

MAINE STATE LEGISLATURE

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STATE OF MAINE

Maine. State auditor.

Twenty-third Report

of the

Department of Audit



For Period

July 1, 1941 to June 30, 1942

.....

●

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



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DEPARTMENTAL AUDITORS

STATE OF MAINE
State Department of Audit
Augusta

August 31, 1942.

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, 1942. From this, there are omitted all statements of the general finances of the State, since the same are covered in the report of the Controller for the same period, certified by the State Auditor.

Reference to the data set forth in the current Controller's Report will show that the State of Maine is in an enviably sound financial position at this critical time, and that its affairs have been ably and economically administered in the year just ended. The results of another year's work of the Department of Audit indicate plainly that still further, and very material, progress has been made by the various departments in overcoming certain detrimental tendencies and practices of earlier years.

William D. Hayes
State Auditor.

E.R.

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ORGANIZATION OF DEPARTMENT AND SUMMARY OF WORK

The work of the Department of Audit has continued in the year ended June 30, 1942 under the same two divisions; the Municipal Division handling the audits of municipalities, counties, courts and normal schools; and the Departmental Division the audits of the Bureau of Accounts and Control and the various other departments, institutions and agencies of the State, as well as the Port of Portland Authority, Maine Maritime Academy (newly organized) and the various State aided academies.

Since July 1, 1941, the Department has lost a total of 16 employees, of whom 4 went directly into military service, and 5 to other State departments; the other 7 in most cases due at least indirectly to defense work. New employees, totaling 13, were put on, resulting in a total personnel as of date numbering 33, of whom 17 are in the Departmental Division, 14 in the Municipal Division, the State Auditor and chief clerk.

The Municipal Division receives no appropriation from the State, its activities being financed entirely by charges for services of its men at the rate of \$10 per day plus expenses; the Departmental Division and overhead were financed last year by an appropriation of \$37,500, plus charges against the Highway Department at cost-plus-overhead for services rendered them totalling \$11,377.47 (this compares with \$12,500 estimated in the biennial budget), and a few small scattering bills against others. The financial outcome of the department for the year just ended is shown in Exhibit A herewith. As of the end of the year, both divisions were credited with their accounts receivable as of that date, so that beginning July 1, 1942 they will be on an accrual basis; while the Municipal Division was also put on a revolving basis, with balances to be carried forward.

The Department of Audit personnel were granted one rather general salary increase as of approximately January 1, 1942, which brings the salaries more nearly in line with those paid similar personnel in other State departments and in outside work.

The Department issued on March 9, 1942 a supplemental report summarizing work of its Municipal Division, with particular reference to certain financial statistics of the various municipalities of the State; and plans to issue a similar report again this year as soon as the current municipal audits are completed.

The law provides that the Controller shall hold his books open until July 20 and that the annual report of the State Auditor shall be published by August 31 covering the transactions of the fiscal year ended June 30. The short time between these two dates makes impossible the completion of the examination by the Department of Audit of final figures on all the various departments, institutions and agencies of the State government before the date specified for our report. This work is now complete in most cases up to various dates between March 31 and June 30, and the results so far shown support in general the accuracy of the Controller's figures.

The summary figures shown by the Controller in his report as of June 30, 1942, were prepared from the records in the Bureau of Accounts and Control, to which a Department of Audit man has been constantly assigned throughout the year, as has also been true of the State Treasurer's office. This, coupled with the fact that certain of our personnel have been constantly in touch with the year-end closing of the Controller's accounts and the preparation of the figures shown in his report, minimizes the probability of any sizable exceptions thereto.

The relatively few minor irregularities in handling the State's cash which have shown up during the year, have been quickly adjusted without any extreme measures; while further steady progress has been made in reductions of unnecessary and excessive expenditures.

A high proportion of the subject matter of this report is, by its very nature, open to possible variance of opinion, in which the ideas set forth in this report might, and probably do, differ

materially from those of others. In all matters, we have reported situations, tendencies, and actions as they appear to us, without malice or the desire to criticise.

The Department of Audit has followed the policy that the provisions for State administration set forth in the legislative enactments should be followed; and that if the same proved impractical or inconsistent with other enactments, such should be brought to the attention of the Legislature in the hope that proper changes would be made therein. In following this policy, we have sometimes encountered a seemingly different feeling, in some quarters almost approaching the thought that only such provisions of the law need be followed, or that the law could be interpreted, as coincided with personal wishes of the affected party.

Our department, realizing the possibility of differing viewpoints on many matters of accounting, etc., has attempted in all things to meet at least half way those holding ideas differing from our own.

We express our hearty appreciation of the faithful and loyal work of the personnel of the department in the year that has now passed, as well as of the cooperation of the personnel of the various other departments of State.

ACADEMIES, STATE AIDED

In accordance with Chapter 132, Public Laws of 1931, reports were made by our department on the over 40 academies which are receiving State aid, covering the school year ended in June, 1941; in connection with which we "accepted" (usually after obtaining material additional information) audits of certain of these units performed by public accountants. Considerable opposition and trouble was experienced in obtaining proper data regarding certain of these units, resulting in delays in their receiving checks for State aid. Similar examinations for the school year ended in June, 1942, are now in process.

ACCOUNTS AND CONTROL, BUREAU OF

The improvement in accounting and reporting methods, and in the accuracy, clarity, and practical value of the results, to which attention was called last year, has continued with accelerated momentum, reaching more or less of a climax at the year-end on June 30, when, in addition to a much improved closing and presentation of figures, a completely revised set of accounts was established for the future, the principles of which govern the assemblage of figures in the current Controller's report.

Further lines along which improvement is understood to be projected by the present Controller are: Reduction of costly duplication of work in the Controller's office and in the various State departments, institutions and agencies; improved supervision by the Controller of necessary accounting in other departments; improved correlation between the control accounts in the Controller's office and the detail accounts in other departments; earlier availability of monthly figures, and their arrangement in such form as to make them of the greatest practical value for administrative control; with a possibility later of quarterly or even monthly publication of summary figures.

Earlier accomplishment of these to-be-desired results has been handicapped by changes in personnel of the State Controller, which office has been held by four different men during the last two and one-half years. This is despite the fact that it is a position in which continuity of personnel and thorough familiarity with the wide range of State activity, are both essential for real accomplishment. The last change, in May, 1942—at a time of great activity in preparing for year-end closings, and issuing the annual Controller's report—was made necessary by the elevation of Controller Mossman to fill the position vacated by Finance Commissioner Payne who had entered the military service.

Material headway has been made during the year just ended in obtaining increased supervisory personnel, previous lack of which had handicapped proper results.

One major change in the accounting procedure of the State, first effective June 30, 1942 and resulting in a net increase of \$526,897.93 in the assets shown in the State's balance sheet, was the inclusion therein of virtually all accounts receivable in whatever department originating, with indicated reserves to care for probable losses in realization as per summary in Exhibit E. This in effect puts the State onto the accrual basis, accounts payable having already been considered at year-ends, and results in a much truer picture of the financial outcome. The wisdom of the projected later inclusion of buildings and other fixed assets in the balance sheet of the State would appear to the writer as open to argument.

The clearest and most accurate form of presentation of the financial standing of a governmental body such as the State of Maine is something regarding which there is no generally accepted optimum, and in which there is wide divergence of both opinion and practice. The principles generally accepted in commercial procedure are applicable only limitedly to governmental units, in fact, some states never even attempt a balance sheet. The form of presentation adopted by the Finance Commissioner and Controller for the current report differs from that previously employed for Maine, and was only decided on by them after study of the various factors involved, and the practice of others. It is hoped that it will meet a favorable reception.

Recent discussion has been heard of the possible value of decentralization of accounting through reduction of this work done directly in the Controller's office, and of greater dependence placed on details worked up in the various departments, institutions and agencies of the State. Limited adjustments along this line are believed worthy of consideration, but only provided much closer supervision can be maintained by the Controller of the accounts handled in the other departments; especially when we consider that even after very material reductions in the last two years, the records of the Controller's office indicate expenditures directly by them in the year just ended totalling nearly \$150,000, a substantial portion of which is on top of the cost of accounting work—relatively little supervised by the Controller in the past—in each and every department, institution and agency of the State.

ACCOUNTS RECEIVABLE CHARGED OFF

During the year, accounts receivable totalling \$304,310.14 have been charged off, on the certification by the Finance Commissioner and State Auditor and with the approval of the Governor, under the provisions of Chapter 13 of the Public Laws of 1941.

Included in these accounts are unrealizable balances in impounded bank accounts totalling \$122,721.56 covering all such accounts in banks completely liquidated as far as they contain general funds of the State. Adjustments of similar unrealizable balances in trust funds are held awaiting legislative action, as covered under the heading "Trust Funds," and analyzed in Exhibit F.

A high proportion of these items originated years ago, before the present controls and augmented collection policy were effective; it is hoped that no such sizable housecleaning will ever again be necessary.

Impounded bank accounts (balance after final liquidation)	\$122,721.56
State Hospitals—Augusta and Bangor	72,901.12
Franchise Tax on Corporations	62,203.03
Tax on Railroad Companies	6,141.04
Personal Property Tax, Unorganized Territory	4,787.59
Highway Department	4,748.06
Wild Land Tax	4,580.02
Department of Agriculture	4,536.78
Maine State Prison	3,807.96

Tubercular Sanatoriums	3,359.96
Protested Checks	2,594.08
Scattering	11,928.94
	<hr/>
	\$304,310.14

The above include items totalling \$209,196.09 shown on page 59 of last year's report as then in the process of being charged off.

ADJUTANT GENERAL

In our last year's report attention was called to unliquidated accounts against then and previous employees of the Adjutant General's Department totalling \$1,258.30. Since then, liquidation has been had through the efforts of the Attorney General of three items totalling around \$400, leaving unliquidated an item of over \$700 for damage to trucks, due from men now in the army against whom legal action, at least under present conditions, we are informed is impractical; and an item of \$51.35 against a former employee of this department now receiving monthly pension from the State.

Steps have been taken by the present Adjutant General to minimize the probability of such matters coming up in the future.

APPROPRIATION ACCOUNTS, BALANCES AT YEAR-END

A rather critical scrutiny by our Department of the June 30, 1942 balances in the various appropriation and other similar accounts, and their disposition by the Governor and Council, indicates that all balances were lapsed to the Sinking Fund Reserve thru the Contingent Fund, as provided in Sections 101 and 102 of Chapter 2 of 1930 Revised Statutes and Chapters 92 and 93 of Private and Special Laws of 1941, "except those that carry forward as provided by law"; the only possible exception thereto being the balance in the account for equipping the State Guard which was carried ahead because of commitments claimed thereunder for which there was no appropriation in the 1942-43 year.

ATTORNEY GENERAL, REPORTS

Chapter 91 of the Revised Statutes, Section 91, as amended by Section 9 of Chapter 225 of the Public Laws of 1931, provides for a biennial report from the Attorney General "on the first day of December," (probably of the even numbered years) covering the "official business done by him and by the several County Attorneys," etc. As far as we can find, the report for the years 1931 and 1932 is the last one ever issued by this office, tho' we understand one is now projected covering 1941 and 1942, during which the present incumbent has been in office.

Somewhat allied to this is the provision of Section 20 of Chapter 93 of the Revised Statutes providing for annual reports to the Attorney General by each of the various County Attorneys, failure to file the same rendering any County Attorney liable to forfeiture of one-half his salary for the current quarter.

AUDIT DEPARTMENT, EXEMPTIONS FROM AUDIT

Varying interpretations of Article I, Section 1, of Chapter 216 of the Public Laws of 1931, (otherwise known as the "Code"), and as well of the laws setting up the Forestry District, have been taken in some quarters as exempting entirely or in part accounts of the Legislative, Executive and Judicial Departments and the Forestry District from examinations by the Department of

Audit. To us, this would seem of questionable wisdom both from the standpoint of the officials responsible for handling the affairs of these departments, and of the State as a whole. We suggest the early clarification of the law in these regards.

BANK DEPOSITS UNCLAIMED

Section 53 of Chapter 57 of the 1930 Revised Statutes provides for transfer to the State Treasurer, and holding by him for 20 years, of unclaimed deposits in involuntarily liquidated savings banks. As far as we know there is no definite provision for disposition of unclaimed deposits in savings banks other than those liquidated involuntarily, or for any unclaimed balances in trust and banking companies; while the disposition at the end of 20 years of the first mentioned funds in the hands of the State Treasurer is not definitely covered. We suggest the possible wisdom of statutory provisions covering the above points.

BONDS, FIDELITY

The situation in regard to fidelity bonds to which attention was called last year, has so far failed of being cleared up, due primarily to conflicting and impractical statutes as they have grown up a few at a time over the many years; and secondarily to lack of decisions regarding approval of bond forms, etc., despite conferences between the Insurance Department, the State Auditor, the Attorney General, the Finance Commissioner, a special committee of the Executive Council, and insurance executives from Portland and New York. The matter has now been taken up actively by the Interim Legislative Research Committee and a bill drafted for submission to the 1943 Legislature which has the approval of the various interested parties as of value in clearing up the situation.

An inventory on July 15, 1942 showed 149 bonds in the hands of the Insurance Department awaiting correction or approval, and 68 filed in suspense without approval; some of these went back to 1940 and 1941, a few of which had run their entire life without approval.

That the weak position of the State regarding fidelity bonds has been long appreciated without corrective action, can be gathered from the following excerpts from the 1930 survey of the State by National Institute of Public Administration:

“There is little relation between the amount of bonds carried and the responsibility of the employee—the rates of premiums on bonds vary widely. Many bonded employees handle no money—others handle such small amounts of cash that, given a proper system of control—bonding in any amount would be unnecessary. We recommend that the list—be greatly curtailed and the amount of bonds reduced to the lowest safe figure. The State can reduce the cost of bonding employees by approximately one-half in this way.”

BOND LIABILITY

At no time in the fiscal year ended June 30, 1942, have there been any temporary loans by the State of Maine; nor has there been at any time any delay in meeting liabilities because of lack of available cash.

The following serial highway bond issues have been floated during the year just ended:

<u>Date</u>	<u>Amount</u>	<u>Rate</u>	<u>Maturity</u>	<u>Premium</u>	<u>Effective Rate (Approximate)</u>
July 1, 1941	\$500,000	7/8%	July 1, 1942-51	\$1,451	.82%
April 1, 1942	\$700,000	1%	April 1, 1947-53	\$1,085	.97%

It might be questioned whether either or both of the above bond issues were really necessary, when it is considered that on June 30, 1942 the Highway Commission had \$5,255,000 cash on hand, which with revenue to be expected during the next fiscal year from sources reserved by law for

use of the Highway Department, is estimated to exceed, possibly by a very material amount, the probable cash necessities of that department for the fiscal year ending June 30, 1943.

All bond maturities have been met, together with all interest payments due, as far as the same have been presented for payment, as follows:

<u>Purposes</u>	<u>Principal</u>
Highway and Bridge	\$ 2,209,000
Kennebec Bridge	25,000
Waldo-Hancock Bridge	220,000
State Pier	115,000
Maine Improvement	425,000
Maine Agricultural	45,000
State of Maine War Bonds	100,000
	<hr/>
	\$ 3,139,000

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

Unmatured Balance July 1, 1941	\$28,108,500
Matured or called, as above	3,139,000
	<hr/>
	\$24,969,500
New Bonds Issued, as above	1,200,000
	<hr/>
Unmatured Balance, June 30, 1942	\$26,169,500

Separate provision has been made in the Balance Sheet as of June 30, 1942 for all bonds matured but not at that date presented for payment in the sum of \$153,500; plus \$690 premium on bonds called and unpaid; and in addition, for all interest coupons similarly not presented, in the sum of \$24,220.

Noting the fact that the year resulted in a net decrease of unmatrued outstanding bonds of \$1,939,000, despite the new issue of \$1,200,000, it may be of value to call attention to the fact that, as shown in the following schedule, not only is the total present bonded indebtedness of the State the lowest since 1931 at least, but the current year's net reduction in the same was nearly twice as large as in any of the intervening years:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Increase</u>	<u>Decrease</u>	<u>Total</u> <u>Bond Liability*</u>
1932			\$27,251,500
1933	\$4,194,000		31,445,500
1934		\$1,050,000	30,395,500
1935		856,000	29,539,500
1936	201,000		29,740,500
1937	695,500		30,436,000
1938		989,000	29,447,000
1939		1,015,000	28,432,000
1940		1,032,000	27,400,000
1941	976,000		28,376,000
1942		2,053,000	26,323,000

*Includes both bonds unmatrued as in figures above, and those matured but not presented for payment.

BUDGETARY CONTROL

In our opinion, one of the most outstanding accomplishments of the recent past in proper handling of the financial affairs of the State, has been the establishment for the first time of actual and practical budgetary control over all disbursements of the State, thru the endeavors of Finance Commissioner and Budget Officer Payne, aided by his then assistant, Julian A. Mossman.

While the State has had a budget for years, it was more or less mechanical in actually controlling expenditures, and largely worked from the somewhat weak basis of appropriation balances alone, a weakness especially invalidating its beneficial effect in dealing with expenditures charged against income, for which no appropriation is made.

At the present time, disbursements of every department, institution and agency are controlled by quarters, and to a less degree monthly. In this, we are not using the word "controlled" as a mere figure of speech, but as indicating the necessity of actually proving to the Budget Officer the necessity of *all* projected disbursements before the authorizing allotment is given, and this irrespective of whether it is an appropriation account or not.

The results even at the end of the first year, as reflected in the report of the Controller, speak for themselves.

While the annual report of the Budget Officer prepared for the 1941 regular session of the Legislature, was exceedingly clear cut and all inclusive, and as such should be a source of great assistance in many ways, it is to be hoped that some arrangement can be made to reduce materially the publishing cost of future issues of the same from the 1941 figure of \$6,081.51.

In this connection, attention is called to the possibility of questions being raised as to detail appropriations by the Legislature, under the present law and practice. Since the law was passed in 1931 providing for lump sum appropriations, the appropriation acts cover usually only a single item, sometimes hundreds of thousands of dollars, for a whole department. This however is of necessity broken down on the books of the Controller into any number of smaller items for the various activities of that department; for which the only authority is either the "final" edition of the budget report printed some time after the Legislature has passed the appropriation act, or the Budget Recommendation breakdown in the preliminary budget report.

CARLTON BRIDGE

Final accounts have been rendered of excise tax payable to the State in lieu of tolls on the Carlton Bridge in connection with the freeing of this bridge on March 26, 1941, in accordance with the Attorney General's revised opinion dated February 12, 1942; tho' all payments have not as yet been received.

Attention has been called by our department to the fact that the amount of the annual payments from the Maine Central R. R. on account of construction costs was originally computed thru use of a higher rate of interest than can now be realized on sound investments; and that a material amount of the money in the sinking fund established therefrom is in impounded bank accounts and hence subject to a shrinkage of around \$33,000, for which latter reserve has been set up on the books. These two points will probably result in a material deficit in cash on hand in this fund to meet the maturities of the balance of the bonds supposed to be liquidated therefrom, unless early provision is made therefor.

CASH

The current, almost daily, deposit of cash receipts with, and by, the State Treasurer has been carried thru during the year to a very logical and worth while conclusion, and has shown its value from every standpoint. The balances maintained at the various banks, while in total showing a rather steady increase, have indicated a slightly better distribution among the various units, with

reductions as a whole in certain rather weak depositories and also in the concentration of combined balances in one bank and its branches.

Since the total Treasurer's balances on deposit as of June 30 (exclusive of trust funds, impounded accounts, and of Unemployment Compensation Commission cash with the Treasurer of the United States) amounted to over nine million dollars, we again suggest consideration of the possible wisdom of changes in the law to allow use for surplus funds of one or two Boston or New York banks.

We also raise the question as to whether it may not be practical to arrange, probably after Legislative action, for the investment of some of this excess cash in conservative liquid securities, to relieve the pressure on the banks and at the same time obtain a small return thereon.

CONTINGENT FUND

Reference to the data shown in the current Controller's report will indicate that improvements in the State's financial handling have resulted in material reduction in the volume of demands on the Contingent Fund, which by law is now adjusted to \$300,000 at the beginning of each fiscal year.

This brings up again the question whether the amount of this fund cannot be advantageously reduced; regarding which we note the following in the 1930 report on a survey by the National Institute of Public Administration:

"With a system of budgetary control—it should be possible to dispense with this fund altogether. For real emergencies an appropriation to be allotted by the Governor of \$50,000 for the biennium should suffice. This amount should be carried in the budget and a detailed accounting of it made to the Legislature."

While one might question the sufficiency of a \$50,000 appropriation for a biennium, the underlying idea would appear worthy of careful consideration.

CONTINGENT FUND, GOVERNOR'S

We again call attention to what appears possibly an unsound legal foundation for the Governor's Contingent Fund, especially as long as the same has never, as far as we can find, been provided for by legislative action; and suggest that the same either be definitely provided for by legislative action, or abandoned.

COUNTY AUDITS

Improvements in the audit work on the county records have been possible in the past year, partly because of the changes made in the law by the 1941 Legislature. The fiscal year of all counties ends on December 31, and the last of the 1941 reports were issued in May of 1942, along a somewhat revised and improved basis. Summaries of the standing of each of the 16 counties as of December 31, 1941 are included herein as Exhibit D. It is hoped a little later to expand this summary to include comparative data on receipts and disbursements of each of the counties, along lines shown in the individual reports.

The early satisfactory completion of this work for 1941 was handicapped by two factors; first, conditions were encountered in Franklin County which required weeks of work of all available personnel which could be assigned to it, leading to court action along a number of lines, not all of which have as yet been entirely cleared up; second, the assistant assigned to our County Auditor was called back to the army. Current work is progressing satisfactorily and it is hoped that, if no further complications are encountered, it can be completed so that even better reports can be issued on the 16 counties early next winter. There has been a material improvement in the cooperation of the officials of the various counties with our work, and in the type of records being kept by them.

As in the case of court audits, our work is handicapped at almost every turn by complications resulting from conflict and ambiguity in the laws governing the financial affairs of the counties, and in the interpretations placed thereon; which has been a matter of frequent conferences with the Attorney General and has also been discussed with the Revisor of Statutes, with some hope for improvement in the future.

COURT AUDITS

In accordance with Chapter 27 of the Public Laws of 1941, the Department of Audit instituted in July, 1941, a continuous postaudit of the various Municipal and Trial Justice Courts, Superior Court Clerks, and the accounts of the Sheriff in each county, relative to fines, fees and costs in connection with criminal cases, and civil fees. Generally, these audits were started to cover the records in the various courts from January 1, 1940 on, although in some cases it was necessary to cover periods prior to that date.

We have, at the present time, completed audits on all of the courts up to, and including, December 31, 1941 and are working on periods since that date.

As this branch of our work progressed, we encountered more or less opposition when installation of proper records was suggested, which opposition is at present decreasing; but with the lack of proper legislation, it is impossible to install satisfactory forms or books to keep the court records as they should be.

We found laxness in certain of these courts in carrying out the provision of the law governing the handling of cash transactions; in fact, during our court audits up to and including December 31, 1941, approximately \$17,000 of fines, costs and civil fees collected by, and due from, the courts were found not to have been deposited with the County or State Treasurer in the manner and at the times specified in the statutes.

Chapter 293 of the Public Laws of 1939 is quite specific in regard to the handling of cash received by the magistrates, while other statutes require handling of the same funds in various other ways and at various times. We are suggesting to the Legislative Committee on Revision of Statutes some changes to clarify or correct statutes covering handling of court records and cash received by the magistrates.

In May and June respectively, the two men from this department assigned to court audit work severed their connections with the State, one leaving for military service and the other to go into private work. On August 3rd, we were fortunate to obtain a new man who has been assigned to this court audit work and the same has now been resumed, including analysis of conditions, etc. found in the courts due to the many and varied interpretations of the laws by the judiciary. We feel quite certain that information gathered during the next three or four months will be of great assistance in clarifying or correcting conflicting statutes.

DOG LICENSES AND DEFICIENCY

The situation in connection with Dog Licenses, etc., to which attention was called in last year's report, has been cleared up, and present refunds include all receipts during the current year from this source.

Other situations however have come up indicating the present law to be somewhat ineffective in accomplishing proper results, and as not furnishing the best protection to the State and its municipalities. Certain of the municipalities appear to be making very little active effort to collect these items.

EMERGENCY WAR FUND

By Chapter 305 of the Public Laws of 1941, enacted at the January 1942 special session of the Legislature, the right was granted to the Governor and Council to transfer to an Emergency

War Fund any moneys in the general funds not otherwise appropriated; and at the year-end, such unexpended appropriation balances, other than those that carry forward as provided by law, as they thought best. The fund thus established is open to use by the Governor "to carry out the provisions of this act",—i. e. the proper protection of the State during the present war emergency. In addition, by another act of the same special session, permission was granted to issue bonds as necessary for this purpose up to \$1,000,000.

To date, it has not been necessary to issue any bonds, nor is this probable future necessity apparent at the present time. Previous to the year-end closings of appropriation accounts, transfers totalling \$170,200 had been made to this fund by the Governor and Council. Of these sums, allocations to direct expenditure accounts had been made previous to closing the books as of June 30 to a total sum of \$160,500, leaving \$9,700 unallocated; all as summarized in Exhibit G herewith. Detail audits by our Department of the various expenditure accounts have not yet been completed, tho' the same has progressed far enough to warrant our statement that as far as yet seen, the use of these emergency funds has been in accordance with both the intent and wording of the law. Attention is, however, called to the wisdom of limiting the allocation of these sums to purposes necessitated by real emergencies, which are directly the outgrowth of the present war.

We also suggest that all transfers of unappropriated income or of unexpended appropriations be to a single Emergency War Fund account, to which no expenditures will be directly charged, but from which transfers of allocations to various expenditure accounts will be made as authorized.

EQUIPMENT OWNED BY STATE

Section 18, Article II, of Chapter 216 of the Public Laws of 1931 authorizes the Finance Commissioner through the Bureau of Purchases "to make an inventory of all removable equipment belonging to the state government and keep it current."

We understand that each department head, exclusive of the Highway Department and the 13 State institutions, was requested to send to the Purchasing Department a list of equipment held by them as of July 1, 1941, together with approximate then values; and that since that date these lists have been kept more or less current in the Bureau of Purchases by adding thereto new purchases as taken from purchase orders going through their hands. We do not understand that as yet any attempt has been made to verify the changes in these inventories with records of the Controller's office, to adjust the lists for items discarded or otherwise alienated, or to verify the running inventories thus arrived at by periodic physical inventory.

Audits of the 13 institutions indicate that each of them has now fairly efficient control of their equipment inventory; a good start in establishing such has been made in the Highway Department, where the values involved run into very sizable figures, with items necessarily scattered all over the State, but with much further yet to be accomplished; while in the other departments we question the effectiveness of the present control, despite the very sizable values of State property involved.

FINANCIAL REPORTS, LEGAL PROVISIONS FOR

The law specifies that the annual report of the Controller shall be released not later than August 25 of each year; and that of the State Auditor not later than August 31. The 1941 appropriation act requires that the books shall be held open until July 20.

Even with the best possible accounting system, in smooth operation for an extended period without material changes, and with long-continued, able personnel, it would be well nigh impossible to effectuate proper closings and to summarize the resultant figures into really safe and satisfactory report form between the dates of July 20 and August 25 for a financial unit as large, and covering such a wide range of activities, as is now true of the State of Maine. The attempt to accomplish this results not only in the necessity of working for weeks under keen pressure, virtually every night and Sunday; but in addition decreases the safety and value of the results attained.

In the case of the report of the Department of Audit, whose work supposedly begins where that of the Controller ends,—that is, with the examination and verification of final figures in the Controller's report,—the 6 day longer time allowed is a mere “drop in the bucket”, especially when it is considered that this work to be really satisfactory should go back into detail records of every department, institution and agency of the State; and the added consideration that as late as August 18 few, if any, final figures from the Controller's office as of June 30 have been made available to the various departments.

As throwing further light on this question, we received within a few weeks the Controller's report of another state as of June 30, 1941; indicating what others have found necessary in this regard.

The only provision for publication by the Controller of financial reports of the State of Maine of which we have knowledge is that in Chapter 292 of the Public Laws of 1939. While the provisions of this law are not entirely plain, it apparently provides only for a report to be published in all newspapers in Maine, limited in size to a 6 column page. While this limitation has been followed in the 1941 and 1942 newspaper reports, it was not always previously so followed, and resulted in costs to the State as follows: 1939, \$24,574; 1940, \$10,692; 1941, \$5,054.

Because of the impossibility of properly setting forth these matters inside the limits thus imposed, it has, apparently very wisely, been the practice of the Controller to publish in addition a pamphlet report, that for 1941 embracing 34 pages and costing \$525.

It would appear worth considering to clarify the law in this regard by authorizing specifically a report in pamphlet form; and also by providing whatever steps are practical to reduce very materially the cost of newspaper publication in such a way as to result, from a practical standpoint, in almost the same effective distribution of information to all interested parties.

In this connection the following approximate analysis of costs of the 1941 reports may be of interest:

Department of Audit, Pamphlet Report			\$ 252.11
Bureau of Accounts and Control,			
Pamphlet Report		\$ 525.38	
Newspaper Report:			
Setting up, etc.	\$ 871.35		
Publication in 11 daily papers	1,042.03		
Publication in 57 weekly papers	3,133.15		
Miscellaneous	8.30	5,054.83	
			\$5,580.21

FORESTRY DISTRICT

We again suggest that the disbursement and recording of Forestry District funds be handled thru the State Treasurer and State Controller, as provided by law for all other State funds; instead of concentrating in one person all responsibility for contracting financial liabilities, approving all vouchers, recording all accounts, and paying all bills. Only by such can proper check and counter-check on the same be had.

Aside from the present unsound principle which we feel underlies the handling of the financial affairs of the Forestry District, as stated in our report of last year, we have found the practice not to be for the best interest of the State.

FORMS, PRENUMBERED

During the year just ended, further progress has been made in extending the use of pre-numbered forms for receipts, licenses, permits, etc. Since that serves as a valuable, and sometimes

about the only, substantiation of integrity of cash receipts, our department is advising their use wherever practical, in which in most cases we have had the cooperation of the departments involved.

HEALTH AND WELFARE

Continuous postaudit of the accounts maintained in this department has been carried on throughout the year with one auditor continuously assigned. Special audits and investigations relating to pauper claims submitted by certain towns have been made by our department at the request of former Commissioner Earnest which has resulted in substantial present and probable future reductions in such claims. Due directly or indirectly to the great increase in employment on account of the war, the financial demands on this department have decreased considerably with particular reference to pauper support, such having decreased approximately forty percent. Countering this trend, payments of old age benefits have increased from 12,502 cases receiving pensions at June 30, 1941 to 15,901 cases receiving such pensions at June 30, 1942.

Continuation of the material progress in the efficient handling of the various activities of this department noted in our last year's report has been evident in the year just closed; this despite the fact that since the voluntary enlistment of Commissioner Earnest in the military service early in June, no one has as yet been chosen to succeed him as head of the department.

Summation of revenues and expenditures for the year ended June 30 is shown in Exhibit B.

HIGHWAY DEPARTMENT

The accounting system of the Highway Department itself, and its correlation with, and partial duplication of, similar work in the Controller's office, appears to lack in yielding really satisfactory results at a reasonable total cost; this is despite, on the one hand, the vital necessity and great volume of the accounts of this department, and on the other, the work looking to improvements in their handling by personnel of both our department and the Controller's office. We understand that the Controller plans to major on this situation next fall, at which time we hope for material improvements.

The law provides specifically for *annual* reports of the Highway Commission to be issued on December 31 of each year. The last report issued in March 1941 covered the two years 1938 and 1939. We are informed that reports for 1940 and 1941 will be issued as soon as figures therein can be reconciled with Controller's records.

The law provides that all departments of the State shall be on a fiscal year ending June 30, while the Highway Department still runs its accounts on a calendar year basis, which adds to the complications in tying their records into the June 30 fiscal year records in the Controller's office.

The law provides that all money received from certain sources shall be available only for highway and bridge construction and maintenance, and necessary administration of the department. This has, at least for the last few years, been carried out by the administrative officials of the State of Maine, except as the Legislature itself may have diverted highway funds to old age benefits under an enactment now expired, and thru provision in various appropriation acts for transfers of these funds to certain other departments as reimbursement for services performed for the Highway Department. While from a cost keeping basis, such transfers have much to defend them, the fact that the Highway is the only department of the State from which they are made brings in the possibility that it might be considered to result in more or less of a diversion of highway funds, contrary to the spirit, at least, of the provisions of the law prohibiting such diversion. We acknowledge that this is a matter regarding which there is room for, and is, divergence of opinion.

The records show that in the year ended June 30, 1942, the following transfers of highway funds were made, as charges for services performed:

Bureau of Accounts and Control	\$35,503.53
Department of Audit	11,377.47 (a)
Bureau of Purchases	3,415.95 (b)
Attorney General	2,800.00
	\$53,096.95

- (a) Exclusive of \$1,463.99 for court audits under Paragraph 4, Section 3, Article VI, Chapter 216, Public Laws of 1931, as amended by Chapter 27 of the Public Laws of 1941.
- (b) After the books of the State were closed as of June 30, 1942, it was discovered that thru error the 4th quarter charges of around \$1,100 had been omitted, that postage for September was possibly duplicated, and that of the total charges, \$2,561.98 had been posted to Highway Garage account instead of administration, as provided by the appropriation act.

A possible exception to the statement that the Highway Department is the only department contributing to the upkeep of service departments might be considered from the fact that there are charges from the Bureau of Accounts and Control to the Liquor Commission amounting in the year just ended to \$40,985.94. This, however, is a little different, as the Controller accomplishes, with personnel paid for by his department, virtually all the accounting and statistical work for the Liquor Commission; while the Highway Department has its own sizable accounting staff, including its own bookkeeping machines, working entirely apart from the services of the personnel of the Controller's office supposedly covered by the first mentioned charge in the above list.

Attention was also called in last year's report to another case in which the present practices would appear to constitute in effect a diversion of Highway funds,—the financing from Highway funds of all expenses of the State Police to a total net sum of \$313,196.50 in the year just ended; when an increasing amount of their activities could not be considered as in the slightest connected with highway construction or maintenance.

INSTITUTIONS

The improvements outlined in last year's report in recording the financial transactions of the 13 State institutions have continued with the increasingly hearty cooperation of the various local personnel. A summary of their standing as of June 30, 1941, is shown in Exhibit C herein; the audits for the year ended in 1942 not yet having been brought to a final conclusion, partly due to the delays in obtaining final inventory figures, and final control figures from the Controller's office.

Success has not yet been had in obtaining separation of income as between the various tubercular sanatoriums by the Bureau of Institutional Service for the full fiscal year, separate records having only been inaugurated in December 1941.

LAWS: INCONSISTENCY AND INTERPRETATION

Attention was called in our last year's report to material inconsistency and lack of clarity in laws governing the administration of the State and its subsidiary units; and to the differing interpretations placed thereon. The seriousness of the resultant situation has become increasingly apparent to us with the passage of another year.

This matter has been the subject of many conferences with the Revisor of Statutes, and the situation will we hope be improved either directly or indirectly in connection with the revision of the statutes now in process.

LAWS: REVISED STATUTES AND SESSION

While the distribution of the copies of these books is progressing much more efficiently than in the past, we again suggest the wisdom of concentrating all of this whether by sales or of free

copies in the hands of one official from the very start, and that probably the State Librarian. The same applies to the distribution of Maine Reports, which also should be printed directly at State expense and all revenue therefrom accrue to the State.

LIBRARY, FILING DEPARTMENTAL REPORTS IN

Chapter 3, Section 8 of the Revised Statutes of 1930 provides that at least 10 copies of every publication of any department or institution of the State shall be deposited in the State Library. Each of these 10 copies has a specific use,—two being catalogued, one sent to the Library of Congress, two to the University of Maine Library, one each to Bates, Colby and Bowdoin Libraries, and two to the special legislative and research files.

We understand from the State Librarian that this very wise provision of the law is quite often overlooked by department heads, so that despite all practical watchfulness of the Library staff, their files and those to whom they furnish copies are far from complete; this would appear to be detrimental to the best interests of the State.

LIQUOR COMMISSION

Improvements have been noted during the year along certain of the lines summarized in last year's report, while in others, the conditions are approximately the same as reported therein. Inefficient correlation between the two sets of records, both maintained by the Bureau of Accounts and Control, one for their own records and the other maintained for the Commission, continues with little improvement; while we note in this regard charges during the year from this Bureau to the Commission totalling \$40,985.94.

Attention is called to the following other matters in this department, to which possible thought should be given:

Inventories are priced above actual cost to the Commission, thru use of less than carload prices F. O. B. Augusta, despite the fact that a very high proportion of the purchases are made in car lots, and that one-half the inventory never has been north of Portland.

Many of the cash discounts shown in the Commission's records are due to inflation by the seller, *at the request of the purchaser*, of purchase price to permit of discount being shown, which would seem to result in computation of a mark-up and resultant sales profit greater than contemplated by Chapter 295 of the Public Laws of 1941.

The flat discount on wholesale sales, at 10% before allowance for increased federal tax, is in our opinion in excess of the "reasonable allowance for the difference in expense to the State between selling at wholesale and selling in the state stores at retail" specified in Chapter 257 of the Public Laws of 1941.

The provisions in Chapter 295 of the Public Laws of 1941 that mark-up shall be not less than a specified percentage of the "less carload cost F. O. B. Augusta" should be changed to read "carload cost F. O. B. Portland", since virtually all liquor is now bought in carload lots delivered at Portland.

To the provision in Chapter 90 of the Public Laws of 1941 that *inventory* shall not exceed a certain figure, should be added a provision that the total working capital or net investment of the State in the Liquor Commission shall be set at some specified figure, large enough to allow of handling the affairs of the Liquor Commission on a sound economic basis.

Our department has called attention repeatedly to the false profit shown by the Liquor Commission through lack of inclusion of approximately \$2,500 annual cost to the State of insurance on their inventory, etc.

With the elimination of the previous limitation on working capital by Chapter 90 of the Public Laws of 1941, effective in July, 1941, the Controller froze the permanent working capital of the

Commission at \$617,167.56, this being at one and the same time the State's net investment in the Commission on June 30, 1941 and the amount of accumulated net profits to that date of the Commission which had not been turned over to, and used in other ways by, the State. This appears to be logical and to lead to simple, easily understood, and clear-cut results, until such time as further legislative action is taken on the matter.

The year-end balance sheet and analysis of profit and loss of the Liquor Commission have been verified by our department, based on current audits throughout the year; subject to possible qualification along certain of the lines mentioned above, we believe the same to be substantially correct and in line with sound accounting.

MAINE MARITIME ACADEMY

This new agency of the State came into active operation only during last winter and early spring, financed partly by state and partly by federal funds. Considerable delay was occasioned setting up proper books of account; this has now been accomplished, and the records have been examined by our department to June 30, 1942. There remains a question whether this is a direct agency of the State, whose assets are owned by the State; or whether it is an entirely separate corporation to which the State appropriates certain funds; which should, if possible, be cleared up at an early date.

MUNICIPAL AUDITS

The work of the Municipal Division of the Department of Audit in assuring satisfactory audits of the slightly over 500 municipalities of the State has been handicapped by the changes by the 1941 Legislature in the law governing the same, which is already resulting in less sound handling of the financial affairs of certain of these municipalities. We understand that the officers of the Maine Municipal Association are in sympathy with our views on this point, and that they will cooperate in an attempt to secure corrective legislation at the forthcoming session of the Legislature. Optimum results have been handicapped by the losses in personnel of this division of the Department of Audit, well nigh impossible to replace under existing conditions; together with the fact that one outside auditor handling over 25 municipalities is no longer available for this work.

A supplemental report of the Department of Audit, summarizing the results of municipal audits, was issued on March 9, 1942, having been delayed some time by the various factors mentioned above. Even then no figures were available for some towns, while in other cases we inserted in our summations unaudited figures from printed town reports, necessarily of somewhat questionable value. A number of municipalities apparently failed entirely to carry out the legal provisions for an audit, while other units went thru the motions with but little of value resulting therefrom.

The audits for the current year are proceeding, with every probability that our department will handle directly about the same proportion of the units as in previous years—approximately 50%. When it will be possible to issue summary figures thereon in a supplemental report, or how many units will lack any figures therein, cannot now be foretold, tho' the number of the latter will probably be larger than last year.

We strongly recommend that the economic health of each of the municipalities making up the State of Maine, and proper protection of their officials, be supported by an annual audit by men capable of performing the same in a satisfactory manner, probably best accomplished by a combination of the Department of Audit and outside men whose experience and caliber has been such as to warrant their approval by the State Auditor for such work.

A point in this regard which should not be overlooked is that the State of Maine depends on the various municipalities for several million dollars of taxes, reimbursement of health and welfare and highway funds, etc.; and that the orderly realization of these accounts is assisted materially by systematic handling of the financial affairs of the municipalities.

Further improvements have been made and are now projected in the type of both field and audit work performed by our men for the municipalities, which, with the accumulated experience of the men assigned to this work, will make the same of even greater value to them in the future.

As covered elsewhere in this report, the work of the entire Municipal Division is accomplished without any appropriation by the State, its cost being covered by charges to the various units audited at the rate of \$10 a day plus expenses, which about covers salaries, office overhead, supplies, etc. The time may come in the future when it will be advisable for the Legislature to consider making a small appropriation for the work of this division, to accomplish two ends of material value to the sound health of the various municipalities of the State:—first, to enable a much more thorough analysis of the figures shown by the reports of the various municipalities and the summation of certain vital statistics therefrom; and second, the employment of at least one field man working constantly with, and for, all municipalities of the State to the better assure sound handling of their financial affairs, records and audits. Such in our opinion would be money well spent by the State of Maine.

MUNICIPALITIES, STATE ACCOUNTS AGAINST

The volume of charges by the State to municipalities, especially items from Highway, Health and Welfare, and some other departments, has increased materially in the last few years. Because of delay in payments of amounts due to the State, a law was enacted in 1933 providing for interest charges on past due State taxes, which assisted for a while in their collection. The Department of Audit has observed a tendency in the last year or two, however, for certain municipalities to consider their liabilities of various kinds to the State as secondary to those due to others. This is probably due partly to their using available cash to take advantage of cash discounts on commercial bills, and partly to the feeling that the State or Federal government will “take care of them” in some way.

Recently accounts of material size due the State by a number of municipalities were submitted for compromise settlement, under the provisions of Chapter 13 of the Public Laws of 1941, through application to the State Finance Commissioner and State Auditor for certification as “impractical of realization”. Investigation showed that in some cases these municipalities had paid virtually all commercial bills leaving the State’s accounts only unpaid, while in one or two cases there was actually cash on hand to pay the State’s accounts.

With full appreciation of the rather serious financial situation of certain Maine municipalities, the Finance Commissioner and State Auditor did not certify these accounts, since they felt that whenever financial assistance is really necessary, release from legal and equitable liabilities to the State should come through open legislative procedure rather than under the provisions of Chapter 13 of the Public Laws of 1941; and that pending such possible action, each municipality should spread its available money more evenly between commercial and State charges.

NORMAL SCHOOLS

During the year just ended, the audits of the normal schools under Chapter 27 of the Public Laws of 1941 have been completed for the school year ended June 30, 1941; while the examination for the year ended June 30, 1942 is now (in August) well underway with a probability that it will be completed early in the fall.

In this connection, suggestions have been made looking toward a sounder accounting procedure and a better administrative control, which is already bearing fruit in overcoming certain previous weaknesses which have developed in these State agencies.

PENSIONS, RETIREMENT

The financial unsoundness of the previous laws regarding retirement pensions appears to have largely been overcome by the enactment in January, 1942, of the new Contributory Retirement

Pension law, effective on July 1, 1942, under conditions which apparently protect as far as practical the rights of long-serviced State employees under the previous non-contributory law. No action was taken under the new law previous to July 1 other than to obtain as clear cut and simple interpretation of the meaning of the same as was possible, and to set up the machinery to handle it after its effective date. The election of the employees on July 1 to come under the new law was as a whole gratifying; no option being given employees who commence work after that date.

The granting of pensions under the old law of necessity continues, along with continuing questions as to interpretations of the law and computations of pensions, in which the State employee status is sometimes stretched a little thin.

PORT OF PORTLAND AUTHORITY

In accordance with specific provisions of the 1941 statute, examination has been made of the accounts of this Authority for the years ended June 30, 1940 and 1941, while work for the year ended in 1942 has not yet been accomplished. In connection with this work, weaknesses were developed in the accounting procedure employed, requiring the investigation of some of the accounts back to the date of their inception. Improvements in these matters suggested to the Authority officers will, we hope, be adopted.

POTATO TAX FUNDS, EXPENDITURES

These expenditures are handled under the direct supervision of the Development Commission, working in conjunction with a special committee for that purpose. The wisdom of allocation of these funds is a matter entirely outside our audit province, but the fact that they totalled last year approximately \$120,800 and that of this total, \$38,200 and \$69,600 was expended by Brooke, Smith, French & Dorrance and the University of Maine, respectively, would indicate the possible wisdom of handling the mechanics thereof at least as carefully as are other disbursements of State money.

SALARY ADJUSTMENTS

An emergency act approved by the Governor January 24, 1942 increased by 10% the salaries of all State employees earning less than \$30 per week, provided that this increase should not result in a salary of over \$30 per week; in the attempt to compensate for the increased cost of living. As finally passed, the act might possibly have failed of assistance to those who were feeling the pinch of increased living costs the most, young married people with one or two children, a high proportion of whom would be in the \$30 to \$40 class.

The law was probably intended to be only a temporary measure, although not so stated therein, and would appear to require definite legislative action to repeal it at such time as it is desired to reduce salaries to the amounts prevailing prior to passage of the act. It would appear from the wording of the law that it was intended to apply only to salaries of those permanently on the payroll of the State at a weekly salary of less than \$30 per week on its effective date. By interpretation, it has been construed to apply not only to employees on the payroll on the effective date (February 2, 1942), but also to new employees entering the service of the State after that date, and as affecting any salary increases granted after that date; thus in effect increasing the base rates of pay for all employees earning less than \$30 per week permanently, unless the law is repealed at a later date.

SECRETARY OF STATE, MOTOR VEHICLE DIVISION

During the year just ended, the audits of this division of the Secretary of State's Department were brought up-to-date and the last of the back reports issued; at which time a reduction was possible in personnel assigned to this work. In addition, the current work on the 1941 and 1942

registrations on the revised basis has been at all times kept up-to-date, so that one day's transactions are audited within a very few days. This has been facilitated greatly by adoption of much improved methods in the division's own office. The auditor who had had charge of our work on their records since the same was started in 1938 was released by us in May to become Chief Clerk of the Motor Vehicle Division.

"SINKING FUND RESERVE"

The Department of Audit has called attention several times in the last two years to the confusion and misconception engendered by the specific statutory provision for a "sinking fund reserve" in which shall be accumulated from year to year all excess of income over expenditures; which "shall . . . be set aside as a sinking fund . . . to be applied to the payment of outstanding obligations of the State . . ."

In actual practice, the account over the years has been handled more nearly as an unappropriated surplus account, with no actual reservation of cash or other assets to match the reserve provided for by the law.

In their report dated in 1930 on a survey of the State government, the National Institute of Public Administration said (in part) :

"One may reasonably assume that this act intended that surplus current funds—be applied to the reduction of the funded debt of the State—. The result is merely a book account entitled 'Sinking Fund Reserve'—to all intents and purposes what is commonly called 'surplus' in governmental accounting—."

Our department has held that the State of Maine should at once clear up this confusion and misconception by adopting through legislative action one of the following lines of procedure:

- (a) Abandon entirely even the appearance of a sinking fund reserve, and legalize the handling of the account as an unappropriated surplus, to which title the name should be changed, or
- (b) Enforce the handling of the account as a real sinking fund reserve.

Conferences between the Revisor of Statutes, Commissioner of Finance, the State Controller and men from our department have resulted in drafting a bill along (a) above with which our department is in accord, *but only* if the State is willing to abandon entirely all thought of a real *sinking fund reserve*, which apparently forms the very foundation of the 1925 statute, was intended to control the accumulations of excess revenue, but is not being effectuated.

Whatever the decision on this broader aspect of the matter, we feel that the machinery set up by Sections 101 to 103, inclusive, of Chapter 2 of the Revised Statutes, for closing the books of the State at the year-end is too detailed and along an impractical line, which should be corrected.

TAX ASSESSOR

During the year, the collection of the last of the various accounts, placed by the statutes for years in the hands of the Treasurer but previously actually handled by the Tax Assessor, has been turned over to the State Treasurer.

The troubles reported by us previously in the assessment and apportionment of certain of these tax accounts have now been largely overcome thru the efforts of the present Tax Assessor.

TEACHERS' RETIREMENT SYSTEM

At the time of our annual report as of June 30, 1942 on the Teachers' Retirement System, we called attention to what appeared to us as possibly an unsound situation in this matter in that the State, thru changes in the law, has made no deposits in the System since 1933, to match those being made by the teachers; and that they are crediting interest at 4% when the funds are only earning around 3.5%. This will be apt to result in one of two things when sizable payments to the members start about 1953,—either an early depletion of the assets of the System, or the necessity for burden-

some appropriations to make up for the 20 years in which the State's contributions have been lacking.

The law specifically calls for an actuarial survey of the System at least every 3 years, but only one has ever been made, in 1939. We suggested an immediate actuarial survey, and if indicated, legislative action at the next session to correct any unsound situation which may be found; which we understand is now being arranged for.

TREASURER, STATE

The Department of Audit has continued throughout the year just ended the assignment of one of its men to the office of the State Treasurer, maintaining a continuous verification of all receipts, transfers and disbursements together with resultant balances, and the monthly reconciliations of bank balances and of the accounts in the Treasurer's office with those in the Controller's records. All year-end balances of both cash and securities were especially carefully verified by our personnel. Such minor matters as came to our attention were at once straightened out by the personnel of that office.

The work of the Treasurer's office has increased materially during the past twelve to eighteen months thru the necessity for handling food stamps, and the added responsibilities in recording and collection of accounts receivable.

Our department has taken the position in the past, and has seen no reason during the year just ended to change the same, that the office of the State Treasurer is not a proper collection agency for State accounts, other than possibly State taxes; but that the same should be centralized under an experienced collection man working under the Commissioner of Finance. In this connection, it should be mentioned that we feel that a proper man could save many dollars for the State of Maine, over and above a fair salary for himself, in proper handling of just two sets of accounts receivable,—those from the insane asylums and the tubercular sanatoriums, both of which under existing laws are capable of, and probably are, resulting in unnecessary losses to the State.

TRUST FUNDS

The close supervision and analysis of Trust Funds covered in our previous report has been continued for the year just ended, including the verification of year-end investments, computation of proper year-end balances after current amortization of premiums on investments purchased, etc. For the first time, the accounts of the Teachers' Retirement Fund were, as of June 30, 1942, rearranged to carry its investments at actual cost less amortization of premiums paid. Based on the results of our work, we believe that all trust funds of the State of Maine are intact, legally and as a whole soundly invested, and that their current income has been allotted during the year just ended in the proper manner.

As a possible exception to one of the above statements, attention is again called to the fact that about \$90,000 of these trust funds are in bank accounts impounded since the "Bank Holiday" with a final shrinkage in realization estimated by us to total nearly \$80,000 as per summary details in Exhibit F. Since the liquidation of these impounded bank accounts is approaching completion, with final losses either determined already or open to close estimation, we suggest that the final disposition of this loss be a matter of consideration by the Legislature at its next session.

During the year just ended, copies have been made of the 1931 report of Frank I. Cowan on the trust funds of the State, which, with copies of our reports on the since financial transactions therein, have been permanently filed with the State Librarian.

Attention has been called in our previous reports to the fact that in a number of cases, interest at specified rates is paid or transferred by the State to the beneficiaries of certain funds, which specified rates range from 4 to 6%. At the present time the investments of those funds are yield-

ing the State usually not over 2 to 3%, resulting in the necessity of material appropriations to make up the balance; which leads us again to suggest the possible wisdom of reducing these specified rates whenever possible to figures more nearly in line with the present earning power of money when soundly invested.

UNEMPLOYMENT COMPENSATION COMMISSION

The Department of Audit has maintained throughout the year just ended a continuous post-audit of the financial transactions of the compensation fund of the Unemployment Compensation Commission. Under a reciprocal arrangement with the federal auditors, the latter handle the audit of certain other sections of this department, making available to us their audit reports on these in return for use of our audit reports on the sections covered by us. This reciprocal arrangement, coupled with the exceedingly efficient handling of all matters by the Commission, including their own internal audit procedure, has enabled still further reduction in time (and resultant cost) necessarily taken by us.

DEPARTMENT OF AUDIT PERSONNEL

During the year just ended four of our men have entered the military services of the United States:

Albert L. Connors
Raymond J. Crosby
Lloyd A. Koonz
Frederick A. Reichel

Of the five who have been transferred to other departments of the State government, Michael Napolitano (now assistant to the State Controller) had been with our Municipal Division since 1934; and Stanton S. Weed (now chief clerk in the Motor Vehicle Division under the Secretary of State) came into the Municipal Division in 1937, being transferred soon after to the Departmental Division and assigned to audit of automobile registrations.

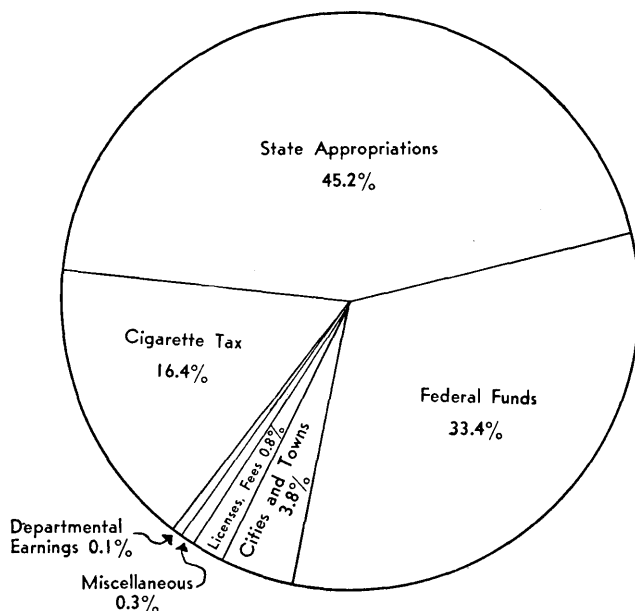
DEPARTMENT OF AUDIT
INCOME AND EXPENSE
FISCAL YEAR ENDED JUNE 30, 1942
(Appropriation Basis)

	<u>Departmental Division</u>	<u>Municipal Division</u>	<u>Combined</u>
Appropriation	\$37,500.00		\$37,500.00
Income from Audits:			
Highway Dept.	\$11,377.47		
Towns		\$30,846.97	
Counties and Courts		10,589.20	
Normal Schools		3,615.72	
Scattering	2,067.30	33.40	
	<u>13,444.77</u>	<u>\$45,085.29</u>	<u>58,530.06</u>
	50,944.77	45,085.29	96,030.06
Expenditures:			
Direct Expense			
Salaries	35,720.35	28,704.57	
Travel Expense	2,891.38	13,463.25	
Office: Expense	178.32	440.80	
Supplies	21.94	31.67	
Equipment	—	16.41	
	<u>38,811.99</u>	<u>42,656.70</u>	
Overhead			
Salaries	6,297.01		
Travel Expense	28.60		
Office: Expense	674.79		
Supplies	593.45		
Equipment	208.62		
	<u>7,802.47</u>		
	46,614.46	42,656.70	89,271.16
Net Balance Current Year, Cash Basis	\$ 4,330.31	\$ 2,428.59	\$ 6,758.90
Accounts Receivable as of June 30, 1942, Net ..	198.45*	12,613.02*	12,811.47
Appropriation Balance Lapsed to General Funds	\$ 4,528.76		
Unexpended Balance Carried Forward		<u>\$15,041.61</u>	

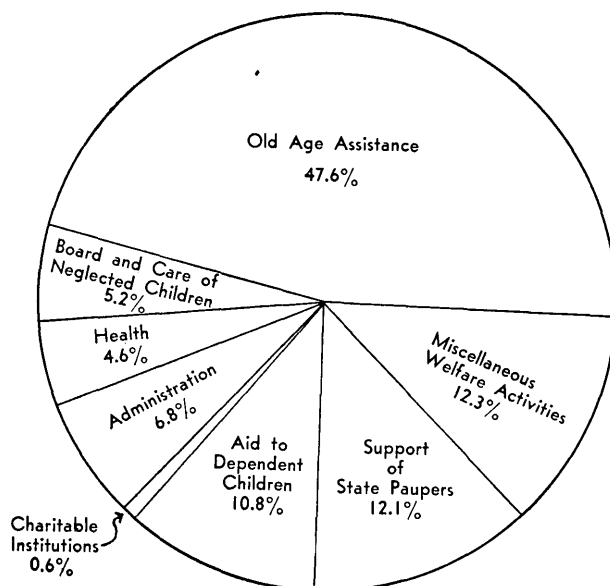
*As of June 30, 1942, the Controller first entered the accounts receivable of the Department on the books of the State, which are here considered to reconcile with his year-end figures. A more true outcome on the accrual basis for the year just ended would be shown by considering as well the accounts receivable and work in process balances as of both June 30, 1941 and 1942.

DEPARTMENT OF HEALTH AND WELFARE
SUMMARY OF REVENUES AND EXPENDITURES
YEAR ENDED JUNE 30, 1942

Net Revenues



Net Expenditures



NET REVENUES

Source:

	Amount	Per Cent
State Appropriations	\$3,695,824.00	45.2
Federal Funds (Analysis below)	2,735,450.96	33.4
Cigarette Taxes (for Old Age Assistance)	1,338,843.24	16.4
Cities and Towns (Analysis below) ..	311,048.27	3.8
Licenses and Fees	66,231.64	.8
Miscellaneous	27,152.86	.3
Departmental Earnings	9,948.72	.1
Totals	\$8,184,499.69	100.0

NET EXPENDITURES

Purpose:

	Amount	Per Cent
Old Age Assistance	\$3,721,618.22	47.6
Miscellaneous Welfare Activities	965,291.23	12.3
Support of State Paupers	944,885.73	12.1
Aid to Dependent Children	847,509.00	10.8
Administration	533,155.15	6.8
Board and Care of Neglected Children	408,667.15	5.2
Health	357,881.01	4.6
Charitable Institutions	43,416.51	.6
Totals	\$7,822,424.00	100.0

* * *

ANALYSIS OF REVENUES FROM FEDERAL FUNDS AND CITIES AND TOWNS

	Federal Funds	Cities and Towns
Administration:		
Health	\$ 606.76	\$ 2,775.33
Welfare	113,605.14	
U. S. Public Health Service	110,875.01	
U. S. Aid to Crippled Children	44,552.00	
U. S. Maternal and Child Health	32,040.12	
Public Health Nursing		12,197.51
Child Welfare Service	17,782.55	
Aid to the Blind	160,151.73	
Aid to Dependent Children	357,520.09	296,075.43
Old Age Assistance	1,898,317.56	
Totals	\$2,735,450.96	\$311,048.27

The above differ in certain details from figures shown by the Controller, due in most instances to methods of assembling in groups and of handling offsets.

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

June 30, 1941
(Cents Omitted)

	Augusta State Hospital	Bangor State Hospital	Pownal State School	Maine State Prison	State Reformatory for Men	State Reformatory for Women	State School for Boys	State School for Girls	Northern Maine Sanatorium	Central Maine Sanatorium	Western Maine Sanatorium	Maine School for the Deaf	State Military and Naval Children's Home	Total
ASSETS														
Cash														
Petty Cash	\$ 150	\$ 200	\$ 202	\$ 350	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 150	\$ 51	\$ 100	\$ 100	\$ 1,803
Patients and Inmates Cash	6,511	5,774	2,883	2,154	58	265	2,268	2,146				17	366	22,442
Trust Fund Income Cash	5,619		379					802		43	3,403	521	422	11,189
Store Cash				652										652
Coupon Cash				145										145
Accts. Rec. (Net value after reserves)	34,162	12,985	1,349	13,187	181									61,864
Trust Funds	54,773		9,162				700	11,730		2,012	90,060	6,516	17,643	192,596
Inventory—Supplies	42,196	29,108	65,153	76,338	16,219	5,130	19,053	8,040	9,375	10,862	7,707	5,729	1,531	296,441
Fixed Assets (Undepreciated)	2,696,608	1,812,750	1,834,371	983,672	246,468	403,938	243,000	342,833	324,640	395,006	372,403	202,062	44,756	9,902,507
Equipment (Net Current Use Value)	231,891	176,020	195,807	87,154	35,046	30,136	23,992	42,765	46,042	72,916	49,024	26,703	10,575	1,028,071
TOTAL ASSETS	\$3,071,910	\$2,036,837	\$2,109,306	\$1,163,652	\$298,072	\$439,569	\$289,113	\$408,416	\$380,157	\$480,989	\$522,648	\$241,648	\$75,393	\$11,517,710
LIABILITIES & NET STATE INVESTMENT														
State of Maine														
State Treasurer's Advances	\$ 150	\$ 200	\$ 202	\$ 350	\$ 100	\$ 100	\$ 100	\$ 100	\$ 100	\$ 150	\$ 51	\$ 100	\$ 100	\$ 1,803
Trust Fund Income Unexpended	5,619		379					802		43	3,403	521	422	11,189
Accounts Receivable	34,162	12,985	1,349	13,187	181									61,864
Trust Funds	54,773		9,162				700	11,730		2,012	90,060	6,516	17,643	192,596
Store Fund				652										652
Coupon Fund				145										145
Patients and Inmates Funds	6,511	5,774	2,883	2,154	58	265	2,268	2,146				17	366	22,442
Net State Investment	2,970,695	2,017,878	2,095,331	1,147,164	297,733	439,204	286,045	393,638	380,057	478,784	429,134	234,494	56,862	11,227,019
TOTAL LIABILITIES & NET STATE INVESTMENT	\$3,071,910	\$2,036,837	\$2,109,306	\$1,163,652	\$298,072	\$439,569	\$289,113	\$408,416	\$380,157	\$480,989	\$522,648	\$241,648	\$75,393	\$11,517,710

SUMMARY OF APPROPRIATIONS, REVENUES, EXPENDITURES, ETC.
Year Ended June 30, 1941

Appropriations, Current Year	\$442,200	\$363,000	\$370,000	\$160,000	\$58,000	\$64,000	\$73,000	\$78,000	\$112,000	\$180,000	\$144,000	\$53,000	\$27,000	\$2,124,200
Special Approps., Balances Forward, etc.	14,920	35,939	4,000	20,000	7,700	4,000		3,000	1,276	3,104	3,104	1,500		95,439
Income and Other Credits*	74,766	35,870	7,886	115,463	1,646	372	818	550	859	2,327	3,312	3,778	15	247,662
TOTAL	531,886	434,809	381,886	295,463	67,346	68,372	73,818	81,550	112,859	183,603	150,416	58,278	27,015	2,467,301
TOTAL NET EXPENDITURES	\$443,737	\$393,729	\$928,722	\$250,933	\$59,959	\$67,723	\$70,044	\$80,860	\$108,031	\$181,317	\$141,385	\$47,197	\$24,367	\$2,198,004
Average Population—Inmates	1,478	1,138	1,105	427	111	131	129	170	114	188	139	105	37	5,272
Annual Per Capita Cost Based on Net Expenditures Less Capitalized Expenditures**	\$290.15	\$317.19	\$290.89	\$576.57	\$515.55	\$492.22	\$515.07	\$449.75	\$935.86	\$953.14	\$991.01	\$432.16	\$646.95	\$401.17

*Includes income from Board and Care of Patients in each case, except the three Sanatoriums.

**The computations of per capita cost are this year changed to a basis considered as furnishing figures for the various institutions more truly comparable.

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

As of December 31, 1941

(Cents Omitted)

	ASSETS							TOTAL
	CASH			TAXES		Other Assets	Probate Accounts	
	General Funds	Sinking Funds	Impounded	Cities and Towns	Road Repair and Wild Lands			
Androscoggin	\$19,874					\$8,000		\$27,874
Aroostook	121,861	\$10,000		\$138,038	\$13,291		\$289	283,481
Cumberland	20,168	99,878						120,046
Franklin	2,691			717	17,920	5,640		26,969
Hancock	10,085			5,720	3,968			19,774
Kennebec	46,024					910	4,070	51,005
Knox	17,765			2,537	11			20,313
Lincoln	25,888	11,500			7	2,500		39,895
Oxford	84,699	94,369	45,986		2,994			228,049
Penobscot	114,578			11,221	5,785			131,585
Piscataquis	9,375			2,557	1,968			13,900
Sagadahoc	14,384			28,066		1,511		43,963
Somerset	21,481		500		1,331	2,473	4,390	30,177
Waldo	11,973	1,925	759	10,614				23,347
Washington	15,899	44,691	3,310	51,222	6,868	12,524	517	88,958
York	141,904			4,766		8,005		202,677
	\$678,655	\$262,364	\$50,556	\$255,463	\$54,146	\$41,566	\$9,268	\$1,352,021

	LIABILITIES							
	Accounts Payable	Temporary Loans	Notes	Bonds	Probate Accounts	Total Liabilities	Surplus or (Net Debt)	TOTAL
Androscoggin	\$15,034			\$92,800		\$107,834	(\$79,960)	\$ 27,874
Aroostook	8,420			55,000	\$289	63,710	219,770	283,481
Cumberland				385,000		385,000	(264,953)	120,046
Franklin	1,246		18,000			19,248	7,720	26,969
Hancock	660	25,000	25,134	203,600		254,394	(234,619)	19,774
Kennebec	29,164				4,070	33,234	17,770	51,005
Knox				45,000		45,000	(24,686)	20,313
Lincoln				27,635	159	27,794	12,101	39,895
Oxford	18,120			135,000		153,120	74,929	228,049
Penobscot				37,000	1,065	38,065	93,519	131,585
Piscataquis	11,366		4,000			15,366	(1,465)	13,900
Sagadahoc	3,910	42,000				45,910	(1,946)	43,963
Somerset					4,390	4,390	25,785	30,177
Waldo						500	22,847	23,347
Washington	12,485	45,000		402,000	517	460,003	(371,044)	88,958
York	818			230,000	3,451	234,270	(31,592)	202,677
	\$101,729	\$112,000	\$47,134	\$1,613,035	\$13,944	\$1,887,843	(\$535,821)	\$1,352,021

ACCOUNTS RECEIVABLE AND RESERVES PROVIDED

First Entered on General Books of the State of Maine
At June 30, 1942

Department	Accounts Receivable as Entered	Reserves Provided
Agriculture	\$ 3,843.07	\$ 1,927.13
Aeronautics Commission	197.00	
Audit	15,675.20	2,863.73
Adjutant General	932.04	
Education	498.51	
Fish and Game	15,510.80	
Health	3,276.50	1,190.25
Health and Welfare (Bureau of Social Welfare)	163,851.58	71,008.12
Highway	190,943.92	13,097.32
Institutional Service	49,278.62	22,005.33
Maine Development Commission (Potato Tax)	1,247.91	540.12
Maine Forestry District	4,218.44	4,218.44
Treasury (Bank Stock Tax)	13,380.00	
Inheritance Taxes	133,803.89	
State Institutions		
Augusta State Hospital	46,609.08	29,888.90
Bangor State Hospital	44,551.89	25,237.49
Pownal State School	1,555.71	795.69
Gasoline Taxes	10,296.29	
Totals	<u>\$699,670.45</u>	<u>\$172,772.52</u>

IMPOUNDED BANK ACCOUNTS INCLUDED IN TRUST FUNDS

As of June 30, 1942

With Estimated Losses

	Original Principal Impounded	Unliquidated Balance	Probable Further Realization	Estimated Final Loss
University of Maine				
Coburn Fund	\$ 25,000.00	\$ 2,000.00	none	\$ 2,000.00
Land Grant Fund	53,300.00	18,065.00	\$ 132.00	17,933.00
State Military and Naval Children's Home				
Administrative Fund	3,862.10	1,158.65	154.48	1,004.17
State School for Girls				
Jessie F. Godfrey Fund	893.00	267.90	35.72	232.18
Pownal State School				
Joseph C. Greene Fund	6,000.00	1,800.00	240.00	1,560.00
Madawaska Territory School Fund	2,500.00	875.00	425.00	450.00
Maine School for the Deaf				
Sweat Fund	2,868.71	5.73	none	5.73
Martha Barton Fund	712.35	1.42	none	1.42
Penobscot Indian Fund	58,092.44	26,234.74	3,323.70	22,911.04
Passamaquoddy Indian Fund	6,610.37	1,983.11	264.41	1,718.70
Permanent School Fund	18,505.77	2,918.65	523.54	2,395.11
Lands Reserved for Public Uses Fund	83,210.00	34,516.86	6,459.50	28,057.36
	<u>\$261,554.74</u>	<u>\$89,827.06</u>	<u>\$11,558.35</u>	<u>\$78,268.71</u>

The above includes only principal of the funds. The estimated losses are based on data furnished by the various receivers and conservators and, in the case of national banks, by Federal officials.

EMERGENCY WAR FUND

FISCAL YEAR ENDED JUNE 30, 1942

Transfers from Unappropriated General Funds:

Jan. 30, 1942, Council Order No. 72	\$100,000	
April 3, 1942, " " No. 225	25,000	
April 29, 1942, " " No. 274	43,200	
June 30, 1942, " " No. 398	2,000	\$170,200
		<hr/>
Allocated as below		160,500
		<hr/>
Balance unallocated June 30, 1942		\$ 9,700.00

Allocations:	Amount Allocated	Allocations Unexpended June 30, 1942
Civilian Defense Council	\$100,000	\$ 16,379.90
Biddeford Defense Training School	1,200	228.91
Blood Bank Centers	4,500	—
Farm Placement Program	4,000	4,000.00
Farmerettes	2,500	2,500.00
Food Production	5,400	5,400.00
Food Conservation	11,300	11,300.00
Community Centers	20,000	20,000.00
Maine Aeronautics Commission (C.P.A. and C.A.A.) ..	1,200	—
" " " (C.A.P. Seaplane Base)	6,600	5,485.36
Executive Department	1,800	—
State Travel Bureau	2,000	1,933.33
		<hr/>
Total Allocated as above	\$160,500	
Total Unexpended Allocations Carried Forward ...		<hr/> 67,227.50
Emergency War Funds Unexpended—June 30, 1942 ...		<hr/> <hr/> \$76,927.50

EMERGENCY FUNDS, OTHER

PAYROLL

Chapter 325, Public Laws 1941 providing for 10% salary increases for those earning under \$30 a week, effective February 2, 1942, set up an Emergency Payroll Fund in the sum of \$80,000 for the fiscal year ended June 30, 1942; to be available as necessary where regular departmental appropriations were insufficient to carry the additional cost of this salary increase; from which transfers were to be made as necessary by the Governor. From this fund, transfers were made totalling \$34,892.25, leaving \$45,107.75 to be lapsed.

Original Appropriation		\$80,000.00
Transferred to: Bureau of Accounts and Control	\$1,328.76	
Department of Education	5,551.87	
Industrial Accident Commission	356.33	
Augusta State Hospital	7,661.59	
Bangor State Hospital	5,060.35	
State School for Boys	971.58	
Central Maine Sanatorium	2,515.43	
State School for Girls	1,141.28	
Northern Maine Sanatorium	1,368.85	
Pownal State School	4,986.98	
Western Maine Sanatorium	518.35	
State Reformatory for Women	963.64	
Legislative Department	42.67	
State Park Commission	306.03	
Baxter Park Commission	8.41	
Bureau of Personnel	46.90	
Superintendent of Buildings	2,063.23	
		<u>34,892.25</u>
Lapsed to Contingent Fund		<u>\$45,107.75</u>

MILEAGE

The same law set up an Emergency Mileage Fund in the sum of \$12,500 for the fiscal year just ended to similarly care for overdrafts caused by the increase of rates to be paid by the State for use of private automobiles specified in the same law. No transfers were made, and the entire fund was lapsed at the year-end.

INSTITUTIONS

Chapter 93 of the Private and Special Laws of 1941, as affected by Chapter 329 of the 1941 Public Laws, set up an Institutional Emergency Fund in the combined sum of \$150,000 from which should be transferred "such sums as may be deemed necessary (by the Commissioner of Institutional Service and the Governor and Council) to care for any emergency that may arise (in the institutions) during the fiscal year ending June 30, 1942." From this there was transferred a total of \$58,994.50 and the balance of \$91,005.50 was carried forward at the year-end, as follows:

Appropriations		\$150,000.00
Transferred to: Augusta State Hospital	\$13,986.70	
Bangor State Hospital	11,913.99	
State School for Boys	1,604.62	
Central Maine Sanatorium	5,963.29	
State School for Girls	7,756.46	
Northern Maine Sanatorium	3,987.16	
Pownal State School	7,745.18	
State Reformatory for Women	6,037.10	
		<u>58,994.50</u>
Carried forward to 1942-43 fiscal year		<u>\$91,005.50</u>

The verification of the validity of these transfers under the provisions of the special laws cited, will be gone into by our various auditors as a part of their regular work on the various departments and institutions.