thru much cleaner than in previous years.

The result of our audit work has indicated quite plainly that certain offices are much more prone to discrepancies than are others, to which the attention of Secretary of State Robie has been called with the hope that improvements of personnel would result.

Our auditor has also personally made checks at the time of changes in personnel of inspectors in charge at certain of the branch offices.

It is hoped that the audit work for 1940 will be completed during September, when the two men now engaged on this work will be available for other things. The current year's work, except during the rush season in the winter, has been handled by one girl with part time assistance of our head auditor assigned to this department.

Routine audits have also been accomplished covering the 1939 fall and the 1940 spring and fall inspections.

After the State's books were closed as of June 30, 1941 and the year-end report of the Controller in type, our attention was called to the charge during that year by the Secretary of State of items totaling \$2,707.50 to the Title Account, for machines apparently ordered for, and used solely in connection with, regular registration work. The importance of this is plain when it is considered that the resulting balance in the Title Account was lapsed to the Contingent Fund, while the balances in the registration accounts are transferred to the Highway Department; and by the fact that these charges were made Dec. 12, 1940 and May 6, 1941, when all title work was stopped by law passed June 5, 1940. Adjustments are planned in 1941-42.

#### *Other Departmental Activities:*

As mentioned above, the volume of financial transactions in these are minor when compared with that in the Motor Vehicle Division.

An audit of the Corporation Division developed a shortage of \$110 in the accounts of one unbonded employee, for which restitution was made and the employee responsible discharged. It also indicated very unsystematic handling of cash and records, particularly regarding current deposits with the State Treasurer, for the correction of which, plans of our auditor are understood to have been installed as of June 6. It also indicated very loose handling of the sales and free distribution of 1930 Revised Statutes, which by law should have been handled by the State Li-

brarian; in fact, some 2000 copies were not accounted for, but with no probability of anything worse than poor records.

Little work has been indicated as necessary, or accomplished by our department on other activities of the Secretary of State.

#### TAX ASSESSOR

In connection with our survey of the handling of financial affairs in this department, including its various divisions, material evidence was developed of lax supervision and handling of routine matters in virtually every division, leading even to erroneous assessment and application of certain of the taxes. This appeared primarily due to the laying out years ago of a certain line of procedure, and even the adoption of certain figures as a basis for tax or its distribution, without the necessary constant supervision of their mechanical handling and assurance that it was being administered in line with current conditions. There also appeared indications that there was not always a proper and clear line of responsibility and procedure as the work of this department tied into that of the State Treasurer.

Little investigation appeared practical by us of the handling of the State valuation, or assessment of what is known as the "State Tax", which we believe as a whole to be well handled; while to date, our investigation has of necessity been largely confined to the assessment and handling of the various 1940 taxes, with certain lines of work now surveyed up to April, 1941. The troubles were especially apparent in connection with the handling of bank, railroad, telephone and telegraph, parlor car and credit union taxes.

It was also apparent that the allocation of responsibility for various lines of work might be open to improvement, looking towards centralization in a single "cashier" of the handling of all cash receipts, with the recording of the same in separate hands.

As our work progressed throughout the year, reports on the conditions found were made to the Assessor, with, in certain cases, copies to the Governor. Improvement along certain lines has been noted in the last few months, with assurance from the present State Tax Assessor Hill that gradually, as opportunity offers, the various troubles will be corrected.

The Department of Audit and the Controller's office assisted in outlining at the very start a plan for the systematic handling of stamps, cash, and records of the Cigarette Tax Division,

operation of which started so suddenly and so voluminously in May because of the cigarette tax law passed by the 1941 Legislature. The transactions of this division have been audited by our department up to the close of the year June 30, 1941, as of which date the results are summarized in Exhibit D herewith. It is only proper to record here our feeling that under the management of Mr. Chase and with the supervision of Tax Assessor Hill, this division has made an enviably good beginning, though even here there is a chance for improvement in concentration of handling cash in one person, with records thereof kept by others.

#### TREASURER

Throughout the year just ended, the Department of Audit has maintained a continuous audit of the handling and recording of money in the office of the State Treasurer. This has included check of all income sheets and the cash deposited therewith, monthly bank reconciliations, bond and interest payments, monthly tax receivable balances, securities in custody of the Treasurer, monthly reconciliation between the records of the Treasurer and those in the Controller's office, etc. Especial verifications were had of all year-end balances as of June 30, 1941. The result of this is such as to warrant our statement that we believe all cash, securities, etc., received in the Treasurer's office have been properly accounted for as being now on hand, or disbursed or otherwise alienated with proper authority.

Material accomplishment has been noted during the year under the able supervision of Deputy Treasurer Downs, in overcoming certain lax conditions, largely of routine, reported by Ernst & Ernst and our department last year, with other improvements projected to be effective as of July 1, 1941, or soon thereafter. Among these might be mentioned particularly the deposit in banks currently of all incoming cash without carrying the previous large sums of undeposited cash (much of which was in the past represented only by "paid out slips"); much more systematic recording of all transactions; improved control of investment and custody securities and of State of Maine bonds and interest coupons; reconstruction of the vault to make it safe, etc. A further material improvement will be the installation of a modern cash book set-up, which is planned as of an early date.

The State Treasurer is by law and/or custom responsible for distribution of certain taxes among the various municipalities,



largely from data furnished by the Tax Assessor. Investigations of these matters as covered under the heading "State Tax Assessor" developed many material errors in computing and handling these matters in 1940 and before in the Treasurer's office, which we feel confident will not occur again; apparently due primarily to earlier improper supervision by the Treasurer and his then Deputy.

The duties and responsibilities of the Treasurer's office were materially increased about February 1, when legislation, then first effective, placed on this department the responsibility for collection of accounts receivable. Certain departments have turned over to the State Treasurer part or all of their receivables with particular reference to old past due accounts. Control cards for such accounts as have been turned over are maintained, from which collection letters are sent out the first of the month. In some cases, results have been attained, but whether sufficient to warrant the duplication of work and increased expense to the State is another question.

The duties and responsibilities of this department were further materially increased about July 1, 1941, thru the assumption by statutory enactment of the handling of the receipt and distribution to various municipalities of "food stamps" under the direct personal charge of Deputy Treasurer Downs, for which a revolving fund of \$100,000 was authorized, of which \$50,000 had been set apart previous to June 30, 1941.

The biennial report of the State Treasurer issued in the fall of 1940, was checked and certified by the Department of Audit, as far as their knowledge of past transactions went.

#### UNEMPLOYMENT COMPENSATION COMMISSION

Throughout the year our department has assigned one auditor to this department, having the advantage, after the first month or two, of the chance to use a man, who thru previous employment under the commission, was thoroughly in touch with its affairs. Better systemization of the work made possible the latter part of the year the use of part of his time to assist in other smaller departments.

A continuous test check has been maintained of all transactions of both receipts and disbursements, and all balances of cash, receivables, etc., of the three separate divisions,—clearing account, trust fund account, and benefit account. Material

assistance has been given in overcoming early complications in reconciliation of bank balances, the handling of inter-transactions with the Treasurer's and Controller's offices, and in many other routine matters, so that at the present time it is felt that the large volume of transactions under this commission is being handled in an exceptionally clean cut manner.

While certain phases of the activities under the commission are audited periodically by federal men, the value of our continuous post audit is apparent.

#### MISCELLANEOUS OTHER DEPARTMENTS

Examinations have been made by our department of the records and accounts of the other departments, etc., of the State; including, in each case, investigation of the sufficiency and accuracy of the records maintained, the integrity of cash transactions, the accuracy and propriety of expenditures, proper correlation between departmental and Controller's records, proper carrying out of administrative law, etc. Attention of the officials has been called to any matters seemingly needing attention, and in most cases plans made for improvements. The amount of detail gone into by us, and the time taken thereby, has varied greatly with the seeming necessities of each individual department. In general, it may be stated that, while little if anything really "wrong" was found, there were many evidences of weak control over expenditures, and often seemingly too little attention to the provisions of statute controlling, as well as to the present day necessities of administration; regarding which a relatively small amount of added effort should pay good dividends to the State. In but few cases has it been possible as yet to bring our examination to the close of the fiscal year just ended, which is being accomplished as fast as possible; this will in the future be followed by rechecks at relatively short intervals.

Included under this heading are the following departments, etc.:

Attorney General	Examining Boards (14)
Bank Commissioner	Executive Department
Baxter State Park Commission	Fish and Game, Inland
Boxing Commission	Industrial Accident Commission
Courts, Supreme Judicial and Superior	Insurance Commissioner
Development Commission	Labor and Industry Department
Emergency Municipal Finance Board	Legislative

Library	Real Estate Commission
"Miscellaneous Appropriations"	Revisor of Statutes
Park Commission, State	Sea and Shore Fisheries
Public Utilities Commission	Superintendent of Buildings
Purchasing Bureau	Uniform Legislation Commission
Racing Commission	sion

Our examination of the accounts of the Attorney General's Department developed facts tending to show possible excessive automobile mileage and other expense charges.

In case of the Development Commission, rather poor substantiation of the propriety of certain expenses was noted.

Our work on the Bureau of Purchases included year-end summary figures and reports on all divisions, including Departmental Supplies, Departmental Garage and Postage Revolving Fund as of June 30, 1941.

Questions were raised as result of the examination of the records of the Racing Commission concerning previous carrying out of the law; and certain items of expenditures were also questioned.

The records of the Superintendent of Buildings' office were found to be rather poor; and collection of accounts receivable was found to be weak.

Because of the fact that the provisions of the last paragraph of Sect. 1, Article I of Chapter 216 of the Public Laws of 1931 have, in some quarters, been interpreted as prohibiting the State Auditor from performing an audit of the accounts of the Judiciary, Executive Council and Legislature, no reports were made by our department on the transactions of the three departments; a situation which we feel is not for the best interests of the State of Maine or the people connected with the three departments indicated.

## OTHER ACTIVITIES

We summarize in the following pages very briefly activities during the year just ended of the Department of Audit on other matters not directly connected with the State government. In connection with municipal audits, figures developed during the current year, together with more detailed discussion of the same, will be found in a supplemental report to be issued probably in December, 1941.

## COUNTY AUDITS

The audits specified by the statutes of the financial condition and transactions of each of the 16 counties of the State for the biennium ended December 31, 1940 were completed early in 1941 and full reports made thereon to the County Commissioners and the Legislative Committee. Summary of the more pertinent of this data is shown in Exhibit E of this report.

From its inception, this work has been handled under the supervision of the Municipal Auditor, with all detail work in the hands of a single auditor. Certain changes have been made in the type of reports issued on the 1940 work, and in the field work now in progress on the current year's records, which can but result in material improvements in the value of the results accomplished. As a whole, we have had the hearty cooperation of the officials of the various counties, with the result that their records are gradually getting onto a sound and uniform basis. As a step in this direction, we are this year substituting, in the case of two counties, work of our own department, for previous work of outside accountants which had had no legal sanction.

Work for the current year is progressing steadily, which will result in reports for each county in January or February, 1942, and on an annual basis hereafter.

The previous law under which this work had been performed, was rewritten in such a way as to clarify and strengthen the same by Chapter 27 of the Public Laws of 1941. This work is billed the various counties at the regular rate of \$10 per day plus actual expenses.

## COURT AUDITS

The previous rather limited audits performed by the Department on the records of the courts of the State, primarily to

assist the State in collecting its share of certain fines and costs, were abandoned early in 1940 because of the opinion of the then Attorney General that such had no legal sanction under the statutes. By Chapter 27 of the Public Laws of 1941, our department was authorized and instructed to perform continuous and complete audits of all Superior, Municipal and Trial Justice Courts in the State, and to install such records therein as were deemed proper. Though this law was not effective until July 26, 1941, by arrangement with the County Commissioners, work was started in Franklin County somewhat ahead of that date, the report on which has already been rendered resulting in payment by the Judge of one Municipal Court of \$1,773.42, fines and costs due to the County and State, going back over many months.

Audits are now virtually complete on the various courts in Knox, Waldo, Somerset, and York counties, reports on which will be available shortly. Report was rendered last spring on a special audit of Lincoln County courts, at the request of the commissioners, because of certain rumors and threatened court action connected therewith.

The law requires that payments of certain fines and costs collected shall be made monthly to the State Highway, Fish and Game, Sea and Shore Fisheries, and Public Utilities Departments of the State and provides severe penalties for failure to make such payments, which payments in the past, through laxness or otherwise of certain of the judges, have not always been forthcoming in accordance with the law. From now on, it is the intent of this department that clear-cut records will be kept by the judges and payments made on time to both the counties and the State, or action will be taken thereon.

The new law provides that charges shall be made for these audits by our department, divided 50% to the counties, 30% to the State Highway, and 20% to the State Fish and Game Departments. The court audits are handled by our Municipal Division, with the detail work at the present time being carried on by two specially assigned men.

#### MUNICIPAL AUDITS

Audits of over 500 municipalities in the State of Maine, which by the 1937 law must be made annually by either the Department of Audit or by some public accountant qualified by the State Auditor, were completed the very last of December for

1939-40, and summary details thereon were published in a Supplemental Report of our department issued under date of January 16, 1941. This same data, arranged in a slightly different form, was also published in the Maine Register, at their request and expense, and already has proved of material value for many purposes.

Based on experiences in previous years, material improvements were put in force in connection with the audits for the municipal year ending early in 1941, including the limitation of personnel, other than employees of our department, qualified by the State Auditor under the 1937 law to perform such audits, to real public accountants who had had the necessary training and experience to perform satisfactory audits. In addition, our own men were put onto their toes to do an even better grade of work than in previous years; so that we felt assured that satisfactory service would be furnished the various municipalities. The acts of the State Auditor to accomplish this seemingly desirable end ran counter to opinions of certain town officials; with the result that, contrary to what we felt to be for the best interest of the State and its constituent municipalities, changes were made in the statutes by Chapter 268 of the Public Laws of 1941 which can but prove detrimental to sound accounting and auditing. Despite this backward step, our department hopes to be able to make available complete and fairly dependable figures for last year for the entire list of municipalities in a supplemental report in December, 1941.

Up to August 19, our records show that our department has completed audits of 161 municipalities, while satisfactory audit reports from outside auditors, qualified by us, have been received covering 146 municipalities. Of the remainder, 81 are in process or arranged for, by our department, and 76 by qualified outside men; leaving 40 without data as yet.

The value of real municipal audits, done by men qualified by full training and long experience in that specialized type of work, cannot be exaggerated in gradually building up the local personnel to a point where they can handle simple but satisfactory records of financial transactions, in discouraging and/or revealing defalcations, in assembling really dependable figures on the situation and outcome of financial transactions, and in furnishing administrative and financial suggestions to local officers. In this, we are considering particularly the small towns and plantations which are not financially able to hire competent

help, and yet which need this help the most; while the larger towns and cities can obtain help in these matters.

As stated last year, we feel that the Department of Audit should themselves handle not over 40 to 50 per cent of the municipalities; including in this, for reasons given above, most of the smaller and poorer towns and plantations and leaving as a whole, the cities and larger towns for outside qualified men. In fact, we have recently advised one or two cities to get outside men when they asked us to do their work.

As the current reports are coming in, they indicate in a high proportion of cases improved financial health in these municipalities over last year, in which we believe the work of our department thru its specially trained crew over the last four or five years has been a material factor.

For these various reasons, we regret what we feel to be a step backwards in the 1941 changes in the law, and are bending our efforts to minimize, as far as practical, the detrimental effects of the changed statutes.

We submit in Exhibit F a complete list of all discrepancies in cash actually developed by last year's audits, and a similar list of those developed so far in current work now in progress.

#### NORMAL SCHOOLS

At the request of Commissioner of Education Packard, the Department of Audit has gradually straightened out the accounting records of the various normal schools on a systematic and uniform basis, and rendered to him audit reports as of the close of the 1939-40 school year. In the past, this work has gone somewhat slowly and audits have been delayed unduly due to the combination of the amount of work to be done on these books, and the limited personnel available in our department.

During the past year, our department at last has placed the books of each school on a fairly sound and uniform basis. We hope and expect that the reports, as of the school year just ended, will be much more satisfactory and will be available more seasonably.

This work has been handled by a specially assigned man from our Municipal Division. In the past, it has been charged to the schools at cost; while under the slightly revised provisions of

Chapter 27 of the Public Laws of 1941, and orders from the Governor and Council, it is in the future to be charged at the standard rate of \$10 per day, plus expenses.

#### STATE AIDED ACADEMIES

At the request of Commissioner of Education Packard, limited audits were performed during 1940 by the Department of Audit, or audits by outside public accountants were reviewed and summarized by us, covering each of the 44 academies receiving State Aid for the school year ended June 1940. No attempt has been made to supervise their accounting procedure, which in the various institutions is good, bad and indifferent; only to assure reasonably satisfactory records by the academies with proper year-end summations.

While in general, fair cooperation was had from the officials of the academies, in one or two cases material opposition and delays were encountered before they would submit full data to us. This work is largely done at Augusta, from records sent in by the academies, and under conditions where the cost to the academies is at a minimum.

Similar work for the current year is now under way, and will probably be completed for the remainder of the units within a short time.

#### PORT OF PORTLAND AUTHORITY

Because of an opinion of the then Attorney General of lack of authority for such work, no audit was performed during 1940 by our department on the records of the Port of Portland Authority, which handles the Maine State Pier at Portland, though such had previously been handled on a somewhat limited basis.

After the passage of Chapter 27 of the Public Laws of 1941, which specifically provided for such audit, our department made arrangements with the Authority to bring the audit up to June 30, 1940 which was accomplished previous to the effective date of the law above mentioned, and in a more comprehensive manner than in earlier years; and report was issued to their officers covering the same. This examination developed a number of questions regarding the soundness of their past records, with particular reference to capital investment items; the efficiency of their bookkeeping methods; and even the legality of



certain transactions between the State and the Authority; some or all of which it is hoped will be straightened out in connection with the forthcoming audit as of June 30, 1941.

We certainly question, from the standpoint of the State's finances, the soundness of the original set up of this Authority, whereby the State obligated itself to pay from its general revenue both principal and interest on the entire bond issue for purchase and rebuilding of this pier, while the Authority receives all the revenue therefrom, from which it has accumulated a surplus amounting on June 30, 1940, to \$135,171.59, exclusive of depreciation, but after transfer of \$25,000 to the State of Maine years ago. It would certainly seem that excess revenues from the operation of this pier should have been made available to assist in liquidation of liabilities incurred for its purchase and reconstruction, including interest.

Acting under authority of the 1941 statutes above cited, and definite orders of the Governor and Council, the Authority has been charged for this audit at the regular rate of \$10 per day, plus expenses.

## DISCUSSION OF MISCELLANEOUS MATTERS

In the following pages there are taken up topically, each discussed in detail, various general matters, tendencies, etc., regarding the handling of the State's financial transactions developed by the Department of Audit during its first full year's actual work on a reorganized basis.

## ACCOUNTS RECEIVABLE

Attention was called in our 1940 report to the extremely lax handling of these in the past, both as regards collection and recording; and it was suggested that a centralized collection agency might be well worth consideration. By Chapter 317 of the Public Laws of 1939, approved October 23, 1940, the Legislature placed the responsibility for collection on the State Treasurer, whose department appeared to us to be in no position to efficiently take over added duties of this kind. Some departments and institutions now turn over all receivables to the Treasurer currently, some turn over only their past due accounts, and some turn over none. The net result is seemingly a duplication of work and expense, possibly not compensated by improved results.

In virtually every department and institution, a fairly satisfactory control of accounts receivable has been set up during the past fourteen months; now handled under a much more active collection policy; all of which is being closely watched by our auditors. This, aided possibly by the work of the Treasurer, has resulted in improvement in the conditions reported last year, though there is room for further accomplishment. The balances open on June 30, 1941 were as a whole much reduced from previous years, more current, active, and collectible, and now largely without "sleeping" accounts against other departments and employees of the State.

By Chapter 13 of the Public Laws of 1941, the Legislature authorized the charging off, with the approval of the Governor, of such accounts as shall be certified to him as uncollectible by the Finance Commissioner and the State Auditor. This law did not become effective until July 26, 1941, so that as of June 30, no accounts could be charged off. Investigations have been made and lists prepared which will shortly go to the Governor for his approval, looking towards charging off items totalling \$209,-

196.09 which are believed to be absolutely unrealizable; summarized in Exhibit G. Since, however, some of these items are embraced in accounts which have never been carried as assets in the balance sheet of the State of Maine, the shrinkage in recorded net worth of the State will be relatively small and has been fully allowed for in the Controller's figures as of June 30, 1941. From now on, every effort will be made to keep all accounts receivable, whether considered in the balance sheet or not, current, active and as a whole realizable.

As covered in detail in our last year's report, it has been the practice in the State of Maine to take account in the State's balance sheet of no receivables of the various departments of the State except in the case of State taxes and a few items of that nature, and only to consider their effect on appropriation accounts when they are liquidated into cash. Much can be said in favor of a reversal of this policy, and the same may later prove practical.

We append hereto as Exhibit H a summary of these "assets not recorded on the books" as of June 30, 1941, totalling \$959,-728.42. We call particular attention to the footnotes on this Exhibit.

#### BONDS, FIDELITY

Certain sections of the statutes apparently place responsibilities on the State Auditor regarding fidelity bonds, with particular reference to who shall be bonded, in what sum, and the filing of the bonds. This led to a material interest on our part in this subject during the last year or more, only to find that the statutes in this regard, built up as they have been by various Legislatures over a long period of time and in earlier years to meet vastly different conditions, are not only conflicting but very far from plain or consistent. By a relatively recent council order, no bond is accepted until it has been approved as to form by the Insurance Commissioner. These various matters led to the start in 1940 of a survey of the entire fidelity bond question by the Insurance Commissioner's office, joined in as practical by the Department of Audit and the Attorney General, which it is hoped will shortly develop a sound policy which will furnish increased protection for the State in this vital matter. In addition, the entire problem has been gone into by the Revisor of Statutes, with a strong probability that he will be able to clear up the statutory end in connection with the forthcoming revision.

## BOND LIABILITY

At no time in the fiscal year ending June 30, 1941, have there been any temporary loans by the State of Maine; nor has there been at any time any delay in payment of bills or in incurring liabilities because of lack of available cash.

The following new serial bond issues have been floated during the year just ended, each at a premium:

<u>DATE</u>	<u>PURPOSE</u>	<u>AMOUNT</u>	<u>RATE</u>	<u>MATURITY</u>
July 1, 1940.....	Highways .....	\$1,000,000.00	1½%	July 1, 1941—July 1, 1950
August 1, 1940.....	War (Defense) .....	1,000,000.00	1½%	August 1, 1941—August 1, 1960
May 1, 1941.....	War (Defense) .....	1,000,000.00	1¼%	May 1, 1942—May 1, 1961
May 1, 1941.....	Agriculture (Bangs Disease) .....	225,000.00	½%	May 1, 1942—May 1, 1946
		\$3,225,000.00		

All bonds maturities have been met, together with all interest payments due, as far as the same have been presented for payment; entirely from currently received or sinking fund cash, as follows:

<u>Issues</u>	<u>Principal</u>
Highway and Bridge	\$1,853,000.00
Kennebec Bridge	325,000.00
State Pier	115,000.00
Maine Improvement	100,000.00
	\$2,393,000.00

The summary of the above bond transactions result in the following:

Unmatured Balance, July 1, 1940	\$27,276,500.00
Matured or called, as above	2,393,000.00
	\$24,883,500.00
New Bonds Issued, as above	3,225,000.00
	\$28,108,500.00

Separate provision has been made in the Balance Sheet as of June 30, 1941 for all bonds matured but not at that date presented for payment in the sum of \$267,500.00; and in addition, for all interest coupons similarly not presented, in the sum of \$27,232.50.

This is the first year in some time that the outstanding bond liability has increased during the year, it having been decreased approximately \$1,000,000 in each of the four preceding years.

## BUDGET

The budget report for the biennium begun July 1, 1941, together with the later check between actual and budgeted figures,

is already beginning to prove its value to the State in proper control of financial matters. Budget Officer Payne has already accomplished worthwhile results in this entire matter, which can but result in a material improvement in efficiency of handling the various departments, and reduction in expense to the State.

The form of budget report, coupled with the deep research previous to its publication; the reissuance of the same in its final form after Legislative action thereon; the hearings both before and after convening of the Legislature (at the earlier of which, the Governor-elect was also present) followed by later conferences with department and institution heads; the breakdown of all figures by quarters and even by months; the plans, supported by proper forms, for constant comparison between actual and budgeted figures, all will, if carried through to a logical completion, result very beneficially, changing as it does a theoretical budgetary control to an actual live one.

#### CARLTON BRIDGE

During the fall of 1940, a special investigation was made by our department to settle the much debated question of the accuracy and legality of the State's record of moneys received from, and spent for, the construction and operation of the Carlton Bridge, and those received from the Maine Central Railroad Company in connection with the operation of the bridge and the retirement of its share of the bond issue; all looking towards the cessation of tolls thereon. The bridge was finally freed under the provisions of Chapter 81 of the Resolves of 1941, passed with the Emergency Clause and effective March 26, 1941.

In this connection, we call attention to the fact that the interpretation officially placed on that portion of this act relating to excise tax payments by the towns, by which the bridge division of the State Highway Department will probably be governed in their enforcement thereof, apparently differs from the seemingly plain provisions of the resolve, above cited, in such a way as to deprive the State of a material sum of money to which they would otherwise be entitled.

#### CASH, BANK ACCOUNTS, ETC.

Throughout the entire year just ended, all money received by the State Treasurer has been kept deposited in bank accounts,

each day's receipts being deposited in total and with no cash retained in the Treasurer's office or elsewhere, except for 21 petty cash funds in the hands of various departments and institutions having a balance on June 30th of \$3,171.27 (plus \$7,000.00 carried in the balance sheet of the Liquor Commission). Possible exceptions to the above occur when the Treasurer receives money from some source regarding which he has some question, when it may go undeposited for a short period pending investigation. The major items of cash received on account of the Runnells defalcations previous to March 1940, were finally cleared by the State Police and FBI so that it was deposited on June 18, 1941 in the sum of \$49,917.43. No paid out slips have been carried by the Treasurer as cash during the year just ended.

As a whole, the Treasurer's bank balances have been increasingly heavy, totalling, as of June 30, 1941, nearly \$8,000,000, aside from Unemployment funds on deposit with the Treasurer of the United States, and all money in impounded or trust fund bank accounts. However, of this total, a material sum is earmarked for, or belongs to, the Highway, Defense, Unemployment or other special funds, so that often there has been little, if any, balance free for general purposes over and above actual current necessities. All bank accounts have been reconciled, at least monthly, by either the Controller or Treasurer with statements from the banks, which reconciliation has been audited by our department.

The previous practice has been continued of drawing virtually all general fund checks for current operations from a single bank account, using the other 103 checking accounts either for segregated funds, as depositories only for outlying State agencies (such as liquor stores, branch auto registration offices, institutions, etc.), or for reserve funds.

In addition to the above active accounts, there are bank accounts (exclusive of trust fund accounts) with a June 30th balance of \$306,634.25 which have been impounded since the bank holiday. Liquidating dividends are entirely complete on some of these, and virtually complete on the others, and the final loss from this source, (again exclusive of trust funds) is estimated at approximately \$265,000 for which allowance has been made in the State's balance sheet. The balances on June 30th in 21 of these, totalling \$86,407.50, which have paid their final dividends, or from which for other reasons we believe will be no further realization, will probably be charged off completely

in August or September under the provisions of Chapter 13 of the Public Laws of 1941.

The statutes, after amendment by Chapter 310 of Public Laws of 1939, provide that the Treasurer may deposit funds in his care in any State, Savings, or National Bank in the State of Maine, but with the proviso that the balance at any one time in any bank, *exclusive of* balances immediately available for liquidation of bonds or current expenses, shall not exceed 25 per cent of the capital and surplus (or reserve fund and undivided profit in the case of mutual savings banks). While this has been interpreted as indicating the wisdom of holding as far as practical to this 25 per cent limit for all balances in any one bank, the ratio between the combined capital and surplus of all banks in Maine, and the total funds in the custody of the Treasurer, makes impractical the holding at all to this desirable limit.

Continual and increasing trouble is being had by the Treasurer in finding banks which will accept deposits such as he often has, especially under conditions where there is any income to the State therefrom.

The combination of these various matters has led to the question whether it would not be advisable to amend the law to allow the deposit at times in one or more New York or Boston banks of excess funds in the hands of the State Treasurer, as is done in other states; while it is doubted whether this would result in additional income to the State, it would give the safety of a greater spread and would help to relieve the unconservative ratio (sometimes over 100% or even 200%) existing between deposits and capital and surplus in certain banks.

The State has a total of around \$114,000 in one small bank, put there years ago, which while not actually impounded is said by the bank commissioner to be impractical of removal or material reduction; a situation which can but result in criticism of previous State officials.

A continual drive has been made throughout the past 16 months, in which we were supported by the Department of Finance, to substitute for the previous habit of many departments and institutions to retain money undeposited and often without consistent record for days, weeks, and months, the proper practice laid down very specifically in Section 15, Article II, Chapter 216 of the Public Laws of 1931, which specifies the "immediate" deposit of all receipts, without deductions of any kind, with the Treasurer of State. The condition revealed in this connection

through investigation of the "Auburn Robbery" in 1938, was found to be far too typical of the practice in certain departments, though in smaller amounts. Our department proposes to be increasingly watchful of this practice.

#### CONTINGENT FUND OF THE GOVERNOR AND COUNCIL

The salary of the Governor has for years been set at \$5,000, which is materially below that of a number of the heads of certain departments or members of commissions; and which is certainly not exorbitant for a man qualified to fill such a post, or for one required by that office to live in a manner reflecting credit on the State and his position.

To increase this salary to an amount which will more nearly enable the Governor to properly uphold the dignities of his office, there has been for years what is known as the "Contingent Fund of the Governor and Council" which as far as can be found has absolutely no definite statutory sanction or description. For years now, it has been included in the budget at \$10,000 a year and probably for that reason it can be considered to have been included in the lump sum appropriation for the Executive Department, though the only definite mention in the session laws is the inclusion in the preamble of appropriation acts of an exemption of this fund from any control by the State Controller or State Auditor.

The fund has been used by recent governors to pay any bills they desired, whether personal or official, or for payments to themselves. In short, it has been used without any consistent statutory sanction to raise their salary to a more commensurate sum. While the name of the fund includes "Council", as well as "Governor", for practical purposes its use has, at least recently, been virtually limited to the Governor.

Since the above method of accomplishing the laudable object of proper compensation for the Governor is neither entirely clear cut nor supported openly by statute; and since by definite enactment of the Legislature the Governor is left entirely without the support of either the State Controller or State Auditor in his handling thereof, and hence open to the possibility of embarrassing political attack from some hostile source, we suggest early Legislative action to clear up this matter.



## DOG LICENSES AND DEFICIENCIES

A careful reading of the changes made by Chapter 278 of the Public Laws of 1941 in the above law as it formerly read (Chapter 5, 1930 Revised Statutes) apparently still leaves the question unsettled as to whether all collections on dog licenses or dog license deficiency, irrespective of when received, should be used as a basis for the refunds to the towns, in some one year; or whether receipts after a certain date should become general revenue for the State of Maine. The opinion of the writer is that the intent of the Legislature (though it is true not clearly expressed by either enactment) was that *all* money collected from this source should be made the basis of refund to the various municipalities, in one year or the other; and that none should accrue to general revenue of the State of Maine, as has been the previous practice.

## EXPENSE ACCOUNTS AND OTHER EXPENDITURES

Work of the Department of Audit during the year has indicated that the previous lack of consistent regulations, combined with careless handling by department heads, has resulted in the loss by the State of a material amount of money, month in and month out, through excessive and unwarranted expense and other accounts. This has been true not only of subordinates, but even in some cases of accounts of division and department heads. It has been a cause of continued watchfulness by our department, and of constant contact with the Controller's office and the various departments involved. Factors responsible were found to be many, including improper allocation of State-owned automobiles, excessive and even personal use of State cars, payment of lodging and meals at Augusta of employees virtually permanently located there, charging for staterooms rather than lower berths in out-of-state train travel, mileage rates to other than State employees as high as 7¢ for use on State business of personally owned automobiles, poor routing and unnecessary duplication of travel over the same route, etc.

As a whole, our department has had cooperation in overcoming these matters, though in many cases it stepped on what had been previously considered "perquisites of official employment". As an outgrowth of these matters, a council order was passed in July establishing regulations which it is hoped will enable the

Controller to better control such matters in the future; but real success depends on cooperation of department heads.

Of something the same nature have been the many evidences of excessive charges from towns, companies, and individuals not in the employ of the State for services of various natures furnished to, or to be paid for by, the State. In the Department of Health and Welfare, Commissioner Earnest's efforts to straighten out the conditions found in this regard, when he took office, have already saved the State thousands of dollars, while further plans are in process which, if successful, will increase this saving materially in the future.

A drive is now being started through the Controller's office to obtain better control of telephone toll charges, which, particularly in the various institutions, have been seemingly excessive in the past through, first, needless or too long calls on official business, and, second, use of the telephone on personal business at the State's expense. Reduction of net cost to the State has been accomplished by the recently arranged rented line between Portland and Augusta, with one or two other rented lines under possible consideration.

#### HIGHWAY FUNDS, DIVERSION OF

No evidence has been found of any *direct* diversion of State Highway funds, all net receipts from gasoline tax, automobile registration, etc., having apparently been made available to the Highway Department according to statute. On the other hand, we can but feel that actual though indirect diversion results from two definite routes, contrary to the intent of the law.

1st: Through the transfer from the Highway Department of money to the State Auditor, the State Controller and the Attorney General in amounts to approximately offset the cost of work by these departments directly or indirectly for the Highway Department. Theoretically, such may have much to defend it, since these departments are service departments working solely for other departments of State; but the singling out of the Highway Department alone for such charge because they have money available constitutes in effect a diversion, even though sanctioned by Legislative act.

2nd: Through the charge to the Highway Department of the entire expense of the State Police including such items as pensions which in other cases have been paid from general funds.

This may have had much to defend it years ago when the State Police was virtually entirely a *highway* police; but today it is handling a material and ever increasing amount of investigative and enforcement work entirely divorced from any connection with highway construction, maintenance and operation. In this we have in mind such activities as those of the Bureau of Identification, investigations in connection with the three or four recent murder trials, investigations regarding arson for the Insurance Commissioner, and other general investigative and detective work. It is estimated roughly that upwards of 25% of the total cost today of the State Police has its motivation entirely apart from highways, and that this percentage is steadily and rapidly increasing.

#### LAW, INTERPRETATION OF

At every turn, the Department of Audit contacts, and must be controlled by, a proper interpretation of the provisions of the statutes controlling the administration of the State's affairs. At almost as many turns, we run into a material lack of clarity and/or conflicting provisions of these laws. This has been taken up with both the Attorney General and the Revisor of Statutes, both of whom, we feel assured, are making a very strong effort to materially clear the atmosphere, especially in connection with the forthcoming revision of the statutes, which we certainly hope both the committee and Legislature will support.

There has been noted a material and possibly dangerous tendency to be more or less governed in interpretation of the law, even though on its face perfectly plain, by policy, past practices, or even the wishes of interested parties.

Additional complications are met when we find a statute on the books for years which, on its very face, is impossible of enforcement, or entirely contrary to both sound business and the best good of the State. Here also we have the promise of the Revisor of Statutes that he will initiate all practical clarifying action.

#### SALARIES

The present salary schedule appears in many of its items to be somewhat unbalanced and inconsistent. Certain people, usually those whose initial employment by the State antedates the inception of the personnel law, are receiving salaries out of all propor-

tion to the value of their services or to what they would probably be able to obtain outside; while others, usually materially younger, often better trained and of as great or greater natural ability, but whose employment is of a more recent date, are often receiving below the outside market for people of their ability, type of work, etc. How much this is due to the rather universal governmental practice of advancing salaries more from longevity of employment than from real value of services performed; or to favoritism or political pressure in earlier years; means is not at hand to estimate.

As a whole the entering rates under the present regulations of the Personnel Board appear fairly comparable to outside market, but even now the almost mechanical advancement, largely irrespective of value of services performed, would not seem to work towards efficiency.

The above, coupled with other factors easily inherent in governmental employment, results in certain people of mediocre ability holding today positions for which they are far from fitted, and drawing salaries out of all proportion to the values of services really performed.

On the other hand, the salaries of many key executives are, often by statute, set at figures way below the going outside market for men capable of filling such positions. As an instance of the above,—one very able and long experienced man fills reputedly one of the most responsible positions in the entire State government, whose salary as set by Legislature is only about \$500 a year greater than was that of a previous bookkeeper in his own department. A natural result of these relatively low salaries for key men is that really able men either are lost by the State to outside positions; or are forced to eke out their State salaries by employment outside, or by other less open means.

The above problem is inherent probably in every governmental organization, not excluding the Federal government; but the measure of its overcoming is concurrently a measure of efficiency.

In this connection, it may be of interest to note that since about February 1, virtually all employees of the State have received their salary checks once in two weeks rather than weekly as before, resulting in a material saving of time in the Controller's office, and at least a theoretical material reduction in expense to the State; all in accordance with the provisions of Chapter 316 of the Public Laws of 1939, passed in October, 1940.

## SUGGESTIONS IN LAST YEAR'S REPORT—ACTION ON

On Pages 19 to 29, inclusive, of the 1940 report of the Department of Audit, 45 specific suggestions were set forth as to various matters on which action should be taken, or at least further investigation had.

Material accomplishment is to be reported along many of these lines during the year just ended, through work of the administrative heads affected, Legislative action, or work of our department; which we believe will prove of benefit to the State. Many of the more important items are discussed in the appropriate sections of this current report.

Little if any, progress has been had on the following suggestions contained in the 1940 report of the Department of Audit:

12. Sinking Fund Reserve
13. Liquor Commission Accounts, (a) and (b)
14. Port of Portland Authority and Maine State Pier Bonds
16. Trust Fund Maine State Sanatorium Association.  
(Proved impractical and withdrawn)
23. Collection Wild Land Tax
24. Assessment Taxes State Owned Land
25. Treasurer
28. Assets Not on Books
30. "Tax" on Liquor Sales
32. Interest Rate Trust Funds
38. Date of Actual Year-end Closing, and Controller's Report
39. Audit Public Administrators
40. Unclaimed Dividends Closed Banks
41. Special Order Deposits, Liquor Commission
44. Contingent Fund, Governor and Council

## TRUST FUNDS

As covered in our last year's report, material error in handling the records of trust funds was discovered by both Ernst and Ernst and this department in connection with 1940 audits, which it was impractical to go into and straighten out at that time. Last fall, our department started this work, which is now completed.

In 1931, Frank I. Cowan, now Attorney General, was engaged by the State to conduct a thorough survey of all State trust funds, with particular reference to their legal and historical background. The results of his work on this question, extending over a year or more, were summarized in a typed report which embraces much data of great value which could not be redetermined now after lapse of another 10 years. One of the very few copies of this report still in existence was used as the foundation for this survey of the accounting records for the ten years intervening between the Cowan report and the present date.

No indication has been developed of any material illegal or "wrong" handling of trust funds during this 10 year period; while the evidence was multitudinous of errors in recording the same, resulting in incorrect records of trust fund assets and liabilities at the present time. In straightening out these matters, and with the approval of the Finance Department, we adopted what is believed to be the soundest policy of carrying all investments at par, with the premium or discount carried in separate accounts, with the former alone amortized ratably to bring the total carrying value to par at maturity.

At the same time we analyzed carefully the probable final shrinkage in trust fund assets thru liquidation of impounded bank accounts, which we estimate will reduce the principle of the trust funds approximately \$85,000. Since liquidation will probably be complete by 1943, it would seem that the next Legislature then convening should decide whether or not the State or the trust funds should stand this loss. The Department's feeling has always been, at both law and equity, that there was no obligation on the State to make these good, *except* as it should be shown that really poor judgment was used in placing trust funds in certain weak banks in the year or two preceding the date of the famous "Bank Holiday".

The full and detailed report on these matters to June 30, 1940 was filed during July, 1941. The report for the year ending June 30, 1941 has now reached the stage where the final figures are available, and full adjustments were made before closing the books as of that later date.

Subject to the possibility of further developments indicating additional adjustments, we believe that all trust funds are now properly entered on the books of the State, and properly covered in the Controller's report as of June 30, 1941. Furthermore,

steps have been taken to avoid probability of similar errors in the future. There would appear to be room for further improvement in the proper recording of these matters, to maintain at all time proper records without duplication in the Treasurer's and Controller's departments.

We also call attention to the wisdom of having Mr. Cowan's report either retyped or printed so that a copy can be permanently filed with the State Librarian before the irreplaceable data therein is lost.

"A BUSINESS MAN'S IDEA OF THE FINANCES OF THE  
STATE OF MAINE"

In the spring of 1925, Gov. Brewster asked W. B. Brockway, then controller of the Brown Company, of Portland, to go over the financial reports of the State of Maine and tell him what was the matter with them and why the people had neither understanding nor the resultant interest in them. The result was a printed pamphlet, titled as above and issued under date of November 2, 1925 to the Governor and Council; and a further typewritten discussion of the same question without date; both by Mr. Brockway.

Mr. Brockway's conclusions are based on reports as then issued by the State Auditor and State Treasurer, before the accounting work and preparation of data was assumed by the Controller in 1932. But the conclusions reached have still of material applicability, despite what it is hoped has been material improvement; and tend to explain the ends toward which the present Finance Commissioner, Acting Controller and State Auditor are working.

The following excerpts from one or the other of Mr. Brockway's reports seemingly have of interest at this time:

"There was a possibility that if the reports were prepared as a business house prepares its reports it might help in the development of the State.

"I had never seen a financial report of the State of Maine; and found that none (of several friends) had ever seen one.

"The reports of the State Auditor and the State Treasurer did not talk a financial language that I understood. The further I examined the reports the more confident I was that - - - they were telling the truth and nothing but the truth, but nevertheless I did not understand it.

"The financial status of each of the States is not told in the language that the people understand. I cannot escape the thought that the financial reports of all the states are clearly not written with the public in mind. The whole attitude of mind - - - - is entirely different than in a business.

"I assure you that there are hundreds and hundreds of hours of hard, careful and patient work put in by these two departments in the preparation of these reports - - - and yet in the face of that I have to stand here and say that both reports are failures from the standpoint of an analysis such as a business corporation doing eighteen million dollars of business a year would have to face.

"They (his recommendations) will not do for the State of



Maine anything more than they will do for a business house. They will not run themselves. They will not interpret themselves and they will never do your work for you, nor my work for me.

"We, the people, are responsible for whatever has taken place in this State, and we are going to be responsible for whatever is going to take place in our generation.

"We must insist that the State of Maine keep its books and make its reports yearly in the same manner that a business house of the same size would do. Everyone in the State must be instructed in the reasonable and useful facts that a voter should know.

"The accounting policy of the State, and in this Maine stands with practically every other state in the Union, places the fidelity of the accounts before the quick usefulness of the accounts.

"But when considered from the standpoint of the citizen it may be found that very few of those to whom the reports are given understand them, and still fewer make use of them. The reason being - - - that they are not in the form and not in the language used by the people in such matters.

"State legislation is usually written from the standpoint of the lawmaker, rather than from that of those who are called upon to make the legislation work.

"Practically all of the states - - - - keep their accounts and make reports on what is known as the cash basis - - - -. Business - - - uses what is known as the accrual method.

"And there is also the budget. Everywhere - - - - states are falling into line with business - - - - and most of the successful families in private life. Budgets are everywhere. They are in use and in discussion.

"Bookkeeping of government is different largely in detail, but not much in method, when compared with the practice of modern business houses. Any business big enough to take in from all sources eighteen millions of dollars a year and pay out as much, would be expected by its stockholders to so record and report the important facts that they could easily be understood.

"It seems necessary then, that governments should change their former accounting or reporting methods to new ones that will be interesting to the people.

#### Recommendations (Summarized) :

"1. A balance sheet that will show in popular form the financial status of the State.

"2. Income and disbursements - - - - so set up that non-governmental income and disbursements will be shown separately from the income and expenses of government.

"3. A thorough-going budget plan.

"4. Accounting and other financial reports should - - - - not

only to adopt a standard classification, but - - - - avoid the present - - - - duplicate sets of accounts - - - -.

“5. The printed reports of the Auditor should be made much smaller.

“6. An inventory should be made of the State’s property and it should be maintained.”

(Closing paragraph in printed report). “Emphasis must be put upon the undoubted fact that correct accounting systems and understandable reports are not anything but means to an end. Interpretation and action must still be done by some one with authority. Publicity and confidence will lead to an understanding people, and they will respond with an economic consciousness equal to their present political consciousness.”

**INCOME AND EXPENSE  
DEPARTMENT OF AUDIT**

**Fiscal Year Ended June 30, 1941**

<b>ENTIRE DEPARTMENT</b>			
<b>Appropriation Basis (a)</b>			
Appropriation .....		\$25,000.00	
Transferred from Highway Dept. (Chap. 119 P. & S. Laws 1939)		22,000.00	
			\$47,000.00
Receipts: Town and County Audits		32,388.95	
Academies .....		200.00	
Miscellaneous .....		27.94	
			32,616.89(a)
			79,616.89
<b>Expenditures:</b>			
	<u>General Overhead</u>	<u>Departmental Division</u>	<u>Municipal Division</u>
Salaries .....	\$6,273.68	\$31,951.50	\$23,262.49
Travel Expense .....	194.32	2,851.82	12,350.12
Office Expense .....	903.11	95.99	133.24
Office Supplies .....	628.06	107.17	20.16
Office Equipment .....	36.74	423.45	
	8,035.91	35,429.93	35,766.01
Total Combined Expenditures			79,231.85
Unexpended Balance Lapsed June 30, 1941			\$385.04

**MUNICIPAL DIVISION**

<b>Accrual Basis (b)</b>		
Income: Services .....		\$25,670.26
Expenses .....		11,704.50
		\$37,374.76
Expenses: Services .....		23,236.49
Traveling and Other Expenses .....		12,529.52
		35,766.01
Net Gain .....		\$1,608.75
Accounts Receivable — June 30, 1941		\$13,379.01
Unbilled Work		7,305.80
		\$20,684.81

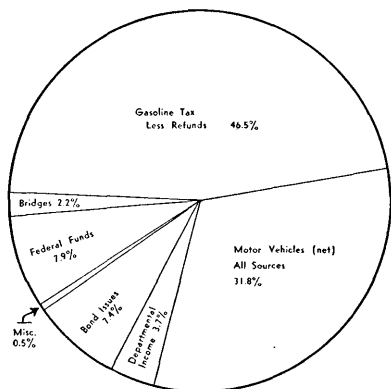
- (a) The above figures on the "appropriation basis" for the entire department, include as income only such billings as actually were paid during the fiscal year, irrespective of when the work was performed. Since there was a material increase in the year in accounts receivable and unbilled work which is not shown above, the true outcome for the year is much better than shown.
- (b) The above figures for the Municipal Division only are on the "accrual basis", taking account of all work actually done during the year by that department alone, whether paid or not. Very little work is performed by the Departmental Division for which charge is made, other than for the Highway Department.

EXHIBIT B

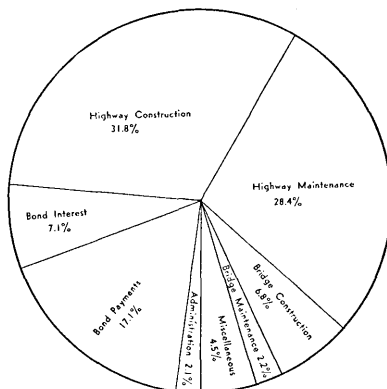
STATE HIGHWAY DEPARTMENT

Year Ended June 30, 1941

NET INCOME



NET EXPENDITURES



NET INCOME

Source of Income	Amount	Per Cent
Gasoline Taxes (less refunds)	\$ 6,336,563.13	46.5
Motor Vehicle (all sources)	4,334,943.61	31.8
Departmental Income	503,692.30	3.7
Bond Issues	1,001,098.45	7.4
Miscellaneous	71,956.69	.5
Federal Funds	1,086,722.01	7.9
Bridges—Tolls and Excise Tax	305,795.39	2.2
<b>Totals</b>	<b>\$13,640,771.58</b>	<b>100.0</b>

NET EXPENDITURES

Purpose	Amount	Per Cent
Highway Construction	\$3,828,666.21	31.8
Highway Maintenance	3,414,401.09	28.4
Bridge Construction	819,591.77	6.8
Bridge Maintenance	250,864.23	2.2
Miscellaneous (a)	548,538.48	4.5
Administration	246,213.50	2.1
Bond Payments	2,059,000.00	17.1
Bond Interest	857,547.50	7.1
<b>Totals</b>	<b>\$12,024,822.78</b>	<b>100.0</b>

(a) Includes \$407,083.50 State Municipal Allotment paid direct to cities and towns.

INSTITUTIONS—STATE OF MAINE  
STATEMENT OF ASSETS, LIABILITIES, AND NET WORTH

EXHIBIT C

June 30, 1940

	Augusta State Hospital	Bangor State Hospital	Pownal State School	Maine State Prison	State Reformatory for Men	State School for Boys	State Reformatory for Women	State School for Girls	Maine School for the Deaf	State Military and Naval Children's Home	Northern Maine Sanatorium	Central Maine Sanatorium	Western Maine Sanatorium	TOTAL
<b>ASSETS</b>														
Cash														
Petty Cash	\$150.00	\$200.00	\$201.58	\$352.04	\$100.00	\$101.15	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$150.15	\$51.27	\$1,806.19
Patients and Inmates Cash	6,112.23	4,942.39	2,992.13	2,518.85	76.18	2,143.54	118.47	3,214.53	8.97	37.21				22,164.50
Trust Fund Income Cash	4,956.71		322.57					885.62	491.29	400.12		23.56	3,024.99	10,104.86
Store Cash				143.88										143.88
Coupon Cash				73.20										73.20
Accounts Receivable***	81,452.74	36,255.54	2,977.73	20,864.92	181.00						**	**	**	141,731.93
Trust Funds	58,773.44	2,000.00	7,994.62			700.00		11,729.71	6,516.51	18,520.53		2,012.02	90,214.53	198,461.36
Inventory — Supplies	42,670.08	23,883.03	58,288.50	62,663.61	10,866.99	17,454.36	5,948.82	7,371.73	6,574.38	1,500.21	9,717.75	10,610.00	6,646.55	264,196.01
Fixed Assets (Undepreciated)	2,696,608.17	1,797,373.94	1,830,240.51	969,265.38	243,841.97	244,179.79	402,903.85	341,683.71	200,601.96	44,756.14	324,300.85	394,775.25	370,528.33	9,861,059.85
Equipment (Net Current Use Value)	211,003.39	135,118.38	192,888.88	90,468.86	37,264.74	21,476.62	29,588.62	40,771.75	25,532.44	7,198.75	35,357.50	72,154.80	52,992.50	951,817.23
Arts and Crafts Department								2,409.35						2,409.35
<b>TOTAL ASSETS</b>	<b>\$3,101,726.76</b>	<b>\$1,999,773.23</b>	<b>\$2,095,906.52</b>	<b>\$1,146,350.74</b>	<b>\$292,330.88</b>	<b>\$286,055.46</b>	<b>\$438,659.76</b>	<b>\$408,166.40</b>	<b>\$239,825.55</b>	<b>\$72,512.96</b>	<b>\$369,476.10</b>	<b>\$479,725.78</b>	<b>\$523,458.17</b>	<b>\$11,453,968.36</b>
<b>LIABILITIES AND NET WORTH</b>														
<b>LIABILITIES</b>														
State of Maine														
State Treasurer's Advances	\$150.00	\$200.00	\$201.58	\$352.04	\$100.00	\$101.15	\$100.00	\$100.00	\$100.00	\$100.00	\$100.00	\$150.15	\$51.27	\$1,806.19
Trust Fund Income — Unexpended	4,956.71		322.57					885.62	491.29	400.12		23.56	3,024.99	10,104.86
Accounts Receivable	81,452.74	36,255.54	2,977.73	20,864.92	181.00									141,731.93
Trust Funds	58,773.44	2,000.00	7,994.62			700.00		11,729.71	6,516.51	18,520.53		2,012.02	90,214.53	198,461.36
Store Fund				143.88										143.88
Coupon Fund				73.20										73.20
Arts and Crafts Department								2,409.35						2,409.35
Patients and Inmates Funds	6,112.23	4,942.39	2,992.13	2,518.85	76.18	2,143.54	118.47	3,214.53	8.97	37.21				22,164.50
<b>NET WORTH</b>														
Investment — State of Maine	2,950,281.64	1,956,375.35	2,081,417.89	1,122,397.85	291,973.70	283,110.77	438,441.29	389,827.19	232,708.78	53,455.10	369,376.10	477,540.05	430,167.38	11,077,073.09
<b>TOTAL LIABILITIES AND NET WORTH</b>	<b>\$3,101,726.76</b>	<b>\$1,999,773.23</b>	<b>\$2,095,906.52</b>	<b>\$1,146,350.74</b>	<b>\$292,330.88</b>	<b>\$286,055.46</b>	<b>\$438,659.76</b>	<b>\$408,166.40</b>	<b>\$239,825.55</b>	<b>\$72,512.96</b>	<b>\$369,476.10</b>	<b>\$479,725.78</b>	<b>\$523,458.17</b>	<b>\$11,453,968.36</b>

**SUMMARY OF APPROPRIATIONS, REVENUES, EXPENDITURES, ETC.**  
Year Ended June 30, 1940

Appropriations	\$437,700.00	\$387,000.00	\$370,000.00	\$160,000.00	\$58,000.00	\$73,000.00	\$64,000.00	\$78,000.00	\$53,000.00	\$27,000.00	\$112,000.00	\$180,000.00	\$144,000.00	\$2,143,700.00
Revenues and Other Credits	84,485.12	36,192.40	6,416.87	102,564.94	5,137.70	3,110.52	536.63	354.48	2,918.49	580.51	38.21	1,501.45	1,521.38	245,358.70
<b>TOTAL</b>	<b>522,185.12</b>	<b>423,192.40</b>	<b>376,416.87</b>	<b>262,564.94</b>	<b>63,137.70</b>	<b>76,110.52</b>	<b>64,536.63</b>	<b>78,354.48</b>	<b>55,918.49</b>	<b>27,580.51</b>	<b>112,038.21</b>	<b>181,501.45</b>	<b>145,521.38</b>	<b>2,389,058.70</b>
<b>TOTAL EXPENDITURES</b>	<b>442,648.68</b>	<b>361,389.03</b>	<b>339,080.60</b>	<b>285,533.19</b>	<b>63,166.95</b>	<b>73,033.38</b>	<b>66,074.95</b>	<b>73,629.84</b>	<b>47,147.92</b>	<b>25,682.67</b>	<b>112,450.92</b>	<b>180,225.49</b>	<b>141,386.14</b>	<b>2,211,449.81</b>
Average Population — Inmates	1,534	1,145	1,102	430	138	145	141	162	102	37	118	192	141	5,387
Annual Per Capita Cost*—Based on Expenditures Less Credits to Appropriations and General Fund	246.68	284.01	301.87	425.51	420.50	482.45	464.81	453.49	434.71	694.12	952.65	930.85	992.40	368.91

\* These "Per Capita Costs" are not closely comparable, since in the case of the first 3 listed institutions, they are based on cost after deduction of receipts on account of patients; in the case of the 3 sanatoriums, because of bookkeeping methods, there is no deduction for income on account of patients totaling \$47,859.30 for the year ended June 30, 1940; while in the case of the other institutions, there is little or no reimbursement from, or on account of, inmates.

\*\* There is not included in the above the accounts receivable of the three sanatoriums, which are carried at Augusta, and are said to have totalled, combined, \$51,684.46 on June 30, 1940.

\*\*\* Gross figures shown by the books, open to a probable material shrinkage, especially in the case of the two State Hospitals.



## EXHIBIT D

CIGARETTE TAX DIVISION  
BUREAU OF TAXATION

Operating Statement, May 21 to June 30, 1941

INVENTORY (at face value)		
Purchases	\$376,260.00	
Returned Stamps	654.71	
	<u>                    </u>	\$376,914.71
LESS:		
Total Sales (Gross)	248,941.48	
Adjustment	3.11	
	<u>                    </u>	248,944.59
INVENTORY BALANCE		<u><u>\$127,970.12</u></u>

## OPERATING STATEMENT

INCOME:		
Total Sales (Gross)		\$248,944.59
LESS:		
Discount on Sales	15,802.20	
Refunds and Adjustments	654.71	
	<u>                    </u>	16,456.91
Net Sales Stamps		232,487.68
Licenses Sold	12,999.45	
Confiscated Cigarettes	13.47	
	<u>                    </u>	13,012.92
TOTAL INCOME		245,500.60
EXPENDITURES:		
Cost of Stamps	2,969.51	
Administration	6,221.93	
Adjustment	1.87	
	<u>                    </u>	9,193.31
Net Available for Old Age Assistance (accrual basis)		236,307.29
LESS:		
Accounts Receivable	55,999.34	
Deduct Accounts Payable	400.89	
	<u>                    </u>	55,598.45
Net Available for Old Age Assistance (Cash Basis)		<u><u>\$180,708.84</u></u>
Total Stamps Purchased	17,870,000	
Total Stamps Sold	12,617,163	
Gross Returns from Sales		\$248,941.48
Net Shortage in Handling above Sales		3.09

STATEMENT OF ASSETS AND LIABILITIES OF THE SIXTEEN COUNTIES OF THE STATE OF MAINE

EXHIBIT E

As of December 31, 1940

	ASSETS							LIABILITIES							TOTAL	
	CASH			TAXES		Other Assets	Probate Accounts	TOTAL	Accounts Payable	Temporary Loans	Notes	Bonded Debt	Probate Accounts	Total Liabilities		Net Surplus or (Net Debt)
	General Funds	Sinking Funds	Impounded	Cities and Towns	Road Repairs and Wild Lands											
Androscoggin .....	\$3,831.52					\$6,286.20		\$10,117.72	\$6,193.96			\$103,600.00		\$109,793.96	(\$99,676.24)	\$10,117.72
Aroostook .....	66,860.73			\$157,920.08	\$10,217.21	1,876.94	\$288.92	237,163.88	8,697.84			64,000.00	\$288.92	72,986.76	164,177.12	237,163.88
Cumberland .....	20,897.16	\$34,250.00	\$11,852.51					66,999.67				385,000.00		385,000.00	(318,000.33)	66,999.67
Franklin .....	6,160.11			1,058.81	10,850.00	2,265.75		20,334.67	6,673.05		\$32,000.00			38,673.05	(18,338.38)	20,334.67
Hancock .....	6,719.16			7,654.62	3,264.01			17,637.79		\$40,000.00	29,134.18	221,100.00		290,234.18	(272,596.39)	17,637.79
Kennebec .....	40,374.83		937.02	441.41		1,043.03		42,796.29	74.12				4,680.39*	4,754.51	38,041.78	42,796.29
Knox .....	15,239.06			2,140.63				17,379.69				51,500.00		51,500.00	(34,120.31)	17,379.69
Lincoln .....	27,449.81				46.78	2,500.00		29,996.59				32,635.00	159.09*	32,794.09	(2,797.50)	29,996.59
Oxford .....	80,727.35	103,753.97	47,097.47	72.00	5,987.04			237,637.83				144,000.00		144,000.00	93,637.83	237,637.83
Penobscot .....	103,945.31			22,429.80	1,848.53			128,223.64				47,000.00	1,019.00*	48,019.00	80,204.64	128,223.64
Piscataquis .....	5,928.12			3,211.43	1,772.46			10,912.01	4,905.00		8,000.00			12,905.00	(1,992.99)	10,912.01
Sagadahoc .....	6,636.43			28,543.15		1,054.90		36,234.48	24,545.83	10,000.00				34,545.83	1,688.65	36,234.48
Somerset .....	13,386.86		600.00		1,084.32		5,033.94	20,105.12					5,033.94	5,033.94	15,071.18	20,105.12
Waldo .....	22,322.91		759.93	9,755.89				32,838.73						0.00	32,838.73	32,838.73
Washington .....	5,649.54	1,925.31		69,610.33	12,151.98	8,030.06	517.32	97,884.54	1,777.49	60,000.00		423,000.00	517.32	485,294.81	(387,410.27)	97,884.54
York .....	147,177.14	39,491.48	3,310.17	3,264.74		8,000.00		201,243.53	1,309.10			235,000.00	5,466.52*	241,775.62	(40,532.09)	201,243.53
	\$573,306.04	\$179,420.76	\$64,557.10	\$306,102.39	\$47,222.33	\$31,056.88	\$5,840.18	\$1,207,506.18	\$54,176.39	\$110,000.00	\$69,134.18	\$1,706,835.00	\$17,165.18	\$1,957,310.75	(\$749,804.57)	\$1,207,506.18

\* These amounts are included in and are a part of the General Funds.





## EXHIBIT F

## MUNICIPAL DISCREPANCIES

Audits made in all municipalities for the year 1939-40, and in 307 so far for the municipal year 1940-41, have revealed the following discrepancies: some of those were caused by errors or improper recording of transactions, while others were deliberate defalcations. Most of the discrepancies resulting from errors were settled quickly by those concerned; others by sureties, while in some cases the offender is serving a sentence in prison, and in one case the offender has disappeared and cannot be located.

## CASH DISCREPANCIES RECOVERED OR TO BE RECOVERED

	Municipal Year	
	<u>1939-40</u>	<u>1940-41*</u>
Lewiston—Water Department	\$2,282.41	
Minot	1,490.91	
Auburn—Water District	5,074.13	
Sewer District	5,028.58	
Webster	699.25	
St. Agatha	1,629.66	
Monticello	1,408.09	
Oakfield	4,367.32	
Freeport	506.27	\$ 73.35
Salem	320.00	
Sedgwick	113.09	
Orland	2,262.36	
Eastbrook	168.99	
Litchfield	128.90	582.00
Oxford	1,336.06	1,672.36
Kenduskeag	415.01	
Lincoln	1,270.92	
Milford	558.58	
Stetson	90.97	
Patten	3,735.02	
Palmyra	451.24	
Smithfield	99.60	
Stockton Springs	207.92	
Steuben	478.69	
Sanford	6,152.49	
Norway		74.52
Thomaston		39.96
Enfield		188.79
Bradford		166.00
Greenville		487.90
Cambridge		291.16

## TWENTY-SECOND REPORT

	Municipal Year	
	<u>1939-40</u>	<u>1940-41*</u>
Old Orchard Beach		704.07
Old Town		2,518.57
Fort Fairfield		2,046.44
Jonesport		646.36
Columbia Falls		610.67
Portage		140.39
Washington		43.88
Brewer		1,057.25
Burnham		1,332.51
Raymond		41.28
West Gardiner		408.25
Weston		227.08
Appleton		98.34
Fairfield		639.88
Belfast		164.04
	<u>\$40,276.46</u>	<u>\$14,255.05</u>

\*These differences have been found in the 307 audits for the 1940-41 Year completed up to and including August 19, 1941.

## EXHIBIT G

## UNCOLLECTIBLE ACCOUNTS RECEIVABLE

In Process of Being Charged Off Under Provisions of Chapter 13,  
Public Laws of 1941

Department or Institution	Recorded on General Books of State	Not Recorded on General Books of State
Agriculture—Division of Plant Industry		\$2,064.98
“ Division of Markets		2,357.01
“ Division of Animal Industry		99.79
Audit		5.17
Boxing Commission		6.44
Highway—Prior to January 1, 1935		2,995.96
“ After January 1, 1935		348.69
Institutional Service Bureau		3,359.96
Library		26.33
Police, State		2.00
Secretary of State—Motor Vehicle Division		174.84
“ “ “ Corporation Division		15.00
Taxation—State Tax on Personal Property	\$4,776.25	
“ Poll Taxes in Unorganized Territories		360.00
“ Potato Tax		1,368.52
“ State Tax on Wild Lands	4,580.02	
“ Maine Forestry District, Tax	1,750.51	
“ Franchise Tax on Corporations	62,266.03	
“ Tax on Telephone Companies	242.34	
Treasurer—Protested Checks, etc.	2,599.08	
“ Impounded Bank Balances	86,407.50*	
Hospital—Augusta State		17,015.38
“ Bangor State		12,882.77
Prison—State		3,491.52
Totals	\$162,621.73	\$46,574.36
Grand Total		\$209,196.09

\* This amount includes only those general fund bank accounts on which “final” dividends have been received, or accounts on which for other reasons no further liquidation is anticipated.

## ASSETS NOT RECORDED ON GENERAL BOOKS

June 30, 1941

(Exclusive of Interdepartmental Accounts)

## ACCOUNTS RECEIVABLE

## Departments

Adjutant General		\$	747.37
Agriculture—Markets			10,728.85
Plant Industry			3,386.07
Animal Industry			389.29
Attorney General—Inheritance Tax			43,343.58
Inheritance Tax Interest			1,702.72
Audit Department			13,379.01
Boxing Commission			6.44
Buildings, Superintendent of			27.16
Fish and Game Department			3,683.05
Forestry—Lands Reserved for Public Uses			2,051.89
Forestry District			763.24
Forestry Nursery, Etc.			183.00
Health and Welfare—Municipalities			119,222.65 (a)
Dental Service			68.69
Highway Department			322,098.64 (b)
Institutional Service Bureau—Municipalities			43,350.44
Paying Patients			9,536.75
Labor and Industry			175.50
Library			128.37
Park Commission			361.26
Police, State			2.00
Purchases, Bureau of			28.75
Secretary of State—Motor Vehicle			174.84
Corporation Division			38.08
Taxation—Potato Tax			2,806.97
Poll Taxes Unorganized Territories			828.00
Unemployment Compensation Commission			123,063.60 *
Institutions			
Hospitals—Augusta State			73,686.43 *
Bangor State			50,313.89 *
Pownal State School			2,164.72
Prison, State			16,677.84
Reformatory for Men			181.00
Sanatorium—Western Maine			694.60
Approximate Amounts Due From Courts			
Highway (estimated)	\$12,000.00		
Fish and Game	1,623.73		
Sea and Shore Fisheries	110.00		13,733.73
			<hr/>
			\$859,728.42
INVENTORY GARAGE SUPPLIES (estimated)			100,000.00
			<hr/>
			\$959,728.42

(a) Does not include an estimated \$110,000.00 in unbilled charges in Health and Welfare Department.

(b) Does include \$15,083.43 unbilled charges in Highway Department.

\* The above figures are not comparable to similar figures shown in our last year's report, with particular reference to items marked with an asterisk, through incomplete reporting to us last year.

The above figures in most cases are as reported to us by the various departments, institutions, etc., only a few cases having as yet been verified by our auditors. The probable realizable value of same is considered materially less than the figure shown above, with particular reference to the two State Hospitals and to a less degree to the Institutional Service Bureau.

In addition to the above, no inclusion is made in the balance sheet of investment in real estate, buildings, equipment of all kinds, inventory (other than liquor) etc.; thus following the commonly accepted practice of other states, but differing materially from commercial practice.