

MAINE STATE LEGISLATURE

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MAINE
DOCS

STATE OF MAINE



69TH REPORT OF THE STATE AUDITOR

FOR PERIOD

JULY 1, 1987 — JUNE 30, 1988

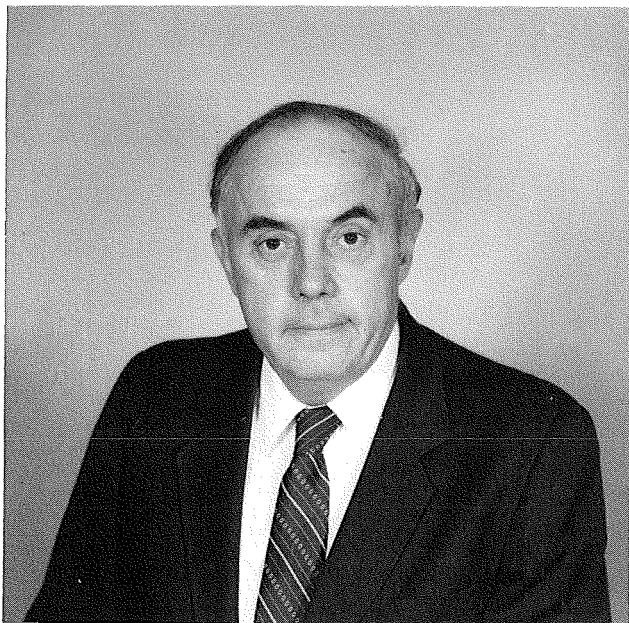
RODNEY L. SCRIBNER, CPA
STATE AUDITOR

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SIXTY-NINTH REPORT OF THE STATE AUDITOR

Title 5, M.R.S.A., Section 244, provides in part, "The State Auditor shall keep no accounts in the Department of Audit, but he 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 for each fiscal year, setting forth the essential facts of such audit in summary form, within the following fiscal year after the books of the State Controller have been officially closed."

Published Under
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**RODNEY L. SCRIBNER, CPA
STATE AUDITOR**

**STATE AUDITORS
AND
TERMS OF OFFICE**

1907-1910	Charles P. Hatch	Portland
1911-1912	Lamont A. Stevens	Wells
1913-1914	Timothy F. Callahan	Lewiston
1915-1916	J. Edward Sullivan	Bangor
1917-1921	Roy L. Wardwell	Augusta
1922-1940	Elbert D. Hayford	Farmingdale
1940-1944	William D. Hayes, CPA	Bangor
1945-1956	Fred M. Berry	Augusta
1957-1964	Michael A. Napolitano	Augusta
1965-1968	Armand G. Sansoucy	Lewiston
1969-1970	Michael A. Napolitano	Augusta
1970-1970	William L. Otterbein	Farmingdale
1971-1976	Raymond M. Rideout, Jr.	Manchester
1977-1977	Rodney L. Scribner, CPA	Augusta
1977-1984	George J. Rainville	Lewiston
1985-1987	Robert W. Norton	Biddeford
1987-	Rodney L. Scribner, CPA	Augusta

FOREWORD

The State Auditor is elected by the Legislature and serves as head of the Department of Audit. His role is to assist the Legislature in discharging its responsibility to oversee the government's stewardship of public funds and resources. Since the State Auditor is independent from the day-to-day activities of the government, he is in a unique position to review, report and recommend on the operations of state government. This audit is intended to complement and promote, but cannot be a substitute for, good accountability. The State Auditor provides independent assurance on the credibility of the state's financial information and brings matters of concern to the attention of legislators and appropriate federal, state and local officials.

The State Auditor is able to offer advice, encouragement and constructive criticism to those responsible for the oversight and management of government finances. He cannot, and should not, enforce changes. The desire of administrators to use public monies in a lawful and effective manner is necessary to bring about positive change coupled with a willingness by the Legislature to act, when needed, on audit findings and recommendations. In the majority of cases, a positive response has been made to the concerns reported by this department.

Our 1988 fiscal year audit of the State of Maine was performed in conformity with the provisions of the Single Audit Act of 1984. Following are our qualified opinion on the component unit financial statements, our report on internal accounting controls and our management letter. Our audit also included the preparation of certain other reports relating to compliance with laws and regulations and to a study of internal accounting and administrative controls as well as our opinion on the Schedule of Federal Financial Assistance. Due to their program specific nature, certain findings that relate to federally funded programs are not included in this summary. Findings relating to federal programs have been communicated to the appropriate agencies of the federal government and are included in our Single Audit Report, which is available at our office, 286 Water Street, Augusta, Maine 04333-0066.

We acknowledge the continued cooperation and assistance of the many departments, agencies and organizations audited over the years. This cooperation is essential to the efficient performance of our work.

We sincerely appreciate the efforts of the entire staff of the Department of Audit. Their professional audit approach is essential to adequately meet the challenge of serving the people of Maine with quality audit services which are performed in an efficient and effective manner. Well done!

TABLE OF CONTENTS

	Page
Independent Auditor's Report on Combined Financial Statements . 1	
Independent Auditor's Report on Internal Accounting Controls Based Solely on a Study and Evaluation Made as a Part of an Audit of the Com- ponent Unit Financial Statements	4
Management Letter	7
Department of Administration	9
Department of Agriculture	24
Department of the Attorney General	24
Department of Audit	25
Department of Defense and Veterans' Services	27
Department of Economic and Community Development	28
Department of Educational and Cultural Services	33
Executive Department	45
Department of Finance	47
Department of Human Services	72
Department of Labor	78
Maine State Retirement System	81
Department of Mental Health and Mental Retardation	85
Public Utilities Commission	87
Department of Secretary of State	88
Department of Transportation	91
Treasurer of State (Office of)	105



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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMBINED FINANCIAL STATEMENTS

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the component unit financial statements of the State of Maine oversight unit, as of and for the year ended June 30, 1988, as listed in the table of contents. The financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the second succeeding paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above include only the financial activities of the oversight unit. Financial activities of other component units that form the reporting entity, as they are identified in Note 1A, are not included.

The state does not have complete financial records to support the amounts included in its General Fixed Assets Account Group. Accordingly, we were unable to examine sufficient evidential matter to support such amounts.

As more fully described in note 1C to the financial statements, the state does not record certain accruals as required by generally accepted accounting principles. The effects of those departures from generally accepted accounting principles on the accompanying financial statements are not reasonably determinable.

As described in Note 9, the state has underaccrued the cost of its retirement plan. If those retirement obligations were accounted for in accordance with generally accepted accounting principles, liabilities and the amount to be provided for retirement of general long-term debt, in the General Long-Term Debt Account Group, would be increased by \$1,977,912,000.

The state records certain revenues related to block grant awards as they are encumbered that, in our opinion, should be recorded when the expenditure is made, to conform with generally accepted accounting principles. If those revenues had been recorded in conformity with generally accepted accounting principles, Special Revenue Fund total assets and fund balance would have been decreased by \$10,017,000 as of June 30, 1988, and Special Revenue Fund revenues for the year ended June 30, 1988, would have been decreased by \$10,017,000.

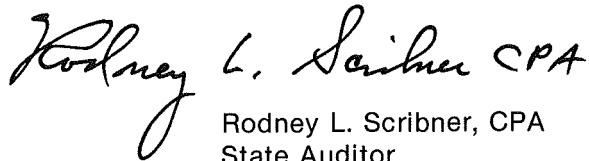
The state has excluded from liabilities of the Governmental Funds in the accompanying balance sheet its obligation for accrued compensated absences that, in our opinion, should be included to conform with generally accepted accounting principles. The effect on the financial statements of that practice is not reasonably determinable.

Revenues, expenses and inventory accounts of the Internal Service Fund are overstated as a result of overhead burden rates being applied to work performed on projects within the fund. In our opinion, generally accepted accounting principles do not provide for intrafund profits. The effects of the preceding practices on Internal Service Fund inventories and retained earnings, as of June 30, 1988, and sales and service revenues and operating expenses, for the year ended June 30, 1988, are not determinable.

As more fully described in Note 15 to the financial statements, the state has excluded its obligation for unfunded workers' compensation claims from liabilities in the accompanying balance sheet. In our opinion, generally accepted accounting principles require that the liability for such obligations be recorded. The effect on the financial statements of that practice is not reasonably determinable.

As more fully described in Note 18, the state is a defendant in numerous lawsuits. The state's legal counsel is unable to determine the potential outcome of several of these lawsuits. No adjustment has been made to record the effects of the ultimate settlement of these lawsuits.

In our opinion, except for the effects on the financial statements of not recording certain transactions in accordance with generally accepted accounting principles as described in the seventh preceding paragraph; and except for the effects on the financial statements of not recording certain obligations as discussed in the sixth preceding paragraph and recording certain revenues as discussed in the fifth preceding paragraph; and except for the effects of the matters discussed in the first, second, third, and fourth preceding paragraphs, the component unit financial statements referred to above present fairly the financial position of the State of Maine, oversight unit, at June 30, 1988 and the results of its operations and the changes in financial position of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles. For the reason discussed in the fourth paragraph, we do not express an opinion on the General Fixed Assets Account Group.

 Rodney L. Scribner, CPA
State Auditor

July 6, 1989



RODNEY L. SCRIBNER, CPA
STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL ACCOUNTING CONTROLS BASED SOLELY ON A STUDY AND EVALUATION MADE AS A PART OF AN AUDIT OF THE COMPONENT UNIT FINANCIAL STATEMENTS

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the component unit financial statements of the State of Maine, for the year ended June 30, 1988, and have issued our qualified report thereon dated July 6, 1989. As part of our audit, we made a study and evaluation of the system of internal accounting control of the State of Maine, to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in **Governmental Auditing Standards** issued by the U. S. General Accounting Office. For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- Treasury or financing
- Revenue/receipts
- Purchases/disbursements
- External financial reporting

Our study included all of the control categories listed above. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the entity's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the State of Maine is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed

in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation made for the limited purpose described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting controls of the State of Maine, taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed the following condition that we believe results in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to the financial statements of the State of Maine, may occur and not be detected within a timely period. In our letter to management, we have separately communicated our observations and recommendations regarding other matters.

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Lack of Sufficient Current Policies and Procedures

The state does not have sufficient current accounting and administrative policies and procedures to permit the preparation of financial statements fully in accordance with generally accepted accounting principles (GAAP).

The Manual of Financial Procedures serves as the state's primary means of communicating approved policies and procedures. Some of the sections of the manual have not been updated since 1958. Other sections were most recently revised in 1986. Outdated information lessens the manual's usefulness.

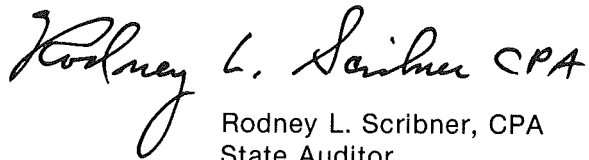
Accounting transactions are initiated by the various state agencies and processed for payment or otherwise entered into the state accounting records by the Bureau of Accounts and Control. The volume of accounting transactions is such that the bureau, with its current staffing level, appears able to perform only a minimal review. Reliance is placed on the originating agencies to properly analyze and record transactions. As a result, similar transactions may be recorded in different ways by different agencies. Also, while the initial transactions may be appropriately recorded, certain accruals and adjustments may be necessary to permit the preparation of financial statements in accordance with GAAP. The Bureau

of Accounts and Control is involved in a multi-year project to develop an accounting system that will facilitate the preparation of GAAP financial statements.

The lack of sufficient current accounting policies and procedures and involvement with a significant accounting system conversion project has resulted in untimely financial information (the Annual Financial Report for 1988 was issued in June of 1989).

Although we believe this condition to be a material weakness, we recognize that there are many desirable features of the state's system of accounting and control that we have not mentioned.

This report is intended solely for the use of management and the cognizant agency and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the Legislature, is a matter of public record.

Handwritten signature of Rodney L. Scribner CPA in cursive script.

Rodney L. Scribner, CPA
State Auditor

July 6, 1989



RODNEY L. SCRIBNER, CPA
STATE AUDITOR

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MANAGEMENT LETTER

To the President of the Senate and the
Speaker of the House of Representatives

We have audited the component unit financial statements of the State of Maine oversight unit as of and for the year ended June 30, 1988, and have issued our qualified report thereon dated July 6, 1989. As part of our audit, we made a study and evaluation of the state's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purpose of such evaluation is to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist us in planning and performing our examination of the financial statements.

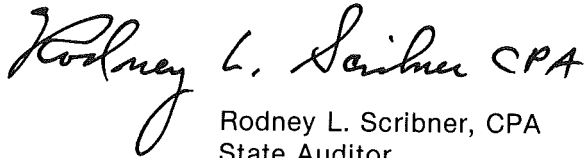
Our audit of the component unit financial statements of the State of Maine oversight unit made in accordance with generally accepted auditing standards, including the study and evaluation of the state's system of internal accounting control as of and for the year ended June 30, 1988, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. Accordingly, we do not express an opinion on the state's system of internal accounting control taken as a whole. However, such study and evaluation disclosed certain weaknesses, one of which is material, upon which we are presenting our comments and recommendations for your consideration. (We previously reported on the state's system of internal accounting control and the material weaknesses found therein, in our report dated July 6, 1989).

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of

internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgements by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgement, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the execution and recording of transactions or with respect to the estimates and judgements required in the preparation of financial statements. Further, projections of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, and the degree of compliance with the procedures may deteriorate.

The comments and conditions described in the accompanying attachments have been categorized and indexed in the table of contents by the department in which the weaknesses were identified. These comments and conditions were considered in determining the nature, timing and extent of audit tests applied in our examination of the component unit financial statements of the State of Maine oversight unit as of and for the year ended June 30, 1988. This letter does not affect our report dated July 6, 1989 on the component unit financial statements of the State of Maine oversight unit.

CPA

Rodney L. Scribner, CPA
State Auditor

July 6, 1989

FINDINGS AND NONCOMPLIANCE WITH LAWS AND REGULATIONS

AGENCY/PROGRAM	CONDITION
Department of Administration — Bureau of Data Processing Costs of goods sold incorrectly calculated <u>Prior year finding</u>	<p>Expenses associated with the acquisition of equipment to be leased to user agencies were incorrectly categorized by the bureau as cost of goods sold. These costs (rental and interest) represent operational expenses and offset the resulting revenue in determining the net income from leasing activity. The erroneously calculated costs of goods sold is overstated as a result, and operating expenses are understated by \$221,519.</p> <p>We again recommend that, in accordance with generally accepted accounting principles, the bureau categorize these costs as operating expenses, not costs of goods sold.</p>
Auditee Response:	<p>We agree with your recommendation regarding the over-statement of cost of goods sold. This condition has been corrected with the beginning of fiscal year 1989. We will review our records to ensure that we have not erroneously overstated cost of goods sold in the 1990 fiscal year and to ensure compliance with generally accepted accounting principles.</p>
Bureau of Data Processing Inventory valuation <u>Prior year finding</u>	<p>An examination of agency equipment records revealed a lack of sufficient detail information to support and substantiate depreciation schedules used in the valuation of assets. Inadequate maintenance of these records in prior periods resulted in unreliable asset and depreciation information for financial reporting purposes.</p> <p>We again recommend:</p> <ol style="list-style-type: none">1. That the bureau perform a complete physical inventory of capital equipment items and that the related records be maintained on a current basis.2. That the bureau assign values to those items found which are not currently catalogued on the inventory listing

AGENCY/PROGRAM

CONDITION

Bureau of Data Processing

through the use of original purchase orders when available or via best estimate through current cost comparison if unavailable.

3. The financial records be reviewed to determine if equipment has been depreciated beyond its original value.
4. The procedures followed to implement these recommendations be documented to provide a clear audit trail.

Auditee Response:

We disagree with your comments regarding that status of your finding and recommendation. The department has diligently worked on identifying and compiling an equipment inventory in order to make all the necessary accounting adjustments. According to the bureau directors, we expect to complete the process by September 30, 1989.

Bureau of Data Processing

Accrued compensation absences are inaccurately calculated

Prior year finding

The Bureau of Data Processing considers only earned vacation and the corresponding retirement contribution in calculating liability for accrued compensation absences. Significant factors, such as accrued compensatory and personal time, applicable medicare contribution and the additional retirement contribution for "confidential" employees, are not included. This results in an understatement of the total liability reported by the bureau.

We again recommend that the Bureau of Data Processing include all factors that affect the balance of accrued compensated absences, in order to provide an accurate valuation of the state's liability.

Auditee Response:

We will review our records related to compensated absences and make necessary adjustments to the accruals. We will ensure that our liability is not understated in the future.

AGENCY/PROGRAM

CONDITION

Bureau of Data Processing

Valuation of assets

Prior year finding

Computer software expenses were recorded as operating expenses rather than assets, resulting in an understatement of assets and an overstatement of expenditures and retained earnings in the financial statements of the 1987-88 fiscal year.

We again recommend that the bureau capitalize the cost of computer software used to generate revenues rather than recording the cost as an expense. The capitalized costs should be amortized over the estimated economic life of the software. Software with no direct relationship to revenue-generating operations should be recorded as an expense during the accounting period in which the cost is incurred.

Auditee Response:

Again, we concur with this finding and recommendation. With the start of the 1989 fiscal year the bureau has taken care in their review of software agreements to ensure compliance with this recommendation. In the response to the prior year audit we stated that we would implement the recommendation at the start of the fiscal year 1989. The software agreements made prior to 1989 have been flowed through the account as an expense and for the most part the agreements are nearly concluded. We do not believe that any significant benefit would be derived by adjusting the accounting for these old agreements.

The Director of Finance for the department will review all the agreements in force since July 1, 1989 to ensure we have complied with this recommendation.

AGENCY/PROGRAM**CONDITION****Bureau of Data Processing**

Authorization of customer
credits

The Bureau of Data Processing's cost center managers did not document the approval of all credits.

To improve internal accounting and administrative controls, we recommend that all credits which customers may receive be documented and authorized by the individual cost center managers.

Auditee Response:

We have taken the appropriate steps to ensure that all credits are properly approved.

AGENCY/PROGRAM

CONDITION

Department of Administration — Employee's Health Insurance Program

Administrative fees not transferred in a timely fashion

In the 1988 fiscal year, the State's Employee Health Insurance Program received \$128,881 in cost containment savings from Blue Cross/Blue Shield of Maine. As part of normal procedure, this amount was credited to the Insurance Program's Appropriation account through statements of income. A portion of these savings, received monthly, should subsequently be journaled to the Bureau of State Employee Health's internal services fund (#76000). However, during the audit period, journals were made three months late and one entry for \$31,459 was not made until the 1989 fiscal year.

As a result of these delays, assets of the Bureau of Employee Health Internal Services Fund (#76000) were understated by \$31,459 and assets of the State's Employee Health Insurance Program (Other Special Revenue Account #4081.1) were overstated by the same amount. Also, funds allocable to the Bureau of Employee Health were not made available for use.

We recommend that any cost containment savings returned to the Employee Health Insurance Program be promptly credited to the Bureau of Employee Health Internal Services Fund. Copies of any statements of income should be forwarded to the bureau's Chief Financial Officer.

Auditee Response:

We are in agreement with the finding and recommendations regarding the Blue Cross/Blue Shield cost containment savings. We will take steps to implement the recommendation.

AGENCY/PROGRAM

CONDITION

Department of Administration — Bureau of Human Resources

Lack of historical employee count

The Bureau of Human Resources is unable to provide a historical employee count. The computer file provides data only on a current basis. As a result, no employee count was available to reconcile with the Maine State Retirement System's pension expenditures reported in its fiscal year 1988 annual report.

The bureau's computer staff does not back up employee data on auxiliary storage and as a result, a historical employee count is not available.

We recommend that the Bureau of Human Resources computer staff either back up on auxiliary storage, or print an employee count classified by administrative units, employee job classifications and state departments or agencies, to be performed at least monthly and at the close of each fiscal year.

Auditee Response:

We will take steps to comply with this recommendation at such time as the Department of Audit can identify the parameters of what constitutes a state employee to be counted. The bureau is willing to assist the Department of Audit in developing criteria for the report.

Bureau of Human Resources

Non-proration of benefits for part-time employees

Prior year finding

As noted in the prior year audit, the Bureau of Human Resources is incorrectly authorizing full employee benefits for part-time employees entitled to only prorated benefits through Human Resource Profile (HRP) forms.

Due to a problem in the computer system used by the bureau, there exists a possibility that any part-time employee entitled to prorated benefits can actually receive full benefits if personnel of the Payroll Division of Bureau of Accounts and Control follow information indicated and authorized on the HRP form. As a result, the State of Maine could incur unjustified liabilities.

We again recommend that the Bureau of Human Resources correct the problem with

AGENCY/PROGRAM**CONDITION****Bureau of Human Resources**

the computer system and that HRP forms be closely monitored until such correction is made.

Auditee Response:

This issue is currently under consideration by the Maine Financial and Administrative Statewide Information System (MFASIS) project team.

Bureau of Human Resources

Workers' compensation procedures

There is a lack of specific procedures to determine which benefits are allowed to be used by insured employees prior to, or in conjunction with, workers' compensation benefits. There is likewise a lack of specific procedures for the recovery of benefit payments, once workers' compensation payment amounts are established, that can result in an employee being paid an amount in excess of his/her weekly wage.

Maine Civil Service Rules, Chapter 11, Section 2(D)(1) specify that an employee cannot receive more than the amount of a weekly wage. As no written procedures have been established to provide the state's agencies with the necessary guidance to achieve compliance with this rule, there is no assurance that agencies of the state allow, restore and/or recover benefits and/or payments consistently or uniformly.

We recommend that the Maine Civil Service Rules, or other appropriate regulating documents, be amended to include standards for the use of regular benefits while receiving workers' compensation, and to include procedures for restoring and/or recovering benefits and payments received.

Auditee Response:

We are in agreement with your finding and recommendation as stated. We will refer this to the Bureau of Human Resources and the State's Workers Compensation Unit for review and action.

AGENCY/PROGRAM

CONDITION

Department of Administration — Bureau of Public Improvements

Incomplete project files

Prior year finding

Twelve project files were tested for compliance with established contract procurement procedures as outlined in the State of Maine Manual of Financial Procedures and the Procedures for Procurement of Professional Architectural and Engineering Services Manual. Eight of the twelve files showed no evidence that the projects were advertised as requiring sealed bids or that bid proposals were obtained by written quotes. Seven of the twelve files did not hold evidence of surety consent forms indicating that final payment to the contractor would not relieve the surety company of its obligation to the owner as set forth in the Surety Company's Bond.

The Joint Standing Committee on Audit and Program Review, 1988-1989, has recommended that the Bureau of Public Improvements develop a checklist to be used in project folders to help ensure that all procedural requirements are completed. The Bureau has indicated that such a checklist will be included in every file folder.

We again recommend that standard and complete documentation of performance of required procedures be included in all project file folders.

Auditee Response:

The Bureau of Public Improvements has implemented the recommendation and check lists are now a part of each new project file.

During the 1989 summer months, the bureau made a major effort to bring the files to order. Our efforts are ongoing.

AGENCY/PROGRAM

CONDITION

Bureau of Public Improvements

Incomplete General Fixed Assets Account Group (GFAAG) records

General Fixed Assets Account Group (GFAAG) records are incomplete because various state agencies make incomplete and inaccurate reports of their General Fixed Assets (GFA) to the Bureau of Public Improvements. Certain agencies such as the Department of Conservation and the Maine Department of Transportation have substantially under-reported their assets.

We therefore recommend that state agencies give a higher priority to GFA inventory records and bring them up to date.

Auditee Response:

We concur with your recommendation. The Bureau of Public Improvements is periodically notifying agencies of their responsibility to forward appropriate reports to the bureau.

Department of Administration — Bureau of Purchases

Operating losses absorbed by the bureau's internal service fund

The Department of Administration is the designated state agency to receive and distribute federal surplus property and is authorized and empowered, through the Bureau of Purchases, to acquire, warehouse, allocate and distribute surplus government property on a fair and equitable basis to all eligible recipients within Maine, under 5 MRSA Chapter 13-A.

A review of the Bureau of Purchases' internal service fund accounts revealed that service charges assessed to eligible recipients of federal surplus property are insufficient to cover the acquisition, warehousing, handling, administrative and delivery costs chargeable to that property. This resulted in a 1988 fiscal year operating loss of \$48,881 which was absorbed by the Bureau of Purchases internal service fund. The Federal Surplus Property Program was therefore not self-supporting during the audit period, as required by statute.

AGENCY/PROGRAM

CONDITION

Bureau of Purchases

To achieve compliance with 5 MRSA, Chapter 13-A, we recommend that the Department of Administration, through the Bureau of Purchases, assess service charges sufficient to fully recover the program's operating costs as outlined in the State of Maine Plan of Operation — Surplus Property Program (effective June 30, 1984).

Auditee Response:

Your recommendation regarding the Federal Surplus Property Program is not so easy to rectify. We have not been able to acquire enough surplus items to generate cash flow to cover expenses of the program. To charge a service fee to cover costs on items we obtain would cause many items to be "priced" beyond what our clients will pay. This is a difficult situation because we must continue to operate the program so that the state can participate as needed equipment becomes available for use by state, county, municipal and non-profit agencies. In the next year, we will be working on a reorganization of our total Surplus Property Program in an attempt to redistribute workload and costs more accurately between the federal and state activities. This will help the federal program, but it will probably still not be a break-even program until more expensive items are processed.

Bureau of Purchases

Unapproved purchase orders over \$100,000/purchase order files did not reflect cancelled purchase orders

A review of the bureau's purchase order files revealed the following:

1. Purchase orders over \$100,000 are not being approved by the State Purchasing Agent.
2. Cancelled purchase orders are not properly reflected in buyers' purchase order files and cancelled purchase order numbers are reused on replacement purchase orders issued to other vendors.

AGENCY/PROGRAM

CONDITION

Bureau of Purchases

To achieve compliance with the Bureau of Purchases Operations Manual and so that purchase order files only reflect valid purchase orders, we recommend that all purchase orders over \$100,000 be properly approved by the State Purchasing Agent. Vendor purchase order files should reflect all cancelled purchase orders and these purchase order numbers should be made void.

Auditee Response:

1. Purchase Orders of over \$100,000 are not being approved by the State Purchasing Agent.

The Bureau of Purchases "Operations Manual" which became effective September 1, 1988 (well after the example shown) clearly spells out the necessary approval levels which are included on Page 5, of Section on State Purchasing Agent's approval, #8 Purchase Orders over \$100,000. Each buyer has a copy of this manual and we have had two meetings at which we have gone over the contents. I will once again remind the buyers of this provision.

2. Cancelled Purchase Orders are not properly reflected in buyer's Purchase Order files; cancelled Purchase Order numbers are reused on replacement Purchase Orders issued to other vendors.

I have discussed this with the buyer involved. We will be writing a new section in our "Operating Manual" that will point out the process as you indicated.

Bureau of Purchases

Inaccurate inventory valuation records

An examination of adjustments to prior year inventory records of the Purchases Internal Service Fund (75000) revealed that an adjustment of \$9,882 for the fiscal year ended June 30, 1986 was not recorded until December 15, 1987. Inventory adjustments for fiscal years ended June 30, 1987 and June 30, 1988 had not been recorded as of February 1989. At June 30, 1988 the inventory quantities per the

AGENCY/PROGRAM

CONDITION

Bureau of Purchases

physical count differed from inventory quantities per the computer inventory control system for over 50% of the items tested.

As a result of these untimely or unrecorded adjustments, purchase commodities inventory and fund balance are overstated by \$25,110 as of June 30, 1988. Fiscal year expenses are distorted by improperly recording inventory adjustments in other than the year in which the need for the adjustments occurred. Variances in the physical inventory reduce reliance on warehouse computer inventory records.

To reflect an accurate inventory valuation in the financial statements and to improve the reliability of warehouse computer inventory records, we recommend that the warehouse inventory control system be revised and that inventory adjustments be processed in a timely manner.

Auditee Response:

We have installed a new computer system at Central Warehouse and with it we have made several changes to improve the inventory system. Adjustments are made as soon as possible within the year in which the need for adjustment occurs; this establishes reliable inventory records.

We established a current inventory as a starting point this Spring which gave us a known point to start from and are keeping current as we proceed. In the meantime, we continue to work on resolving the overstatements of fund balance and Purchases commodity inventory.

In summary, we have reviewed the inventory control system and have installed a new system and will process inventory adjustments in a timely manner.

AGENCY/PROGRAM

CONDITION

Department of Administration — Risk Management Division

Improper use of self-insurance fund

The Risk Management Division is making loans to other state agencies for lump-sum settlements of workers' compensation cases. The state agencies sign promissory notes for the amounts loaned to them and for an administrative fee. Amounts expended and repaid are coded as expenses and revenues of the Insurance Reserve Fund.

5 MRSA §1728-A defines the powers and duties of the Director of the Risk Management Division and §1731 of the same title describes the use of the reserve fund. Neither section provides authority to the Division Director or the Commissioner of the Department of Administration to make loans to other state agencies.

39 MRSA §104-A requires payment of workers' compensation claims within ten days of notice of an approved settlement. Departments that are responsible for payment often do not have funds to cover the settlement and must request funds through procedures that take longer than ten days to transpire. The Risk Management Division has made loans to ensure that the state was in compliance with the workers' compensation laws and to prevent fines from being levied due to non-compliance with the statutory provisions.

The conditions described produced the following effects:

- The use of the Risk Management Division's reserve fund has been expanded beyond its original purpose and intent.
- The budgetary process is circumvented.
- Policymakers (the Governor and the Legislature) are deprived of decision-making authority by being presented with a fait accompli; even if funding were denied to the department, the claim will

AGENCY/PROGRAM

CONDITION

Risk Management Division

have been paid, and the reserve fund may need to be restored by appropriation (5 MRSA §1735).

- Interest income lost exceeds administrative charges received.
- Insurance Reserve Fund revenues and expenses are overstated by \$80,000 for fiscal year 1988.
- Loan repayment liabilities are not recorded by the other state agencies.
- Administrative fee revenue collected from one agency was \$400 more than was required by the terms of the Promissory Notes.

We recommend the following:

1. That the Risk Management Division cease to make loans to state agencies and departments for workers' compensation or any other claims.
2. That an effort be made to enact legislation to address the situation of insufficient monies available for agencies to cover insurance settlements.
3. That the \$400 excessive administrative fee be returned to the Department of Human Services.
4. That the Risk Management Division, when closing a note file, ensure that repayment to the reserve fund is neither more nor less than the receivable.

Auditee Response:

We agree with your statement that efforts be made to have legislation enacted that will address the inadequate funding for lump sum settlements. ...at this time the Department of Administration has the responsibility for case management but no responsibility or authority to mandate that departments specifically budget for workers' compensation. During the past year, agencies began to experience financial troubles with their ability to meet workers' compensation obligations. The Commissioner

AGENCY/PROGRAM**CONDITION****Risk Management
Division**

and the Risk Management Director proposed the use of the fund to enable the injured worker to be paid and prevent the State from violating 39 MRSA Section 104-A,...

By making these funds available to other departments, we are in our opinion exercising good managerial practice on behalf of the State, providing our employees with the benefits they are due, and maintaining compliance with the same laws we expect other employers to comply with.

We agree that 3 MRSA §1728-A defines the powers and duties of the Risk Management Director; section 1731 describes uses of the reserve fund. While neither section expressly authorizes the Director or Commissioner to make loans to other departments, it does authorize Risk Management to cover self-insured retention losses and loss adjustment expenses recommended by the Director and approved by the Commissioner.

The agreements that each agency enters into with Risk Management to reimburse the fund for use of money to pay losses is nothing more than a pledge of good faith to replenish the fund. Should an agency fail to have the money appropriated by the legislature, the fund would merely suffer the loss consistent with other such settlements paid.

AGENCY/PROGRAM

CONDITION

Department of Agriculture

Inadequate time sheet format

Weekly itinerary sheets do not provide accountability with regard to hours worked, do not include the employees' signatures, and do not contain evidence of signed supervisory approval.

State of Maine Civil Service Rules (pursuant to 5 MRSA, Chapter 372, Section 7070, 1987), Chapter 14, Section 1, (Agency Personnel Records), require each department or division to maintain an adequate set of employee records for the purpose of recording attendance and leave actions.

We recommend that all organizational units of the Department of Agriculture submit time records in accordance with the applicable section of the State's Civil Service Rules.

Auditee Response:

We have been aware of the condition cited, are addressing it, and expect to implement corrective measures by July 1, 1989. We have designed new format time sheets, will have them printed, will have to train employee and supervisory staff, and must negotiate the impact with Maine State Employees Association before implementation.

Department of the Attorney General

Inadequate time sheet format. No evidence of supervisory review

A time sheet for an assistant attorney general whose salary is paid out of federal funds did not reflect time worked, did not indicate those hours not worked (vacation, sick leave, other leave) and did not contain an approval signature.

Attachment B of paragraph B(10)(6) of OMB Circular A-87 states, in part: "Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and provided in accordance with generally accepted practice of the State...Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees

AGENCY/PROGRAM

CONDITION

Department of the Attorney General

chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records."

State of Maine Civil Service Rules (pursuant to 5 MRSA, Chapter 372, Section 7070, 1987) Chapter 14, Section 1 (Agency Personnel Rules) also states: "Each department or division shall maintain an adequate set of employee records for the purpose of recording attendance and leave actions."

There is a potential for loss of federal funds due to questioned costs based on insufficient documentation. These questioned costs are being addressed through the Department of Educational and Cultural Services (DECS) portion of the audit, as the employee is assigned to DECS and is paid from DECS' federal funds.

We recommend that the Department of Attorney General require all employees to record hours worked (as well as leave time used), and that signed supervisory approval be indicated on all employee time sheets.

Auditee Response:

Auditee does not disagree with our finding.

Department of Audit

Annual audit on the
Unorganized Territory
Education and Services
Fund not performed

Per 36 MRSA §1609, "The Unorganized Territory Education and Services Fund and each account of the municipal cost component shall be audited annually by the Department of Audit...no later than 90 days after the end of each fiscal year...in accordance with generally accepted auditing standards and procedures pertaining to governmental accounting..."

An audit of the Unorganized Territory Education and Services Fund for the fiscal year ended June 30, 1988 has not been performed. A compilation was performed and a compilation report issued for the fiscal year ended June 30, 1987; however, a compilation does

AGENCY/PROGRAM

CONDITION

Department of Audit

not constitute an audit and therefore does not meet the requirements of 36 MRSA §1609.

The Department of Audit is not independent of the Unorganized Territory Education and Services Fund: the director of the fund is part of the organizational unit of the Department of Audit.

There is a discrepancy between what is required by 36 MRSA §1609 and what is allowable/acceptable under the AICPA Professional Standards. According to AICPA Professional Standards, AU §504.09, "When an accountant is not independent, any procedures he might perform would not be in accordance with generally accepted auditing standards, and he would be precluded from expressing an opinion on such statements (i.e. the financial statements of the audited entity)."

We recommend that action be initiated to amend the applicable statute(s). Options which could be explored include: removing the Fiscal Administrator of the Unorganized Territory from the organizational direction of the Department of Audit; allow the audit of the Unorganized Territory Education and Services Fund and municipal cost component to be performed by an independent audit agency; eliminating the requirement that the audit be performed by the Department of Audit; or changing the requirement to allow a compilation, which could be performed by the Department of Audit.

Auditee Response:

We concur with the audit finding as the lack of organizational independence would preclude the department from performing an audit of the Unorganized Territory Education and Services Fund. In light of the above, a proposal will be made in the next legislative session to amend the wording of 36 MRSA §1609 to read "compilation" rather than "audit."

AGENCY/PROGRAM

CONDITION

Department of Audit

Interfund transfer im-
properly coded as revenue
adjustment

A \$5.8 million transfer of Unorganized Territory Education and Services Fund monies was recorded as a reduction of balance forward in the Special Revenue Fund (the U.T.E.S. Fund) and an increase in revenue in the General Fund (the fund originally making disbursements).

These transactions resulted in General Fund revenues overstated; General Fund operating transfers understated; Special Revenue Fund balance forward understated; Special Revenue Fund operating transfers understated.

We recommend that the transfer of monies from the Unorganized Territories Education and Service Fund to the agencies making disbursements for expenses attributable to the municipal cost component (as promulgated by 36 MRSA Section 1605 Subsection 2) be classified in the financial statements as an operating transfer out of the U.T.E.S. Fund (Special Revenue Fund) and as an operating transfer into the General Fund (agencies originally making disbursements).

Auditee Response:

I agree with the audit finding and the recommended solution. A concerted effort will be made between this office and the controller to correct the situation.

Department of Defense and Veterans' Services

No disaster recovery plan
for computer system

The Department of Defense and Veterans' Services has no disaster recovery plan to provide resumption of normal data processing should a disaster occur. Backup files are not stored in an off-site location.

In the event of a disaster or shutdown of the computer system, services provided by the Department of Defense and Veterans' Services would be greatly impaired. In addition, the data base could be destroyed.

AGENCY/PROGRAM

CONDITION

Department of Defense and Veterans' Services

We recommend that the Department of Defense and Veterans' Services develop and test a disaster recovery plan to ensure continued operation of its computer system. We also recommend that the department arrange for off-site storage of backup files and software.

Auditee Response:

We plan to document, test, and provide for off-site storage of backup files and software. Our Intern is well on his way in this activity.

Department of Economic and Community Develop- ment — Community Development Block Grant (CDBG)

Documentation of required award procedures was not always available in grant files

Prior year finding

Adherence to federal regulations, state eligibility criteria and program requirements and procedures for determining eligibility and awarding grants can be proven only if the necessary documents (threshold check-lists, score sheets, etc.) are available. A test of grant documentation for a sample selected from a listing of all grants active in 1988 disclosed that documentation of required procedures was not always available in the grant file. Misplacing and misfiling occurred during routine handling of files. Follow-up activity, indicated to be necessary by a grant recipient's initially low score, was not documented. Evidence of resolution of issues raised during the threshold review was not documented in the files.

In order to document compliance with procedures required by federal statutes and state regulations, we recommend that the Office of Economic and Community Development be certain that all necessary documents are filed in the grant files, and that these files are maintained.

Auditee Response:

The conditions noted relating to information missing from files (or complete files missing) can only be explained by the fact that the office has had numerous staff turnovers and recently had to physically relocate. At the time of the review, several staff members retained

AGENCY/PROGRAM

CONDITION

Department of Economic and Community Development

project files in their work areas in order to be able to make quick reference to them. Since then, and prior to HUD visits, project files have all been returned to the central library area.

HUD monitors conducted a two day and a three day visit to our office on July 24-25 and August 7-9. Only one piece of documentation could not be located during those visits. That file has since been located and properly filed.

We feel we have made adequate progress toward restoring documentation to their proper places and have impressed upon staff the need for central access of project files.

Community Development Block Grant (CDBG)

Cash returned from subgrantee is posted to a special revenue account rather than to the federal program account

Prior year finding

Cash returned to the Department of Economic and Community Development (DECD) by subgrantees is posted to a special revenue account rather than to a federal program account, resulting in misstatement of the State Controller's balance of federal block grants. These funds do not generally meet the definition of program income per 24 CFR 570.494 (b)(2); they retain their identity as federal block grant funds and should be reflected as federal block grant funds on the records of the State Controller.

We recommend that the cash receipt and subsequent disbursement of federal block grant funds be recorded in the account designated to record federal block grant transactions.

Auditee Response:

Cash balances on hand and future receipts of returned Community Development Block Grant funds will be credited to the account from which they were expended and will be identified by special activities.

AGENCY/PROGRAM

CONDITION

Department of Economic and Community Development — Community Development Block Grant (CDBG)

Daily cash receipts log is not being reconciled to accounting records

Prior year finding

Auditee Response:

Community Development Block Grant (CDBG)

Interim Financing Program (IFP) loans receivable recorded as disbursements

Auditee Response:

Community Development Block Grant (CDBG)

Project time limitations appear inappropriate

The Community Development office receives checks and maintains a receipts log. The finance department deposits the receipts with the State Treasury.

No reconciliation occurs between the daily cash receipts log and the state's accounting records.

In order to provide adequate internal control, we recommend that periodic reconciliation be performed of the receipts log with records of funds deposited.

Lack of needed clerical support has prevented reconciliation of income statements with the receipt logs.

Under Housing and Urban Development (HUD) regulations, CDBG funds available but not presently required may be drawn and loaned to provide financing for projects which fulfill the intended goals of the CDBG program. The funds drawn and used as loans are reported as grant expenditures to HUD and are recorded as expenditures on the state's books. No receivable for outstanding IFP loans is established on the state's accounting records.

We recommend that IFP loans receivable be established on the state's books of account in order to properly reflect amounts due the state.

Grant expenditures were recorded as directed by the State Controller's Office.

Community Revitalization grants stipulate project completion time frames of either 18 or 36 months. In a sample of 20 grants, 17 had been amended to extend completion dates.

We recommend that grant award procedures be evaluated to determine the propriety of current completion requirements.

AGENCY/PROGRAM

CONDITION

Department of Economic and Community Development — Community Development Block Grant (CDBG)

Auditee Response:

The Office of Community Development has long recognized the problem associated with limiting awards of up to \$500,000 to a maximum execution period of 18 months and \$1,000,000 awards to 30 months. Most communities cannot hire staff, develop guidelines and policies, and administer grants of these proportions within those time frames, especially when considering the short construction season we experience here in northern New England.

We have decided not to contract for longer periods because we want to encourage communities to reach their goals as expeditiously as possible. This decision often necessitates contract extensions, but we feel if we permit communities more time, more time and administrative funds would be spent completing a contract than is presently the case.

For 1989 we have reduced the level of awards most communities have received in order that activities can be completed within the 18 to 30 month periods. The average award has dropped from \$419,460 in 1988 to \$336,750 in 1989.

HUD has a general concern about the timely expenditure of funds, but the State of Maine Community Development Block Grant program has always met and exceeded their rate of expenditures expectations.

Community Development Block Grant (CDBG)

On-site monitoring is not scheduled until 50% of project funds available have been disbursed. Basing on-site visits in this manner does not take into consideration planned program objectives and program results.

AGENCY/PROGRAM

Department of Economic and Community Develop- ment — Community Development Block Grant (CDGB)

On-site monitoring
scheduling may not be
timely

Auditee Response:

CONDITION

We recommend that the criteria for scheduling monitoring visits be expanded to incorporate the degree of achievement of program objectives.

The Maine Community Development Block Grant program has a policy of on-site monitoring at the point that grant expenditures have reached the 40-60% expenditure level. HUD has accepted this as a reasonable policy. If we were to monitor earlier, some activities included in the grant would have yet to commence.

We provide an abundance of technical assistance to communities to assist them in the timely completion of their activities. We conduct a site review of each community during the application review stage. We conduct at least two on-site visits during the Phase II process. We schedule an on-site visit shortly after the execution of a contract between the State and the community. We hold a new grantee (2 in 1989) workshop and provide each community with a copy of the compliance requirements contained in the "Blue Book." We monitor on-site at the 40 to 60% expended stage and conduct a closeout visit at the time of project completion. In addition, we have almost daily contact with each grantee, we review all drawdown requests as submitted by the towns, and we receive and review quarterly reports in great detail.

AGENCY/PROGRAM

CONDITION

Department of Economic and Community Development — Community Development Block Grant (CDBG)

An employee was underpaid

Auditee Response:

An employee of the department was underpaid, due to calculation errors, by \$85.20 in retroactive pay resulting from a reclassification.

We recommend that the retroactive pay be recalculated, and that the employee be reimbursed accordingly.

The employee will be reimbursed for the underpayment.

Department of Educational and Cultural Services — Bureau of School Management

Education loans receivable

Prior year finding

Loans made to Post Graduate Health Professional Program recipients still in school and some loans made to Blaine House Scholars are not established as loans receivable on the records of the State Controller. State assets are therefore understated by approximately \$9 million. We also noted that the related reserve for uncollectible accounts was established at 100% of the recorded receivables balance.

We recommend that loans receivable and the appropriate entries to revenue be recorded in the accounting records of the State Controller. We also recommend that the department annually age the loans receivable so that an adjustment may be made that will ensure that a sufficient reserve for uncollectible accounts is established.

Auditee Response:

We concur. The original plan was to comply with the auditor's recommendation. However, when the Education Loan Authority was being considered, we decided to wait until the issue was settled. With the eventual move of these loans to the Finance Authority of Maine (FAME), we are reluctant to spend the time required in regards to this matter.

AGENCY/PROGRAM

CONDITION

Bureau of School Management

Handling of cash receipts for medical student loans needs better controls

Prior year finding

Individuals who receive student loan repayments are also involved in the maintenance of the receivable records.

To improve internal control over cash receipts we recommend that medical student loan recipients be instructed to submit their payments directly to the department's Division of Finance for recording and deposit purposes.

Auditee Response:

We concur. However, to institute a new process and procedure for receiving repayment checks would not be realistic because of the new student aid authority law.

Bureau of School Management

Federal advances received were not recorded as liabilities

Prior year finding

The Maine Guaranteed Student Loan Program received \$618,783 from the U.S. Department of Education from 1978 to 1980. As of June 30, 1988, \$202,568 of this amount remains to be repaid to the federal government. The advance is not reflected as a liability on the records.

We recommend that all federal advances received be recorded as liabilities on the state's records.

Auditee Response:

We concur. Decisions to change the current record keeping functions will be made by the new Loan Authority.

Bureau of School Management

Lender agreements are pre-signed

Agreements between the State of Maine and lenders are pre-signed by the Chairman of the Board of Education. As the board meets only once monthly, agreements are pre-signed to avoid delay.

Since no other signature from the Department of Education and Cultural Services is required to bind the agreement, the control measure of having the Chairman of the Board review and approve all agreements is defeated.

To assure that agreements are properly reviewed and authorized, we recommend that they be signed by the department representative only after having been completed by lenders.

AGENCY/PROGRAM

CONDITION

Auditee Response:

We concur. Unless there is some way to assure that the Chairman of the State Board will be available to sign an agreement as soon as it is received from the lender, then the present presigning of agreements must continue.

Department of Educational and Cultural Services — Division of Finance

Travel and expense vouchers review is inadequate

We noted instances in which employees were reimbursed for excess mileage; the purpose of travel was inadequately documented; expense vouchers were not submitted on a monthly basis; and meal reimbursements exceeded specified rates.

We recommend that those individuals approving expense vouchers review carefully to ensure compliance with both state and agency rules and policies.

Auditee Response:

We concur. Officials approving travel and expense vouchers should review the forms for propriety by verifying there is adequate explanation of purpose for travel and that mileage, meals, lodging and other expenses are reasonable and calculations are correct.

The Division of Finance approves vouchers for payment. The supervisor is the only person that would have knowledge of the correctness in the areas mentioned above. Supervisory personnel will be more diligent in reviewing travel and expense vouchers.

Division of Finance

Lack of independence — internal audit position

The internal auditor within the department is, organizationally, part of the Finance Division and reports to the division director.

The U.S. General Accounting Office's Government Auditing Standards, Chapter 3, Section 19 states:

"To help achieve organizational independence, the audit organization should report the results of their audits and be accountable to the head or deputy head of the government entity and should be organizationally located outside the staff or line management function of the unit under audit."

AGENCY/PROGRAM

CONDITION

Auditee Response:

We recommend that the internal audit function of the department be reestablished under the direction of, and reporting to, either the Commissioner or Deputy Commissioner.

The position in question is incorrectly identified as that of an "internal auditor." The person in this position rarely audits aspects of the internal operations of the department. Rather, this position functions as a coordinator and reviewer of external audits. We decline to make a change in organizational structure based upon our interpretation of the duties of this position.

Division of Finance

Cost savings could result from improvements in telephone reimbursement procedures

One employee made work related telephone calls and requested reimbursement on travel and expense vouchers rather than using the state's long-distance access codes.

We recommend that telephone calls be placed using the long-distance access provisions of the state system.

Auditee Response:

We do not concur. The employee in question does have a telephone access code number. The issue that needs to be addressed is for her to obtain authority to use remote access from her home. This will be done with the approval of her supervisor.

AGENCY/PROGRAM

CONDITION

Department of Educational and Cultural Services — Division of Management Information

Transportation operating costs incorrectly calculated

The School Finance Act provides General Purpose Aid for transportation based upon transportation costs incurred by Local Educational Agencies (LEAs).

Our examination disclosed that transportation operation costs are calculated manually and that three of twenty-five computations tested were incorrect. The formula used to determine transportation operation costs is not in writing thereby making calculation errors likely.

We recommend that all formulas used to compute allocations be in writing and that manually prepared data be subjected to reviews for accuracy.

Auditee Response:

We concur. The Division of Management Information plans to not only write the formulas but to do the calculation by using a computer program. They expect to do this in conjunction with the installation of the new computer system.

Department of Educational and Cultural Services — Food Distribution Program

No written policies and procedures manual

There is no written policies and procedures manual for the Food Distribution Program staff to use. A manual is essential to document procedures used in processing transactions, in preparing and submitting reports and in training new personnel. Without a manual, steps to processing data could be omitted, reports could be submitted late, and training could be inconsistent.

While a substantial amount of time may be required to produce a manual, maintaining greater control through documentation of procedures is a benefit which outweighs the initial investment of time.

AGENCY/PROGRAM

CONDITION

Department of Educational and Cultural Services — Food Distribution Program

Auditee Response:

Department of Educational and Cultural Services — General Purpose Aid

Inadequate controls to
determine local alloca-
tions in effect

Auditee Response:

Department of Educational and Cultural Services — Teacher Recognition Block Grant

Block grant distributions
incorrect

We recommend that a financial procedures manual be written and implemented.

We concur. However, until funding becomes available to fill the three existing vacancies in the division, the development of a policy and procedures manual has a low priority. The manual is contemplated for the future.

General Purpose Aid distributions to local Educational Agencies (LEA) are based upon an allocation formula specified in 20 MRSA, Chapter 606, Section 15605, Subsection 2.

Corrections to allocation data were made based on verbal communications. No written verifications were required.

We recommend that no changes to reports submitted by LEAs be made without written verification. We further recommend that efforts to computerize the data collection and compilation functions be initiated to reduce both the time required to produce population lists and lessen the error risk.

We concur. The Division of Management Information no longer accepts changes verbally over the phone. Effective immediately, they will require a copy of the enrollment reports with changes noted and signed by the superintendent. In addition, they have provided the person responsible for enrollment reports with a personal computer. A new computer system will be installed in the division which should also provide increased capability.

20-A MRSA, Section 13509, 4(E) requires block grant calculations to be based upon local staff data submitted by Local Educational Agencies (LEA) to the department. Additionally, subsection 4(D) requires that each LEA receive a minimum of \$800 per teacher.

The number of teachers used to determine block grant amounts differed from the infor-

AGENCY/PROGRAM

CONDITION

Department of Educational and Cultural Services — Teacher Recognition Block Grant

mation supplied by the LEAs in five of ten LEAs tested. One LEA received less than the minimum amount per teacher.

Due to the significant error rate (50%), we recommend that all block grant distributions be re-evaluated to determine the accuracy of grants awarded and that the following adjustments be made:

<u>LEA</u>	<u>Additional Amount Due (Overpaid)</u>
MRV 10	(\$ 800)
SAD 10	20,972
Auburn	800

Auditee Response:

It was recommended we pay an additional \$20,088 to one school administrative unit. We believe the subsidy paid to this school administrative unit is correct and, therefore, no additional payment is due. The 1984-85 salary scale used by us was certified as being correct by the then superintendent of schools. Backup documentation supporting our determination is on file in the Division of Management Information.

It was recommended that we pay an additional \$800 to one school administrative unit due to exclusion of one teacher at Range D, Step 9, on the salary scale. We concur with this part of the recommendation. Backup documentation is on file in the Division of Management Information.

It was recommended that we collect back \$800 from a vocational region due to an additional teacher being included in salary Range A, Step 12. This appears to be the result of a keypunch error on our part. We concur with this part of the recommendation. Backup documentation is on file in the Division of Management Information.

It was recommended that adjustments, in unspecified amounts, be made to two

AGENCY/PROGRAM

CONDITION

Department of Educational and Cultural Services — Teacher Recognition Block Grant

Changes to documents submitted by local educational agencies are undocumented

community school districts. We have reviewed data available and see no need for an adjustment to amounts paid these units. Backup documentation is on file in the Division of Management Information.

Of ten documents submitted by Local Educational Agencies (LEA), eight had changes with no documentation to support the alteration.

20-A MRSA Section 13509, 4(E) requires block grant calculations to be based upon local staff data submitted by LEAs to the department.

We recommend that all changes be noted as to their source and that LEAs be advised as to the number of teachers used in the computation of grant awards if different from information originally provided by them. Additionally, we recommend that LEAs be required to submit revised documents when changes are needed.

Auditee Response:

The division sent the individual copies to appropriate LEAs and feels they complied with the recommendation to document all changes. The LEAs were informed of the number of teachers used in computations that differed from the information submitted by them.

Department of Educational and Cultural Services — Governor Baxter School for the Deaf

Maintenance of personnel records inadequate

Personnel records were incomplete. Certain time sheets and personnel folders could not be located. Time sheets were not always signed by employees' supervisors. Hours paid to one individual were greater than the hours worked for a 4 week period examined.

Maine Civil Service Rules, Section 14.1 require each department or division to maintain an adequate set of employee records for the recording of attendance and leave actions.

AGENCY/PROGRAM

CONDITION

Governor Baxter School for the Deaf

Auditee Response:

Governor Baxter School for the Deaf

Overpayment to injured
employee

We recommend that procedures be developed to insure that time and attendance records are prepared and maintained for all employees.

Baxter School concurs. They are working with employees and supervisors to correct this recurring problem.

An injured employee was maintained in full-time active status on the payroll while also receiving workers' compensation benefit payments.

Civil Service Rules, Chapter 11, Section 2(D)(1) state that:

"In the event an employee is paid or awarded any weekly compensation under the provisions of the Workers Compensation Act, then the amount that might otherwise be allowed such employee under the provisions of these rules shall be reduced by the amount so paid or awarded under the Workers Compensation Act. In any such case, the total amount paid to the employee involved shall not exceed the weekly rate to which the said employee is then entitled, and seniority in employment shall continue to accumulate."

This individual was overpaid approximately \$4,559. This amount represents a 9 week period in which the employee apparently did not work, as well as 42½ hours recorded as "leave without pay", which was paid.

We recommend that the overpaid wages be recovered. We also recommend that procedures be implemented and adequate training to payroll personnel be provided, to insure compliance with the State Civil Service Regulations.

Auditee Response:

Baxter School concurs. The employee was unaware of the overpayment and is willing to pay back the amount once it is accurately determined.

AGENCY/PROGRAM

CONDITION

Governor Baxter School for the Deaf

Two employees were
overpaid

Our examination noted two instances where employees were compensated at rates exceeding the allowable amount for the position. Extra pay was listed on payroll records and shown as "EXP". This classification is applicable only in very specific cases, in accordance with the collective bargaining agreement. The employees noted herein do not meet those specific criteria.

Maine Civil Services Rules, Chapter 5, Section 1(c) state: "Any salary paid to an employee in the classification service shall represent the total remuneration for the employee, not including reimbursements for official travel. Except as otherwise provided, no employee shall receive pay from the state in addition to the salary authorized under the schedules provided in the pay plan for services rendered, either in the discharge of ordinary duties, or in the performance of any additional duties which may be imposed, or which may be undertaken or performed voluntarily."

We recommend that personnel involved in the payroll preparation function be given appropriate training and that procedures be developed to prevent unallowable payroll costs from being incurred.

Auditee Response:

Baxter School misunderstood the use of "EXP" (Extra Duty Pay). Special payment stipends and payroll codes will be used only when appropriate. They will take steps to prevent this from occurring in the future.

Governor Baxter School for the Deaf

Procedures used to reimburse locally handled funds not adequate

Our examination disclosed one instance where reimbursement of locally handled funds was accomplished by submitting a "dummy" invoice in the name of, and having a check issued to, the spouse of one of the school's employees. The check was then endorsed and deposited to the locally handled funds bank account.

AGENCY/PROGRAM

CONDITION

Governor Baxter School for the Deaf

The purpose of the original disbursement was a legitimate purchase; ultimately the transaction was recorded as an expense of the school and the locally handled funds account was reimbursed. However, the methods used throughout the transaction cycle represent unsound accounting practice and are not consistent with the state's financial procedures.

We recommend that procedures be implemented which will insure adherence to accepted accounting procedures and preclude checks from being issued to other than the correct payee.

Auditee Response:

This process was necessary to meet a Section 504 accessibility issue for a multiple-handicapped student during school break. The school's staff was appropriately trained in this matter. The problem was the urgency of meeting the child's needs over the necessity of complying with state purchasing regulations. The school realizes this process was cumbersome and misleading. They will take steps to assure this does not occur in the future by contacting the Division of Finance for assistance.

Governor Baxter School for the Deaf

Educational leave granted
without prior approval

Civil Service Law, with
respect to one position,
was circumvented

A request for educational leave with pay was granted to one individual without first obtaining the approval of the Educational Leave Advisory Board. The board later refused to accept the request because it had not been appropriately submitted. The educational leave was to have commenced on September 1, 1988. No records of time worked by this individual could be located for the period July 9, 1988 through December 24, 1988.

Payroll expenditure records indicate that the individual worked on a part-time basis for some of this time. No authorization was received from the Bureau of Human Resources to convert the full-time position to a part-time position. Also, it appears that a

AGENCY/PROGRAM

CONDITION

Governor Baxter School for the Deaf

second individual was paid additional compensation ("EXP") to perform the duties normally performed by the first individual during this time. "EXP" pay did not appear to be justified.

State law, 5 MRSA, Section 721-727, which established the Educational Leave Advisory Board, requires all applications for educational leave to be approved prior to commencement of leave.

Civil Service Law, Chapter 69, Section 903 stipulates that, for a department or agency to alter a position from full-time to part-time basis, a position detail record must be filed and approved by the Bureau of Human Resources. This procedure was not followed for the instance examined.

We recommend that payroll and personnel employees be given adequate training to insure adherence to state personnel policies and procedures in the future. We also recommend that school administrators either reclassify the position in question or require full-time attendance by the person currently employed.

Auditee Response:

Educational leave with pay was not granted to any individual by the school. It is correct that timecards are not available but services were rendered. Therefore, Baxter School does not feel it necessary to recover payment. They will be obtaining documentation for this time for their records. Their understanding of the use of "EXP" was incorrect. They will take steps to prevent this from occurring in the future.

AGENCY/PROGRAM

CONDITION

Executive Department — Office of Energy Resources

Time sheets inadequately documented

Two of five employees tested in a payroll sample did not account for all of their hours paid during the test period. Time sheets of another employee did not have signed supervisory approval.

There is no assurance that employees' pay is correct or that charges against public funds are correct.

We recommend that all employees document on their time sheets all hours to be paid including work and non-work hours (sick leave, vacation, etc.) and that signed supervisory approval be reflected on all time sheets.

Auditee Response:

Time sheets are checked for proper documentation and signed by supervisory staff and then reviewed by the Director of Administrative Services. The hours are then recorded by clerical staff.

Office of Energy Resources

Petroleum Violation
Escrow/Exxon and Strip-
per Well Funds

Grant budget documents
incorrectly prepared

Funds for a specific program activity of the federal SECP grant were listed under an incorrect classification and the sum of the individual budget items exceeded the listed total budget by \$61,000. Had expenditures for each of the activities listed reached the budgeted maximums, the total approved budget would have been exceeded.

We recommend that controls be implemented which will ensure that grant budgets are prepared correctly and accurately.

Auditee Response:

The State Planning Office was allocated \$50,000 in Petroleum Violation Escrow funds in order to participate in the New England Governors' Conference (NEGC) study of the New England Electric Power Needs. The money was to be used evenly over three years. The NEGC billed the third payment six weeks early. The Department of Energy approved the transfer because it was within the plan, if not the period. This office routinely revises its State Energy Conservation Program plan to

AGENCY/PROGRAM

CONDITION

Office of Energy Resources

reflect program changes. In this case the budget figure should have been revised and the payment held for one month.

Budgets are prepared, reviewed, and monitored by the business manager and Director of Administrative Services. They are revised, on occasion, when programmatic changes occur or projected budget levels increase or decrease. Budgets are reviewed regularly on a quarterly basis.

Office of Energy Resources

The Office of Energy Resources considers its oversight role to consist of disbursing funds

The Office of Energy Resources considers its role as administrator of the "Exxon Fund" and the "Stripper Well Fund" to consist of disbursing funds and preparing reports of program expenditures.

Prior year finding

The office does not monitor fiscal activities of subrecipients, but places reliance on audits to determine any inconsistencies or disallowances. There are no procedures in place to verify subrecipient compliance with provisions of agreements on an ongoing basis.

We recommend that the Office of Energy Resources provide an appropriate level of assurance that applicable federal regulations, as well as the terms and conditions of subrecipient agreements, are followed.

Auditee Response:

These recommendations have been reviewed and implemented.

The Office of Energy Resources (OER) does monitor fiscal as well as program activities on a quarterly basis and determines whether federal regulations are followed. The OER lacks staff to monitor other departments' programs on a daily or weekly basis.

AGENCY/PROGRAM

CONDITION

Office of Energy Resources

Recording of revenue is
inconsistent and/or
incorrect

Three character and object (C&O) codes (misc. income, 2686; interest income, 2105; contributions to trust and agency, 2724) were used interchangeably to record revenue, making information available for use by management, the budget office and the legislature misleading and unreliable.

We recommend that procedures be implemented which will ensure that funds received are recorded correctly and consistently.

Auditee Response:

These procedures have been reviewed and implemented. The business manager records revenues from different sources separately and consistently by character and object code in accordance with this recommendation.

Department of Finance — Bureau of Accounts and Control

Improper use of prepaid
expense account

Prior year finding

As of June 30, 1988 recorded assets were overstated and expenditures understated by \$5,054,688, due to improper use of prepaid expense account.

In the General Fund a \$3,718,741 debit to prepaid expense (rather than to expenditures) was made as the balancing entry to the amount recorded as "Due to" other agencies for services received. In other funds, debit entries to prepaid expense were made to avoid deficits which would have been created by recording expenditures to accounts in which sufficient funds were not available.

In order to present an accurate picture of financial position and to record expenditures in the period in which the obligations are incurred, we recommend that use of the prepaid expense account be limited to those situations where the obligation or expenditure is for goods or services to benefit a future period. We also recommend that the system

AGENCY/PROGRAM

CONDITION

Bureau of Accounts and Control

Auditee Response:

be more closely monitored to avoid the over-expenditure of available funds.

For GAAP reporting we will comply with your recommendation in our fiscal year 1989 financial report.

Bureau of Accounts and Control

Deferred Compensation Plan not recorded on the Controller's official records

Prior year finding

The State of Maine is accountable for amounts received from participants in a Deferred Compensation Plan. As of June 30, 1988 \$38,621,411 in Deferred Compensation Plan assets/liabilities had not been recorded on the official accounting records of the state.

Past practice has been to record the cash value of Deferred Compensation Plan assets/liabilities only in the State Controller's Annual Financial Report and not on the state's accounting records.

We recommend that all funds or assets entrusted to the state be recorded.

Auditee Response:

Under our Maine Financial and Administrative Statewide Information System (MFASIS) reporting we are planning to set up a fund for Deferred Compensation and do quarterly reporting in it. We also are exploring having memo accounting for the other funds.

Bureau of Accounts and Control

Municipal revenue sharing transfers in excess of those required; inadequate supporting documentation

30-A MRSA requires a monthly transfer of \$237,000 and 5.1% of certain taxes to the local government fund for distribution to municipalities in a revenue sharing program.

In the 1988 fiscal year, transfers totaling \$234,121 in excess of those required by statute were made to the municipal revenue sharing program. In addition, supporting documentation retained was inadequate to support the amounts transferred.

We recommend that the Bureau of Accounts and Control correct the amount transferred to the municipal revenue sharing account (4070.4) by reducing such amount \$234,121. We also recommend that documentation be

AGENCY/PROGRAM

CONDITION

Bureau of Accounts and Control

Auditee Response:

Bureau of Accounts and Control

Control over blank checks and signature plates

Prior year finding

retained to support all journal entries and that all nonroutine journal entries be reviewed and approved by someone other than the preparer.

We will investigate this finding and make any necessary correcting entries.

The following accounting control weaknesses exist in the processing of checks issued by the state:

1. "Leader" checks, which are blank checks used to properly align the computer printer used to impress the typeset information on the checks, are kept in an open mesh wire in-basket while awaiting recording, destruction and disposal by the bureau's control section.
2. Signature plates for State of Maine checks (second set) are kept in an unlocked cabinet during the day. Overnight, both sets of signature plates are placed in the locked cabinet and the cabinet keys are kept in the same room. Check signing personnel are apparently allowed to remove the plates without requiring the presence of another employee.

We again recommend that the following procedures be implemented to improve internal control over the check processing operations:

1. That "leader" checks be kept locked up until such time that they can be voided, destroyed, or discarded.
2. That the duplicate set of signature plates be stored in a locked safe away from where the primary plates are stored; that keys or lock combinations used to gain access to the safe be adequately safeguarded to insure confidentiality; that only designated individuals (someone other than the employee responsible for operating the check signing machine) be

AGENCY/PROGRAM**CONDITION****Bureau of Accounts and Control**

allowed access to the plates being stored for safekeeping; that a log book be maintained documenting the following information: date and time plates are removed and returned from/to storage, signature of employees removing and returning the plates, signature of a witness to the removal and return of the same plates.

Auditee Response:

We concur and are implementing these procedures.

Bureau of Accounts and Control

Certain payroll deduction accounts are not reconciled

Payroll deduction account balances for the Maine State Employees Credit Union, Blue Cross/Blue Shield and dental insurance have not been reconciled. Consequently, balances reported by the State Controller are inaccurate and include other than current amounts.

We recommend that reconciliations be prepared and appropriate adjustments be recorded in order to reflect correct account information.

Auditee Response:

These accounts are reconciled monthly.

Bureau of Accounts and Control

Tax Adjustment Reserve Fund transfers

Chapter 816 P.L. of 1987 requires the State Controller to transfer to the General Fund any balance on June 30, 1988 in the Tax Adjustment Reserve Fund that has been certified as corporate income tax revenue as per 5 MRSA §1514.

The amount transferred to the General Fund was \$8 million. The amount that should have been transferred was \$8,536,239.

We recommend that the State Controller transfer the remaining June 30, 1988 balance of \$536,239 from the Tax Adjustment Reserve Fund to the General Fund.

Auditee Response:

This has been accomplished.

AGENCY/PROGRAM**CONDITION****Department of Finance —
Bureau of Alcoholic
Beverages**

Improper handling of petty
cash fund

A \$500 shortage was revealed by the February 22, 1989 cash count of state petty cash funds at State Liquor Store No. 5, Augusta. The missing money had been used as a change fund for State Lottery ticket sales. The store manager was unable to explain the reason for the missing funds and noted that the shortage was first disclosed approximately a year ago. Our review of the bureau's internal audits revealed that internal auditors had detected a \$400 shortage on February 22, 1988. However, as of the time of our audit, their preliminary report had not been reviewed and a final report had not been released.

We recommend that appropriate adjusting entries be made to the accounting records to reflect the shortage. We further recommend that internal audit reports be issued by the bureau on a timely basis and that corrective action be taken.

Auditee Response:

Store manager later "found" \$100 in envelope in safe.

Net unexplained loss — \$400

ACTION:

1. Steps are underway to replace store manager.
2. A memo has been issued requiring store management to report, daily, cash fund balances (both liquor and lottery funds) in the "remarks" section of Form 109.

FURTHER RECOMMENDATION:

Liquor Accounting should revise Form 109 to reinstate a permanent space, rather than the "remarks" section, to record change fund balances. Prior to a 1986 revision of the form, such a space existed but, at the revision, the recording space was deleted.

AGENCY/PROGRAM

CONDITION

Bureau of Alcoholic Beverages

Action will be taken to revise Form 109 to provide for a space to record change fund balances. The revised form will be used when the supply of the current forms is exhausted.

Bureau of Alcoholic Beverages

Control over liquor store
inventories

Prior year finding

Liquor store managers and/or assistant managers are not consistently signing receiving reports for the purpose of verifying shipments received. Twenty-seven of forty-three receiving reports (63%), for the week ending February 25, 1989, were not signed.

A test of physical inventories conducted at two store locations revealed significant variances.

We again recommend the following to strengthen internal control over inventory at the state's licensed liquor stores:

1. That liquor store managers document their verification of items received by signing a copy of the shipping document and that such documentation be retained on file for future auditing purposes.
2. That bureau personnel investigate and determine the reason(s) for any large variances and that due care be taken to properly and accurately record all inventory transactions/adjustments.

Auditee Response:

Store management **is** signing the original (driver's) bill of lading but, because the bills of lading do not contain a carbon, the signature is not transferred to the store copy.

AGENCY/PROGRAM

CONDITION

Bureau of Alcoholic Beverages

1. **ACTION:**
A memo, which requires store management to sign and document inventory receipts on the store copy of the bill of lading, has been issued.
2. **ACTION:**
 - A. To monitor and control variances, stores which have discrepancies involving 30 or more line items (approx. 3 to 5% of total items) are now required to inventory monthly, rather than quarterly.
 - B. The supervisor's store contact report has been revised and expanded to cover more comprehensive monitoring of all store activities, including inventory.
 - C. Store managers now prepare a semi-annual operating plan and a monthly (EOM) report which includes inventory as well as labor hours and sales activity.
 - D. Store supervisors are now required to investigate and report, within five days, on any "unsatisfactory" store audit.
 - E. Steps are being instituted which will require:
 - 1) Store management to research inventory discrepancies (between daily C/R tape summaries and the weekly computer sales/inventory printout) on a more thorough and timely (weekly) basis.
 - 2) Store supervisors will be required to monitor "A", above, on a regular basis.

AGENCY/PROGRAM

CONDITION

Bureau of Alcoholic Beverages

Insufficient documentation to support accounts payable balance

Documentation used to establish over \$1.8 million of the June 30, 1988 accounts payable balance was not retained by the bureau. The missing documentation is a report produced by the bureau of bi-weekly withdrawals of alcoholic beverages from the storage warehouse.

According to agency personnel, these reports are only retained for approximately two months due to their bulk and to insufficient storage space.

We recommend that all records used to establish accounts payable be retained by the bureau until audited.

Auditee Response:

Documentation in support of accounts payable will be retained until an audit is made of the activity.

Bureau of Alcoholic Beverages

Warehouse inventory not reconciled; unrecorded "Parallel Imports" inventory

Prior year finding

Warehouse inventory reports differed from the bureau's Bottle Sale Inventory Value report by 35,748 bottles. The warehouse inventory for "Parallel Imports" of 70,488 bottles was not included in the state's report and consequently its value of \$488,050 was not included in the state's financial statements as of June 30, 1988. The adjusted differences of 34,740 bottles, with an inventory value of \$106,066, had not been reconciled as of March 19, 1989.

We also noted that state liquor stores will no longer be required to take monthly physical inventories, but inventories will be required once every four months with a variable schedule throughout the year.

To ensure that the financial statements reflect a correct value of inventory, we again recommend that inventory reconciliations be periodically conducted. We further recommend that the bureau document methods and procedures followed in the physical control of

AGENCY/PROGRAM

CONDITION

Bureau of Alcoholic Beverages

Auditee Response:

Bureau of Alcoholic Beverages

Liquor sales not always
recorded

merchandise and that all supporting documents be retained until an audit is performed.

Monthly inventory reconciliations will be made and supporting documents will be retained until an audit is made of the activity.

State liquor store cash register printouts operate at slower speeds than some operators enter data. In multiple sale transactions to a single customer, cash register machine tapes occasionally do not reflect the sales amount of all the coded bottles on the tape.

Lost revenue results from any entry that lacks a sales amount, as missing sales amounts are not included in the total sales amount that is collected from the customer.

To prevent lost revenue, we recommend that the cash/inventory register machines in all state liquor stores be modified so that they will record all multiple bottle sale amounts.

Auditee Response:

The vendor of the cash registers used in state liquor stores has made certain modifications to the registers and it is believed that all sales are now accepted by the registers.

Department of Finance — Bureau of Lottery

Submission of travel and
expense vouchers

The State of Maine Manual of Financial Procedures §40.14 requires expense vouchers to be recorded at least once per month. One of eighteen expense vouchers examined contained expenses totaling \$127 that had been incurred during the previous four-to-ten month period.

The substantial delay from the time the expenses were incurred to the time reimbursed resulted in fiscal year 1987 expenses being paid in fiscal year 1988.

AGENCY/PROGRAM**CONDITION****Bureau of Lottery**

We recommend that the Bureau of Lottery require its employees to submit expense vouchers on a monthly basis.

Auditee Response:

We are sending a memo to all employees regarding the correct procedures to follow concerning the submission of expense vouchers.

Bureau of Lottery**Lottery imprest account**

The Bureau of Lottery has a \$100,000 imprest petty cash checking account which is used to redeem winning tickets. As of June 30, 1988, the account balance per bureau records was \$18,615 less than the amount authorized and recorded by the State Controller. Conversely, as of May 1988, the bureau's imprest account balance approached \$200,000, nearly \$100,000 more than the authorized amount.

The petty cash fund is reimbursed by charges to the Lottery Prizes Suspense Account (#67205). Procedures allowed the fund to be regularly reimbursed twice for taxes withheld from prize amounts. Imprest account reconciliation procedures were inadequate, and no attempt was made to match disbursements and reimbursements.

We recommend that Bureau of Lottery personnel identify and resolve the variance as soon as possible and that reconciliation procedures be implemented immediately.

Auditee Response:

Reconciliation procedures concerning the imprest account have been changed. The variance has been identified and resolved. The new procedures match the bank statement to the outstanding check register and also reimbursements are matched to the disbursements. This account is reconciled on a monthly basis and brought back to the authorized \$100,000.

AGENCY/PROGRAM

CONDITION

Bureau of Lottery

Lottery petty cash
account

Prior year finding

Prenumbered receipts were not used in three of the ten petty cash withdrawals reviewed, nor was there any indication of the reason for the expenditures documented in four cases.

We recommend that established control procedures of the maintenance of petty cash be followed.

Auditee Response:

A petty cash voucher is used for each withdrawal and the reason is indicated on the voucher.

Bureau of Lottery

Lottery petty cash
account

A check for \$200, dated July 18, 1988, received on account by a state lottery agent was being held in petty cash as of April 24, 1989.

The cash received was not recorded in the bureau's records, nor in the lottery agent's accounts receivable balance.

A loss of revenue may occur if a check becomes uncollectible due to untimeliness of deposit.

We recommend that all checks received by state lottery agents be recorded and processed in a timely manner.

Auditee Response:

A check for \$200 has been returned to the payor because he was not an authorized lottery agent. We were in the process of removing the terminal from the licensed agent and didn't want to accept more money from one of his business associates. Acceptance of the \$200 payment might have jeopardized our efforts to remove the terminal.

Bureau of Lottery

Lottery Imprest Account

Checks issued from the Lottery Imprest Account are void after 90 days. Forty-two checks totaling \$1,342 over 90 days old were being carried as outstanding items per the June 30, 1988 bank reconciliation.

Items that are no longer legally negotiable should be restored to cash. No outstanding

AGENCY/PROGRAM

CONDITION

Bureau of Lottery

checks appear to have been written-off since the account was established in fiscal year 1986. As a result, cash is understated.

We recommend that Bureau of Lottery personnel periodically review outstanding checks and restore to cash those amounts that are no longer legally negotiable.

Auditee Response:

We have sent out letters to the payees of all the outstanding checks. If a response was received, we reissued checks for the amount of the winnings. For the winners that didn't respond, we are returning the money to the unclaimed prize account.

Bureau of Lottery

Lottery accounts
receivable

Items totaling \$5,582 of the Pick 3, Pick 4, and Megabucks accounts receivable subsidiary balance could not be identified. To be considered a valid asset, a receivable must be identified.

Because the manual general ledger balance was not being compared to the receivable amount generated by sales activity reports, accounts receivable may be overstated.

We recommend that a periodic comparison of the general ledger balance and sales activity reports be performed.

Auditee Response:

A reconciliation procedure has been established and documented. This procedure will reconcile the general ledger with system reports on a weekly basis.

Bureau of Lottery

Inconsistent receivable
records for pack
settlements

Prior year finding

Discrepancies in lottery agents' records of ticket accountability (pack settlements) are recorded as debits or credits to accounts receivable. Entries made to the ledger are identified and arranged by field representative and in chronological sequence. To determine any lottery agent's account receivable balance, all applicable outstanding receivables charged to the agent's respective field representative would have to be reviewed and totaled.

AGENCY/PROGRAM**CONDITION****Bureau of Lottery**

As a result, an agent's account receivable balance is not readily available and an assessment of agent performance is not easily obtained.

We recommend that accounts receivable records be arranged and organized according to lottery agent rather than by field representative.

Auditee Response:

The new instant ticket accounting system addresses this problem. Accounts receivable records are now kept for each agent.

Bureau of Lottery

Lottery accounts receivable

The bureau's accounts receivable have been aged and an allowance for doubtful accounts has been established; however, no accounts have been written off.

We recommend that the Bureau of Lottery assess their accounts receivable and allowance for doubtful accounts and make the necessary entries to adjust for uncollectible amounts.

Auditee Response:

There was a write-off done in fiscal year 1989 and another large write-off is planned for fiscal year 1990 which will clear up a number of old outstanding amounts which have been determined to be uncollectible.

Bureau of Lottery

Working capital advance

As of June 30, 1988, the Bureau of the Lottery had not paid \$335,000 of a \$400,000 working capital advance. The advance was received in 1973 (Chapter 570, Section 3, Public Laws, 1973) and was to be repaid in accordance with 8 MRSA §374, Subsection 1-L. This statute specifies that lottery revenue may be apportioned for repayment of the money appropriated. As monthly average transfers to the General Fund from the Bureau during fiscal year 1988 exceeded \$2 million, ample monies were available with which to repay the advance.

AGENCY/PROGRAM

CONDITION

Bureau of Lottery

The statutes relating to the apportionment of lottery revenues (Title 8, MRSA, Section 374 and 387) were interpreted to mean that all revenues remaining after the payment of lottery prizes and operating expenses were to be transferred to the General Fund as profits of the Bureau of Lottery (thereby leaving no means by which to repay the working capital advance provided by Chapter 570, Section 3, P.L. 1973).

We recommend that the Bureau of Lottery repay the outstanding working capital advance of \$335,000 before making the next transfer of profits to the General Fund.

Auditee Response:

The Bureau of Accounts and Control has reviewed the audit opinion on repayment of the remaining balance (\$335,000) of the original \$400,000 working capital advance. They concur that 8 MRSA §374 can be interpreted to authorize repayment of the remaining balance prior to making the next transfer of profits to the General Fund. Therefore, the Bureau of Lottery will repay the remaining balance of \$335,000 prior to the transfer of profits to the General Fund for the month ended October 31, 1989.

Bureau of Lottery

Lack of reconciliation procedures

At the Bureau of Lottery's Augusta office, cash receipts are logged in by one individual and deposits are made by another. A reconciliation of recorded cash receipts to deposits is not being performed.

Because income statements reflect deposits made at various locations, they are not necessarily supported by records of cash received at Lottery headquarters.

Deposit discrepancies, such as cash receipts being held, misappropriated or lost, are less likely to be detected in the absence of reconciliation procedures.

AGENCY/PROGRAM

CONDITION

Bureau of Lottery

To provide control over cash receipts, we recommend that the bureau periodically reconcile the cash receipts log to the processed income statements and account for any variances.

Auditee Response:

The income statement number has been added to all miscellaneous cash entered in the receipts log book payable to the Maine State Lottery.

Department of Finance — Bureau of Taxation

Detail ledger not maintained for use taxes

Prior year finding

Bureau records were incomplete as follows:

1. The bureau had no detail records to support a use taxes receivable balance of \$332,228 as of June 30, 1988.
2. TXS 075 computer summary runs, which are used to reconcile batch postings of sales and use taxes, were disposed of prior to audit.
3. Two of five income statements reviewed did not properly reference supporting individual income tax batch numbers.

As a result, use taxes receivable may be misstated; the 48000 accounts receivable balance could not be verified and incomplete audit trails hindered testing of batch posting accuracy.

In order that sufficient records are maintained to permit verification of account activity, we recommend the following:

1. That a detail record of use taxes receivable be maintained and reconciled, on a monthly basis, to the records of the State Controller;
2. That TXS 075 computer runs be retained until after an audit of the period has been performed;
3. That all appropriate information be referenced on income statements.

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

Auditee Response:

1. Use tax assessments for single item purchases of motor vehicles, boats, airplanes and other personal property are assigned group tax registration numbers. A unique registration number is not assigned to the taxpayers since they are not expected to incur repetitive liability. The group number assigned to item assessments for motor vehicles is 48000, for boats is 48002, etc. Collectively, they are referred to as the 48000 series of accounts.

The lack of unique registration numbers makes reconciliation of the individual receivable balances to the control account difficult and time-consuming. For the future, we intend to assign a unique number to each of these ten item accounts that are not fully paid prior to, or at the time of assessment.

2. Computer summary runs (TXS 075) are used to reconcile batch postings of sales and use taxes. These daily runs have been retained for one year. In the future, all runs pertaining to the fiscal year will be retained until the audit for that period is completed.
3. The total of cash received is reported by tax type and batch number(s) to the Controller on a Statement of Income (order form F-110). Reports of individual income tax receipts are usually prepared twice daily. Information on the F-110's is supported by, and traceable back to, our "batch summary sheets". We do not understand the audit comment that two income statements did not properly reference supporting batch numbers.

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

Vehicle use tax review

Prior year finding

A test of five use tax registration forms disclosed a 15 to 21 month delay between the time of motor vehicle registration and the initial contact made by bureau personnel when the tax paid, or valuation used as a tax base, seemed to be incorrect.

This diminishes the chances of collecting taxes due or of obtaining reliable information on which to base additional taxes due.

We again recommend that the Bureau of Taxation implement new procedures to ensure more timely assessment and collection of use taxes.

Auditee Response:

The Motor Vehicle Division issues a use tax certificate upon registration of a motor vehicle that was acquired from any party other than a registered dealer. A copy of each certificate is obtained weekly by the Sales & Use Tax Section and later scanned for possible underpayment of use tax due to under reporting of the vehicle price. Those transactions which could produce additional tax revenue are processed further: the computer terminal screen of vehicle title data disclosed any lienholder and the seller, one or both of whom are contacted for verification of the transaction price; if underpayment of use tax is evident from the reply, a bill for additional tax is sent to the buyer; if the buyer makes no response within 3 weeks or makes inadequate response, an assessment is issued. The annual volume of use tax certificates is over 200,000, and some 1% result in billing.

At the time of the fiscal year 1988 audit there was a huge backlog of certificates awaiting the initial scan. Since that time the use of a 6-month project position person has reduced the backlog to a reasonable level of 3 months which is sustainable in the future. A large backlog exists in the secondary processing stage, and there remains a 15-21 month delay

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

in contacting buyers. There is insufficient personnel in the Section to shift additional personnel to this function. Authorization will be pursued to employ another project person which will alleviate the condition at this stage, as it did in the initial scanning.

Bureau of Taxation

Interest and penalties not posted to agency receivable records

Interest and penalties, associated with certain overdue income, sales, use and inheritance taxes, have not been posted to agency receivable records.

As a result, recorded receivables and revenue/fund balance amounts are understated. Revenues also may be incorrectly recorded when records are brought up-to-date rather than in the fiscal period the revenue is earned.

We recommend that delinquent account files be reviewed, interest and penalties determined, and the resulting amount established as a receivable on the records of the bureau and the state Controller. Once the account files are correct, interest and penalties should be maintained on a current basis.

Auditee Response:

During a several year period from about 1980 to 1987 accrued interest and additional penalty were not posted to the receivable records of individual income tax, demand sales tax and withholding tax. In order to correct the balance of these accounts, the additional amount must be calculated manually. Since 1987, many of the account balances have been corrected as the result of payment activity and collection efforts. The remainder are being addressed as collection efforts continue, and the correction process is expected to be completed in the next year or so.

A program to address all accounts with unaccrued interest and penalty has not been initiated as it would divert needed resource from the total collection effort. Each collector

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

is responsible for an average of about 5,000 delinquent accounts. Obviously, such a caseload means that low priority tasks are postponed.

The net understatement related to the unposted amounts may not be significant. The accounts tend to be of small amounts or least unlikely realization due to taxpayer circumstances such as bankruptcy or death. Any addition to the balance would be partly offset by an increase in the accounting reserve for uncollectibility.

Bureau of Taxation

No verification of "not required" filing status indicated on Maine estate tax forms

No verification is made of Maine estate tax returns (Form 706-ME) indicating a "not required" filing status for federal tax reporting purposes.

Estate tax may be lost if the filing status information is incorrect.

We recommend that bureau personnel verify all Maine estate tax returns indicating a "not required" filing status with federal tax records.

Auditee Response:

The Maine estate tax is based on the credit for state death taxes allowed in the determination of the federal estate tax. The Internal Revenue Service (IRS) will not allow such credit without evidence of a payment receipt from the appropriate state taxing authority. Pursuant to our information exchange agreement with the IRS, the Bureau is provided a report of all IRS tax audit changes, as well as the federal returns that have been accepted as filed. Maine estate tax returns are similar to income tax returns in that they are filed with an affidavit by the taxpayer or representative "under penalties of perjury", and a false affidavit is a criminal offense. The form 706-ME includes a declaration that a federal estate tax return is, or is not, required.

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

Although a federal estate tax return is not required, many estate agents file a Maine estate tax return: The filing is necessary to obtain a Certificate of Discharge of Estate Tax Lien relating to real estate that was held in the name of the decedent. Given the present circumstances, we believe there is little likelihood of lost succession tax revenue and that a separate verification procedure of these returns is not necessary.

Bureau of Taxation

Inconsistencies noted in gasoline tax records

Testing of gasoline taxes disclosed the following:

1. Gasoline tax worksheets did not reflect abatements, causing the agency's taxes receivable records to be overstated by \$5,304 as of June 30, 1988. Bureau personnel became aware of the problem and corrected the receivable records prior to the date of audit.
2. Distributors' gasoline tax report calculations are not thoroughly reviewed by the Excise Tax section.
3. A Schedule 10 was missing from one of the six gasoline tax reports selected for testing of supporting schedules.
4. Nine of one hundred gasoline tax refund applications tested were filed with the State Tax Assessor after the 15th month from date of purchase, the deadline established by 36 MRSA §2908.

In order to accurately reflect gasoline taxes receivable, we recommend that agency personnel be advised as to required procedures. To ensure that gasoline taxes are correctly calculated, we recommend:

1. That a review be made of the inventories, receipts, and distribution sections of the gasoline tax reports.
2. That due care be exercised to retain all necessary supporting schedules.
3. That gasoline tax refund applications for time periods beyond those allowed by 36

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

MRSA §2908 be returned to the filers (distributors) and not be processed for payment.

Auditee Response:

Since the time of the last audit field work by Department of Audit personnel, the Excise Tax section has conducted additional staff training and is implementing improved techniques to address deficiencies.

The clerks who process motor fuel tax returns and refund applications have been given additional training in proper procedures, and the work is more closely supervised. The refund application form is under revision, and gallonage consumed in off-highway use will be required to be reported for each month of the claim period. This additional information will be a further aid in detecting claims beyond the allowable 15 month period. At the present time the record keeping of refunds is entirely manual, but a computer program is being developed which will offer better control. Analysis is now underway to automate the excise tax system.

Bureau of Taxation

Cost reimbursements not recorded in accordance with Generally Accepted Accounting Principles

Reimbursement of costs associated with the collection of gasoline and industry taxes are not recorded in accordance with Generally Accepted Accounting Principles (GAAP). Reimbursements are currently recorded as expenditures in the reimbursing funds and as revenue in the fund being reimbursed. As a result, General Fund revenues and expenditures are overstated by \$615,924.

We recommend that reimbursements be recorded as outlined in §1800.103 of the Government Accounting Standards Board codification which states, "Transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that are properly applicable to another fund should be recorded as expenditures or

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

expenses (as appropriate) in the reimbursing fund and as reduction of that expenditure or expense in the fund that is reimbursed."

Auditee Response:

For each year of a premium, the Excise Tax section computes the costs to be incurred by the Bureau of Taxation in collecting motor fuel and excise tax revenues which accrue to special funds. The costs are reimbursed by these funds to the General Fund. The computed cost amounts are transmitted to the Administrative Services Division of the Finance Department for recording of the reimbursement transactions. It is suggested that agency be contacted concerning this matter.

Bureau of Taxation

Adherence to R.F.T.A.
audit standards

Prior year finding

A review of 25 Regional Fuel Tax Agreement (R.F.T.A.) audit reports and the related working papers revealed that bureau auditors are not performing a study and evaluation of the licensee's internal controls as prescribed in Section VII, Paragraph 3, of the Regional Fuel Tax Agreement Audit Manual.

Audit objectives, procedures and conclusions were not clearly worded or supported by the audit workpapers as required by Section VII, Paragraph 8, of the audit manual.

As a result of recommendations made during the prior year audit, the bureau has taken steps to increase the level of documentation and improve the quality of audits performed in accordance with R.F.T.A. requirements. We recommend that the bureau continue to pursue methods of implementing R.F.T.A. audit requirements, including the following: A separate evaluation of the auditee's internal control should be performed and documented in the workpapers and audit report. The audit workpapers should provide a clear picture of audit objectives and procedures. All audit workpapers should include clearly worded documentation of sources of information, purposes of workpapers and conclusions

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

reached. In addition, conclusions and recommendations listed in the audit report should be supported by the workpapers. R.F.T.A. audits should adhere to audit procedures as specified in the R.F.T.A. audit manual.

Auditee Response:

Since the summer of 1988 further improvements have been made in the workpapers of motor fuel tax audits conducted according to the Regional Fuel Tax Agreement.

The format of the standard audit report has been revised to include a captioned section on internal control. Reports now contain a discussion of the subject and evaluation comments. Tax auditors have been further instructed on documentation and appropriately supported tax audit schedules. Improved referencing has also been instituted. Supervisors address additional attention to these matters in their reviews of the audits.

Bureau of Taxation

Audit assessment journal not processed in proper accounting period

An assessment of approximately \$12.4 million, the result of an audit performed by bureau personnel, was not recorded as receivable/revenue at the time of final reconsideration.

Governmental Accounting and Financial Reporting Standards (GASB Codification 1600.106) state that revenues should be recognized in the accounting period in which they become susceptible to accrual — that is, when they become both measurable and available. As both the initial assessment and the bureau's final reconsideration took place in fiscal year 1987, the revenue and related receivable should have been recognized in that fiscal year.

Since the assessment journal was not processed until July 30, 1987 (fiscal year 1988), 1988 General Fund revenues are overstated by approximately \$12.4 million and the June 30, 1987 General Fund balance is understated by the same amount.

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

We recommend that taxes receivable and related revenues be recorded at the time that susceptibility to accrual criteria are met.

Auditee Response:

As noted by the Department of Audit, Governmental Accounting and Financial Reporting Standards state that revenues should be recognized when they become both measurable and available. Although measurable at June 30, 1987, the revenue was not available according to established criteria when the books were closed for fiscal 1987. "Available" means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

A decision letter from reconsideration of the assessment was sent to the taxpayers by the Bureau on March 12, 1987, after which the taxpayers filed a petition for review by the Superior Court. The petition alleged the assessment was constitutionally and statutorily invalid. While the appeal was in process, taxpayers filed a notice of dismissal with the court and paid the assessment on July 29, 1987. That action is presumed to have been taken because of the enactment of a new telecommunications service tax.

When the books were closed about mid-July for fiscal 1987, the taxpayers were not expected to make payment soon enough after year end in order that the cash would be available to pay the liabilities of the current period.

Bureau of Taxation

Telecommunications taxes
not properly recorded

A telecommunications personal property tax assessment of approximately \$16.1 million was incorrectly recorded as revenue to the General Fund in the 1988 fiscal year rather than in the 1989 fiscal year.

36 MRSA §457 requires the assessment amount to be determined by July 15, the

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

assessed amount being due on or before October 1st of each year. Government Accounting Standards Board (GASB) P70.108 states that property tax revenue should be recognized in the year for which the taxes are levied.

The telecommunications personal property tax assessment amount was determined prior to June 30, 1988 and the assessment journal entry processed at that time. As GASB P70.108 states that property taxes receivable recognized in advance of the year for which they are levied should be recorded as deferred revenue and recognized as revenue in the year for which they are levied, the journal should have included a credit to deferred revenue rather than to undedicated revenue.

As a result, General Fund revenues are overstated by \$16,131,389 for the fiscal year ended June 30, 1988 and General Fund liabilities (deferred revenue) are understated by \$16,131,389 at June 30, 1988.

We recommend that Bureau of Taxation personnel exercise due care to ensure that appropriate revenue recognition criteria are applied when tax assessment journals are processed.

Auditee Response:

The revenue was recognized in accordance with the intent in enacting the state tax on telecommunications personal property to replace the former telecommunications excise tax on gross receipts. Recognition in fiscal 1989 would have caused a budget deficiency not anticipated by the Legislature and the Administration.

Current law was proposed by LD 1846 and enacted as PL 1987 c.507. It was expected to generate the same amount of revenue as would have been generated had the former law continued. Both the fiscal note in LD 1846 and communications to the Taxation Committee

AGENCY/PROGRAM

CONDITION

Bureau of Taxation

by Richard Silkman who represented the Administration included assertions that the bill was revenue neutral for fiscal years 1988 and 1989. Had the personal property tax revenue not been reflected in fiscal 1988, a revenue shortfall would have been realized.

Department of Human Services — Division of Data Processing

No personal background checks for computer personnel

Formal background checks are not performed on candidates for data processing positions in the department's Division of Data Processing.

The potential misuse of confidential client information and the risk of the misappropriation of state and federal funds suggests that a formal background check, in addition to an interview, is preferable.

We recommend that the Division of Data Processing perform background checks on all new employees and perform rechecks at appropriate intervals.

Auditee Response:

We agree with the audit finding that formal background checks for potential candidates should be performed.

Pertaining to the issue, the following steps are already being taken on a Department-wide "new hires" basis:

- Met with the Bureau of Human Resources and Assistant Attorney Generals to determine the necessary proper steps and procedures to legally perform adequate background checks.
- Implement new procedures when approved by appropriate management authority.

The issue of rechecks on ongoing staff will be added to this agenda.

AGENCY/PROGRAM

CONDITION

Division of Data Processing

No alternate computer processing plan

The Department of Human Services has no disaster recovery plan to reestablish normal electronic data processing should a disaster occur.

An interruption in critical services could result, and the data base destroyed.

We recommend that an alternate data processing plan be formalized and tested to provide for uninterrupted processing capability.

Auditee Response:

Pertaining to the issue, the following steps have been or are planned to be taken:

- Meet with the Director of the Bureau of Data Processing, Department of Administration, to renew discussions of Disaster Recovery in general, and of use of the Department of Labor's computer for alternate processing in particular.
- Participate in a "risk analysis" with the individual(s) from the Office of Information Services, Department of Administration, recently assigned the responsibility for Disaster Recovery planning.
- Review program requirements for alternate processing needs and the technical possibilities with program directors for AFDC, Food Stamps, Medical Assistance, Support Enforcement, Social Services, and Vocational Rehabilitation.
- Develop, test and document the alternate processing plan(s) resulting from the above process as funding allows.

Department of Human Services — Division of Financial Services

Errors in the preparation of the Schedule of Federal Financial Assistance

Total program expenditures reported to the Department of Audit for inclusion in the state's Schedule of Federal Financial Assistance were incorrect for four of the department's eight major programs and nine of forty nonmajor programs.

AGENCY/PROGRAM

CONDITION

Division of Financial Services

Accounting errors initially resulted in incorrect information provided by the department for presentation on the Schedule of Federal Financial Assistance.

We recommend that an effort be made on behalf of the department's accounting personnel to provide a more accurate calculation of total expenditures for each federal assistance program. This may require the preparation of schedules that would detail how total federal expenditures are determined for the purpose of preparing the Schedule of Federal Financial Assistance.

Auditee Response:

The Department's Schedule of Federal Financial Assistance provided to the Audit Department does contain unintentional accounting errors by agency personnel. It should be noted that the recommendation to "...require the preparation of schedules which would detail how total federal expenditures are determined for the purpose of preparing the Schedule of Federal Financial Assistance" for the 1988 Statewide Single Audit were in effect at the time. These schedules have been provided to Audit agency personnel when requested. This does not eliminate or prevent unintentional human error. However, these schedules have allowed Audit agency personnel to locate the error(s) addressed in your Inter-Departmental Memorandum in a timely fashion.

Accounting personnel will exercise more caution in the preparation of total program expenditures in the future.

Department of Human Services — Division of Financial Services/Bureau of Medical Services

Federal accounts
receivable '

There is currently no method to ensure that Medicaid provider overpayments, as determined by the department's Division of Audit, are posted to accounts receivable records. Personnel of the Division of Audit office do not reconcile the logbook of audit settlement checks received to the accounts receivable records of the Bureau of Medical Services.

AGENCY/PROGRAM

CONDITION

Division of Financial Services Bureau of Medical Services

Approximately half of the \$7.76 million federal accounts receivable consists of Medicaid provider overpayments. Of this amount \$3.3 million is due to the state and should be recorded as "all other" accounts receivable.

To strengthen control over accounts receivable records and to properly reflect the balance in the financial statements, we recommend the following:

1. That audit cost settlement letter be sequentially numbered.
2. That the department adjust the accounting records by transferring the portion of federal accounts receivable which should properly be reflected as other accounts receivable.
3. That the allowance for doubtful accounts be adjusted as necessary.

Auditee Response:

The DHS Audit Division will develop a numbering system for control purposes. All other items have been resolved.

Department of Human Services — Division of Personnel

Lack of documentation for payroll

A payroll examination was conducted by randomly selecting 25 names from the payroll register. As a result of our test the following was noted:

1. In 21 instances supporting documentation was not available for our examination.
2. In one instance a W-4 was not available for our examination.

We recommend that the Department of Human Services' Division of Personnel retain supporting documentation for payroll deductions as required by state and federal regulations.

Auditee Response:

Payroll documentation will be maintained on all current employees. Payroll documentation for employees who have terminated will be retained for a period of five years before the file is purged. All payroll personnel have been notified of this action.

AGENCY/PROGRAM

CONDITION

Department of Human Services — Welfare, Education, Employment and Training (WEET) program

Region I (Portland) WEET checking account

The State of Maine Department of Human Services Portland Regional Office has a \$25,000 petty cash fund advanced by the State Controller. The fund is used for the Welfare, Education, Employment and Training (WEET) program and is maintained in a checking account. Records revealed that the checkbook had not been reconciled to the bank statement or the authorized balance established by the State Controller for the past 13 months.

Detail accounting records should be reconciled to account balances in order to establish control over the posting of receipts and disbursements. An Accountant I position responsible for maintaining the petty cash fund was left vacant for approximately one year, providing inadequate internal control which could result in misappropriation of these funds.

We recommend that the checkbook balance be reconciled to the bank statement on a monthly basis and that all reconciling items be noted and properly identified.

Auditee Response:

As indicated, the checkbook has not been reconciled for an extended period of time. This was due to the work overload created with the absence of the Account Clerk II for nearly 8 months. The position was not simply left vacant. The individual was on an extended sick leave and subsequently resigned.

Since the audit, Department of Human Services staff has unsuccessfully attempted to reconcile the records. Outside help (bank officials) will be sought to balance the checking account. A new reconciliation report/format has been developed to monitor that checking accounts are reconciled every month to the bank statement and the authorized balance established by the State Controller.

AGENCY/PROGRAM

CONDITION

Department of Human Services — Welfare Employment, Education and Training Program (WEET)

Bangor Region IV (WEET)
checking account

A reconciliation of the Bangor Region IV Welfare, Employment, Education and Training (WEET) checking account revealed the following deficiencies:

1. Responsibility for maintenance of the checking account and for reconciliation of the related accounting records are assigned to one individual.
2. Checks outstanding are being carried in the account balance beyond 90 days.

A lack of segregation of the custodial responsibilities from the duties associated with the maintenance of the detail accounting records on behalf of this account could result in inadequate control over resources. Not voiding those checks which have been carried by the account for more than 90 days results in account balance information which is not relevant, and in expenditures not being classified on the basis of the fiscal period they are presumed to benefit.

We recommend that the monthly checking account reconciliation be reviewed and approved by a responsible official and that all checks written against this account be voided after 90 days if not cashed by the payee.

Auditee Response:

Responsibility for maintenance of this account (deposits, writing checks, etc.) and monthly reconciliation will be assigned to two different individuals. The Account Clerk will continue to handle maintenance. On the other hand, we shall plan to assign the monthly reconciliation to a Financial Resources Specialist.

In response to an earlier audit recommendation, we did implement "time-limited" checks, in this case 90 days. We were remiss in not voiding checks which are outstanding beyond 90 days. The WEET Program will be informed

AGENCY/PROGRAM

CONDITION

Department of Human Services

of the necessity of voiding checks after 90 days and we shall proceed to implement this recommendation.

Department of Labor

Reconciling items not identified and adjusted in a timely manner

Procedures for review and follow-up of outstanding reconciling items are inadequate.

A journal transfer error that represented a reconciling item was not properly identified and was not corrected for a period of 18 months. As a result the federal benefit account (3445.1) was overstated by \$595,056.

We recommend that procedures be established to ensure that any reconciling items be identified, and any ensuing adjustments are completed in a timely fashion.

Auditee Response:

The following procedure was reinforced to ensure that all accounts are reconciled in a timely manner. Senior accounting staff are required to review all agency accounts with banks, State Controller's records and other financial records to ensure that all needed adjustments are completed each reporting month.

Department of Labor

No accounting or administrative procedures manual has been developed

The Department of Labor's Office of Administrative Services has no written procedures or accounting and administrative manual to ensure continuity and consistency in the processing and recording of transactions.

Prior year finding

We again recommend that the office prepare and distribute an accounting and administrative procedures manual and as automation of the systems increase, publish any necessary revisions.

Auditee Response:

During fiscal year 1990-91, Bureau of Employment Security and Maine Occupational Information Coordinating Committee (MOICC) accounting staff will learn two new automated accounting systems. The new state system, the Maine Financial and Administrative

AGENCY/PROGRAM

CONDITION

Department of Labor

Statewide Information System (MFASIS), is scheduled to be on line as of January 1, 1990. Implementation of the Federal Accounting Reports system (FARS) is scheduled to start on April 1, 1990. These two systems will require a cadre of new accounting requirements. New state and federal accounting forms will be generated and used. It is with that in mind that a new procedural manual will be prepared shortly after the start of each new system.

Department of Labor

Time sheets not approved

The component administrative units of the Department of Labor submit employee group attendance sheets to their Administrative Services Division for payroll processing purposes. These sheets serve as documentation to support time and attendance records for individual employees. Each division director (or other authority) approves each attendance sheet for all of the individuals listed. The directors' attendance sheets do not include an authorizing supervisory signature.

We recommend that the department's attendance sheets reflect signed supervisory review and approval for paid time of all employees.

Auditee Response:

We do not agree with the auditors administrative finding with regard to verification of division directors' time sheets. It is not practical at this time for bureau and division directors to send their attendance sheets to be verified because of time restrictions for payroll submission. We will review the requirements and make recommendations for policy revisions during staff retreats and other necessary meetings with senior staff.

AGENCY/PROGRAM

CONDITION

Department of Labor

Incorrect coding of charges to Special Administrative Expense Fund

Almost all expenditures transferred from the Employment Security Administrative Fund (3444.2) to the Special Administrative Expense Fund (4444.1) were coded as data processing charges. Data processing charges actually represent only a portion of the expenditures transferred.

We recommend that journal transfers be accomplished in such a way that the accuracy of the expenditure categories is maintained.

Auditee Response:

We agree with the finding. Starting with fiscal year 1989, the Special Administrative Expense Fund account journal will reflect each cost category that was adjusting in either account.

Department of Labor

Use of Special Administrative Expense Fund not in compliance with state statutory provisions

Allowable uses of monies in the Special Administrative Expense Fund are established by 26 MRSA §1164. Notification of the Commission is required prior to any expenditure from the fund and any balance in excess of \$100,000 (on June 30th) must be transferred to the Unemployment Compensation Fund.

Unemployment Insurance and Employment Services administrative expenses in the amount of \$606,561 were transferred to the Special Administrative Expense Fund (4444.1) on June 30, 1988. Notification of the commission, required by Maine statutes to be made prior to any expenditure, did not take place until July 15, 1988. It should also be noted that \$12,325 of this amount had not actually been expended on June 30, 1988.

It appears that efforts to minimize the amount available for transfer to the Unemployment Compensation Fund resulted in charges to the Special Administrative Fund that could not be justified as "not properly or validly chargeable", e.g., \$12,325 in "planned expenditures." As a result, no funds were available on June 30th for transfer to the Unemployment Compensation Fund.

AGENCY/PROGRAM

CONDITION

Department of Labor

We recommend that expenses charged to the Special Administrative Expense Fund be in compliance with the provisions of Maine statutes.

Auditee Response:

We agree with the finding. Notification will be made to the Unemployment Insurance Commission of a transfer of expenditures in compliance with the provisions of Maine statutes as regards the Special Administrative Expense Fund. The transfer will consist of incurred and not anticipated expenditures.

Maine State Retirement System

Improved coordination with fund managers and master trustee

The growth of assets committed for investment by Boston Safe Deposit & Trust and the various fund managers have increased dramatically. New modes of investment (including involvement with foreign interests and participation in venture capital funds) require the promotion of improved control over and coordination with all parties to which the Maine State Retirement System has funds committed.

We therefore recommend that the Maine State Retirement System increase its staff commitment to the reconciliation of securities transactions, and to the development and coordination of investment strategies.

Auditee Response:

The Retirement System is in agreement with this recommendation and in the past two years has attempted to increase staffing in this area.

We believe that several management level positions would enhance the overall return of the portfolio but these positions must be at a sufficiently high level to attract qualified and experienced personnel.

We will continue to make requests in the future to establish these positions.

AGENCY/PROGRAM

CONDITION

Maine State Retirement System

Beneficiary underpayment

An audit test performed to recalculate and verify the accuracy of beneficiary payment amounts revealed that one person has been underpaid since 1982.

We recommend that the Maine State Retirement System issue a check to the beneficiary for the amount in arrears and that the correct monthly payment amount be made in future months.

Auditee Response:

Payment has been made to the beneficiary referred to in the audit report to reflect the additional amount due from September 1, 1982, to the present (June 30, 1989). The amount in arrears was \$1,290.27. Payment for the correct amount for June 1989 has been made and this amount will continue to be paid in the future.

Maine State Retirement System

Transfer of funds credited to Reserve For Future Losses

A \$436,000 transfer was made from the Maine State Retirement System (81000 fund) to avoid a deficit cash balance in the Group Life Insurance Fund (84000 fund) at June 30, 1988. The credit side of the journal entry was recorded in the Group Life Insurance Fund as an increase in the equity account Reserve For Future Losses rather than as a liability.

We recommend that any interfund transaction be appropriately approved and recorded.

Auditee Response:

The original accounts involved were Group Life Cash and Reserve For Future Losses. The Department of Audit has proposed an adjusting journal entry to debit Reserve For Future Losses and credit Accounts Payable to reflect the amount payable to the Maine State Retirement System for the one day at June 30, 1988.

Maine State Retirement System

Recognition of accounts receivable from local districts

Local participating districts are, on occasion, in arrears concerning their employer contributions to the Maine State Retirement System. At present no formal notice of this condition is made to the districts.

AGENCY/PROGRAM

CONDITION

Maine State Retirement System

We recommend that contributions receivable be established in the accounting records of the Maine State Retirement System.

Auditee Response:

When payroll reports are delinquent from participating local districts (PLDs), the reportable contributions are not known until such time as MSRS receives the report. However, at the time the payroll reports are received, generally the payment is also received. In the MSRS Annual Report, the PLDs that are delinquent at year end with reports and contributions can be disclosed through a footnote.

Maine State Retirement System

No meeting minutes to support board decisions

A review of board minutes revealed no reference to renewed and amended contracts with three fund managers.

We recommend that all decisions of a financial nature be reflected in the minutes of the governing body.

Auditee Response:

The Maine State Retirement System is in agreement with the findings in that there is no mention of contract renewals for three investment management contracts.

This situation was clearly an oversight on the staff's part in not assuring that specific reference to the renewals was included in the December minutes and we have taken steps to insure that this will not occur in the future.

Maine State Retirement System

Proper preparation of journal entries

A review of twenty-two significant transactions (journal entries) prepared by the Maine State Retirement System (MSRS) revealed that one journal entry had no approval signature and that another entry for \$492 million was prepared and approved by the same individual.

We recommend that the MSRS adhere to existing procedures which require that journal entries exceeding \$5,000 have both the signatures of the preparer and approver.

Auditee Response:

The existing policy at MSRS regarding journal entries relates to disbursements of funds of

AGENCY/PROGRAM

CONDITION

Maine State Retirement System

the System **only**. (Memorandum to Members, Board of Trustees, dated March 3, 1988). This policy requires two signatures for disbursement of funds of \$5,000 or more. The MSRS copy of the journal has not been signed in the past to distinguish the fact that the journal is a MSRS copy. This procedure will change to require that both copies, Bureau of Accounts and Control, and MSRS, be signed. The overall policy concerning all types of journal entries will also be reviewed regarding required signatures.

Maine State Retirement System

Independent confirmation of investment transactions

Investment fund managers engage in extensive trading of securities on behalf of the Maine State Retirement System (MSRS). These securities are then collectively accounted for by the Master Trustee, Boston Safe Deposit and Trust Company. At present no independent confirmation of any investment transaction is possible because brokers' advice notices are not maintained on file at the agency.

We recommend that MSRS retain copies of brokers' advice notices so that comparisons of trade dates and verifications of pricing may be made on a periodic basis.

Auditee Response:

The MSRS Investment Accounting Coordinator has indicated that a very large file would be required to maintain all brokers' advice notices. The Master Trustee, Boston Safe Deposit and Trust Company, prepared a report on transaction data from the Depository Trust Company's ID System due to the unavailability of brokers' advice for the fiscal year, 1988-89. Also, the Investment Accounting Coordinator recently received a letter from a broker that indicates that the broker is no longer required to print and mail confirmations of trades which duplicate data received electronically through Depositors Trust Company's ID System. A copy of that letter will be provided to the State Audit Department.

AGENCY/PROGRAM

CONDITION

Department of Mental Health and Mental Retardation — Office of Administration

Weaknesses noted in the
accounts receivable
records

Prior year finding

The following weaknesses were noted during the review of patient billing accounts receivable cycle:

1. We were unable, due to the filing system to verify the balance of the detail ledger cards to either the balance on the control card or the accounts receivable balance recorded on the State Controller's records at 6/30/88.
2. The room and board charges that are applicable to medicaid, commercial insurance companies, and private pay clients are posted to the detail ledger cards and the State Controller's records based on the hospital census reports. Several months will lapse between the time the ledger is posted and the date that the bills (AMHI) are generated and mailed. At the date of audit, June 1989, AMHI billings are up to 15 months behind schedule and amount to approximately \$750,000.
3. Room and board charges are billed to medicaid and/or medicare at 100% of the Human Services rate; however, the charges are posted to the detail ledger cards based on the reimbursement rate. This procedure results in the invoice amount being greater than the amount posted to the accounts receivable ledger.
4. Medicare charges are posted to the detail ledger cards at the time of payment, rather than at the date of billing. This same procedure is used for posting ancillary charges.
5. The department's Mental Health Information System (MHIS) is not programmed to bill pharmacy charges to insurance carriers. Administrative officials reported that the cost of medications for AMHI is approximately \$200,000 each year. A portion of these costs are recouped in the Medicaid Cost Reimbursement Audit.

AGENCY/PROGRAM

CONDITION

Department of Mental Health and Mental Retardation

Improvements are needed in the system to ensure that invoices are submitted to the insurance carriers on a timely basis and that the accounts receivable balance recorded on the State Controller's accounting records accurately reflect the invoice amount.

We recommend that the department's administrative personnel implement the following procedures:

1. That additional personnel be brought in to catch up on billings to Medicare and that the accounts receivable be posted to the detail ledger cards and recorded on the State Controller's records at the date of billing.
2. That all charges posted to the detail ledger cards be reflected at the same rate as the amount billed. At the date of payment, the accounting records be adjusted for the difference between the invoice amount and the amount that was reimbursed.
3. That ancillary charges and Medicare charges be posted to the detail accounting records at the date of billing.
4. That the department's Mental Health Information System be programmed to bill pharmacy charges to insurance carriers.

Auditee Response:

Department of Mental Health and Mental Retardation — Bangor Mental Health Institute

Deficient employee time records

Auditee does not disagree with our finding.

Time sheets for 17 ward employees (for two different pay periods) reflected inconsistent methods of recording time worked and not worked. Two employee time sheets did not have signed supervisory approval and several employees did not adequately indicate on their time records vacation or sick leave taken. State of Maine Civil Service Rules (pursuant to 5 MRSA, Chapter 372, Section 7070, 1987) Chapter 14, Section 1 (Agency Personnel

AGENCY/PROGRAM

CONDITION

Auditee Response:

**Department of Mental
Health and Mental
Retardation — Bangor
Mental Health Institute**

Records) state, "Each department or division shall maintain an adequate set of employee records for the purpose of recording attendance and leave actions."

We recommend that the Bangor Mental Health Institute require all employees to complete their individual time sheets in a consistent format, properly recording their time worked and time not worked according to the proper classification (vacation, sick leave, administrative leave, etc.). We recommend that employees on shift work also record shift starting and ending times. We further recommend that all employees sign their time sheets and obtain signed supervisory approval.

Auditee Response:

On July 7, 1989, the personnel director at the Bangor Mental Health Institute distributed correspondence to all BMHI staff outlining instructions for time reporting which were eventually implemented on August 13, 1989. In our opinion, that change has brought about the consistency and accountability suggested in your audit finding. We are monitoring the new requirements very closely and, while it is still early, it appears to be going quite well.

Public Utilities Commission

1987 assessment recorded
in 1988 fiscal year

Prior year finding

Fiscal year 1988 recorded revenues were overstated and 1987 fiscal year revenues and receivables were understated by approximately \$2 million, as an entry was not made in fiscal 1987 to record the May assessment levied on each utility operating in the state.

35-A MRSA Section 116 requires the annual assessment to be levied prior to May 1st at which time the revenue should be recognized and utilities to pay the assessment on or before July 1st of each year. Assessment billings were mailed to the utilities within the required time frame; however, the journal entry to record the billing was not prepared until July 23, 1987. As a result, recorded revenue for fiscal year 1988 reflects two years of

AGENCY/PROGRAM

CONDITION

Public Utilities Commission

assessments. In addition, Public Utilities Commission revenues recognized in accordance with generally accepted accounting principles (GAAP) in fiscal year 1988 exceeded those allowable by statute by \$90,000.

We again recommend that the Public Utilities Commission record the assessment for taxes due as a debit to taxes receivable and a credit to revenue on May 1st of the fiscal year in which the assessments are made. We also recommend that the commission strive to amend the applicable statute to be in agreement with GAAP revenue recognition criteria.

Auditee Response:

Auditee does not disagree with our finding.

Department of the Secretary of State — Motor Vehicle Division

Lack of segregation of duties associated with maintenance of Highway Fund accounts receivable records

One individual is responsible for performing substantially all accounting duties associated with fund billings, posting to the cash receipts records, reconciling the detail accounting records, and reporting the condition of the fund.

Prior year finding

To improve accounting controls over the activities relating to the maintenance of these records, we recommend that duties be segregated so that no individual performs all of the accounts receivable functions.

Auditee Response:

We will develop a plan of action in which two individuals will be involved in this project.

Motor Vehicle Division

Inadequate documentation of motor vehicle record checks as a result of telephone and mail requests

Telephone and mail requests to initiate motor vehicle record checks are not documented, and the computerized log of record check billings was disposed of prior to audit. As a result, documentation available was insufficient to support the completeness and valuation of recorded accounts receivable entries or to ensure that all motor vehicle record checks performed were billed.

We recommend that documentation be maintained to support all billings for motor vehicle record checks and that the record check log be maintained until an audit is performed.

AGENCY/PROGRAM

CONDITION

Motor Vehicle Division

Auditee Response:

As per the recommendation, a record of all written and telephone requests are now maintained in a log book which will be held until an audit is performed.

Motor Vehicle Division

Insufficient internal control over blank non-photo motor vehicle licenses; Delay in preparation of income statements

Prior year finding

The number of blank non-photo licenses issued by mobile units is not reconciled to the number of licenses distributed to these units. In addition, a test of 22 mobile unit deposit reports revealed delays of 13 to 28 days between the time of receipt of the deposit report and the preparation date of an income statement.

A lack of established procedures requiring reconciliations results in an inability to verify that individuals are charged the proper fee or that fees charged are appropriately and promptly remitted to the state. The delay in the submission of income statements could result in revenues not being recognized in the correct accounting period; in lost interest income to the Highway Fund; and in additional reconciliation efforts by the State Treasury Department.

We again recommend that the division perform periodic reconciliations and prepare income statements for the mobile unit in a timely fashion.

Auditee Response:

We have developed an inventory record on the weekly report generated by the mobile units. The record will indicate quantity on hand and verification of that quantity will be done semiannually.

Motor Vehicle Division

Untimely transfer of Regional Fuel Tax Agreement (RFTA) revenues

Prior year finding

Effective October 1, 1984, the State of Maine entered into a pact with several other New England states known as the Regional Fuel Tax Agreement (RFTA). As a result of this agreement, revenue collection responsibilities for fuel use identification decals issued are shared among the states. Revenue transfers

AGENCY/PROGRAM

CONDITION

Motor Vehicle Division

to the State of Maine were not made in a timely fashion. Of the total dollar amount of revenue transfers made by Vermont and New Hampshire, 38% and 83% respectively, were made after the time specified by the agreement. Two of fourteen transfers made by the State of Maine (14% of the total dollar amount of revenues collected) were also made after the time stipulated in the agreement.

Article 8.5 of the Regional Fuel Tax Agreement states that "All funds received during the month shall be forwarded to the appropriate jurisdiction by the end of the following month."

We recommend that the State of Maine work with other member states to improve the timing of RFTA tax revenue transfers or amend the agreement to allow for a longer period of time to transfer funds.

Auditee Response:

There will be improvements in the timeliness in which Maine Motor Vehicle transfers revenues to Vermont and New Hampshire as per the RFTA agreement. We will discuss, with the members of the Regional Fuel Tax Agreement (RFTA), the finding of this Audit report. We will do our utmost to ensure adherence to the rules of the Regional Fuel Tax Agreement.

Motor Vehicle Division

Nonpayment of fuel user refunds

Approved fuel user refunds of \$200 and \$20 dated September 28, 1987 and May 31, 1988, respectively, appear not to have been paid as they were not traceable to the Secretary of State Cash Office's rebate manifests.

To fully guarantee that those fuel users that are due a refund actually receive one as determined by the Fuel User Identification Decal section, we recommend that due care be taken throughout the refund process.

Auditee Response:

Supervisory review of fuel user rebates will be improved.

AGENCY/PROGRAM

CONDITION

Department of Transportation

PROMIS system generated expenditure account balances have not been reconciled

Federal expenditure account balances, as reported by the State Controller, have not been reconciled to totals generated by the PROMIS system. Consequently, the accuracy of expenditure totals distributed between the federal expenditure accounts and state Highway Fund accounts is questionable.

There were substantial time delays in the recording and journaling of transactions between appropriate state and federal accounts, some of which overlap fiscal years.

With no formal reconciliation having been prepared for the period under audit, it was not possible to determine the extent of errors, omissions or mispostings that may have occurred during the fiscal year.

We recommend that reconciliations between the PROMIS system and federal and state Highway Fund accounts be prepared and that any required adjustments and/or corrections be recorded. Reconciliations should be prepared on an interim basis (preferably monthly) in order to detect any errors or irregularities in a timely manner.

Auditee Response:

The Federal and State Highway Fund Accounts for fiscal year 1989 have been reconciled. In addition, an effort will be made to reconcile these accounts on a monthly basis in order to detect errors or irregularities in a timely manner.

Department of Transportation

Inconsistencies noted in supporting documentation for payroll and travel expenses

An examination of salary vouchers and crew payroll reports disclosed the following:

1. Payroll processing personnel who make corrections to salary vouchers do not initial the change;
2. There were instances in which supervisory signatures were missing from both salary vouchers and crew payroll reports;
3. There were incorrect equipment codes and/or unclear work descriptions on salary

AGENCY/PROGRAM

CONDITION

Department of Transportation

vouchers and crew payroll reports (e.g., equipment rental hours exceeded total crew man hours for a particular project);

4. Comparisons between salary and travel vouchers are not performed. Travel payments were made for dates that salary vouchers indicated an individual was on vacation; and payments were made for travel to locations different from those indicated on salary vouchers.

We recommend the following:

1. That corrections made by payroll processing personnel be initialed by the person making the correction;
2. That personnel be instructed in the correct method of payroll voucher preparation and the supervisory personnel authorize the documents submitted for payroll processing;
3. That comparisons be made between salary vouchers and travel vouchers submitted to insure the legitimacy and accuracy of travel expenses claimed.

Auditee Response:

We concur with the findings noted. This is a continuing problem and every effort is being made throughout the department to ensure that salary vouchers, crew payrolls, expense accounts, and equipment reports are properly prepared, are consistent, changes are initialed, and the documents are signed by the appropriate supervisor.

Department of Transportation

Inadequate segregation of
duties noted

Prior year finding

Accounts receivable duties are not adequately segregated: one individual has the responsibility for all accounting transactions, including cash receipts and reconciliation of the accounts receivable function. Adequate internal control requires that no one individual be responsible for recording assests and for reconciling the records.

AGENCY/PROGRAM

CONDITION

Department of Transportation

We again recommend that the accounts receivable function not be the responsibility of a single employee.

Auditee Response:

We concur with this finding and recommendation. The authorization of an additional Account Clerk II in the 1990 budget will permit a review of this function for possible separation of duties.

Department of Transportation

File copies of journal entries do not indicate supervisory approval

Journal entries maintained by the Bureau of Finance and Administration are represented by photocopies of journals submitted to the State Controller's office. Copies are made before being signed by the appropriate approving authority. Consequently, determining that a journal entry has been approved, modified and approved, or disapproved is not possible at the department level.

We recommend that file copies of entries be prepared after having been signed by the approving authority.

Auditee Response:

The original signed journal and one copy is forwarded to the Controller for approval. The copy is stamped with a journal number by the Controller and returned to the department for file. Therefore, it is our opinion that the copy stamped with the Controller's journal number is sufficient for verification at the department level.

Department of Transportation

Income statement supporting documentation not maintained consistently

Detailed documentation associated with income statements submitted is not consistently maintained. Individual income statements may have attached all, some, or no information relative to the composition of the income items listed on the form.

We recommend that written policies be developed and implemented to insure consistency in the maintenance of supporting documentation.

AGENCY/PROGRAM

CONDITION

Department of Transportation

Auditee Response:

Copies of invoices to customers are filed in a customer invoice file and overlimit permits are attached to the income statement. Support documents tie back to the income statement by income statement number. Therefore, we are of the opinion that the existing procedures provide consistency in the maintenance of supporting documentation.

Department of Transportation

Final voucher review forms not utilized consistently

Final voucher review forms have been developed in the department's federal billing section as a control measure in the final vouchering process. In some instances the forms were not used in preparing final vouchers, thereby defeating the control mechanism established.

We recommend that the final voucher review forms be utilized consistently. If utilization of the forms is unnecessary in certain instances that fact should be documented.

Auditee Response:

We concur with this finding. Current procedures require that a final voucher review form be used for all projects. To ensure consistency in the future, all examiners have been advised of the requirement.

Department of Transportation

Data entry error noted

A data entry error was noted while testing relocation assistance payments. A payment of \$1,532.23 was inadvertently entered as \$15.32.

We recommend that the error be corrected.

Auditee Response:

This finding is noted and the entry error has been corrected.

Department of Transportation

Controls over stockroom receiving procedures insufficient

There is no receiving report system in the central stores receiving department to verify amounts of items received.

We recommend that a system (e.g., use of "blind" purchase orders) be established in the central stores/stockroom department to ensure accountability for goods ordered and received.

AGENCY/PROGRAM

CONDITION

Department of Transportation

Auditee Response:

This finding is noted. However, shipments received by the stockroom are delivered to the bureau/division indicated on the package. The packing slip is signed by the receiving bureau/division, attached to the purchase order, and forwarded to Finance & Administration for payment. This procedure, in our opinion, assures accountability for items ordered and received.

Department of Transportation

Cash received in the mailroom may not be distributed timely

Cash received in the mailroom is not delivered to the appropriate division in a timely manner. Opened mail containing monies to be receipted were placed in "pigeonholes" accessible to anyone until retrieved by personnel from the Bureau of Finance and Administration.

We recommend that procedures be established to immediately distribute cash received in the mailroom.

Auditee Response:

This finding is noted. Current procedures provide for all mail delivered by the State Postal System to be sorted and placed in appropriate bureau/division boxes for delivery. After sorting, timely distribution of all mail in the boxes is made to the respective bureaus/divisions by Mailroom personnel.

Department of Transportation

Property listing and transaction data in the Right-of-Way Division is inadequate

No composit list of properties, with related data such as appraisal information, relocation assistance paid, uneconomic remnants involved, etc., is maintained by the Right-of-Way Division.

Identification of various types of transactions (e.g., property acquisitions requiring two appraisals) was based on the memory of individuals.

We recommend that the Right-of-Way Division establish and maintain an information system capable of identifying property owned,

AGENCY/PROGRAM

CONDITION

Department of Transportation

acquired and sold; transferred; and any related information such as appraisals, relocation assistance payments and disposition of uneconomic remnants.

Auditee Response:

The findings are noted and we agree the Right-of-Way Division should establish and maintain an integrated information system. This action is currently being implemented by utilizing recently acquired personal computers. Various sections within the Right-of-Way Division are developing programs to store specific data. The objective is that all relevant data be assembled and integrated to form the basis for an information system. Effort is being directed to accomplish this difficult, time-consuming task.

Department of Transportation

Basement storage area
lacking access security

Two file cabinets containing completed project information could not be located in the basement storage area. The Project Management Division presumed that the file cabinets had been "appropriated" by another division needing additional storage. None of the files could be located.

We recommend that the missing files be located and that additional security measures in the basement file storage area be implemented.

Auditee Response:

This finding is noted. Current department procedure is to maintain project files in accordance with Federal Highway Administration criteria which is three years after final voucher. This is being accomplished by the Project Management Division in various file areas. Therefore, additional security measures in the basement storage area are not being considered necessary due to the required random access by all bureaus and divisions within the department.

AGENCY/PROGRAM

CONDITION

Department of Transportation

No physical inventory
taken by Island Ferry
Service

Prior year finding

As has been previously reported, the Island Ferry Service has not conducted an inventory since 1985. Perpetual inventory records have not been adjusted, nor has actual inventory value been calculated for the same period.

We recommend that a physical inventory be conducted; that the value of the inventory items be calculated; and that necessary adjustments to the State Controller's records be made.

Auditee Response:

We concur with this finding and recommendation. The Island Ferry Service has recently purchased an automated inventory system. When the new system has been installed and tested, a complete physical inventory will be conducted. At that time, proper adjustments will be made to the accounting records. We anticipate this to be completed prior to December 31, 1989.

Department of Transportation

Petty cash account not
reconciled

Petty cash was not reconciled for the period under audit. The checkbook balance had not been adjusted by the amount of a voided check approximately 6 months old.

We recommend that a reconciliation of the petty cash account be performed on a monthly basis.

Auditee Response:

This finding is noted. The responsible employees have been advised that it is mandatory to document monthly reconciliations on the appropriate format.

Department of Transportation

Lack of segregation of
duties

Prior year finding

A lack of separation of duties exists with respect to various functions, as follows:

1. Accounts receivable transactions and the preparation of journal entries are handled by only one individual. Journal entries were prepared and approved by the same person.
2. Perpetual inventory records are maintained, and adjustments recorded, by the

AGENCY/PROGRAM

CONDITION

Department of Transportation

same person who performs a periodic physical inventory. No supervisory approval of inventory adjustments is required before data is entered into the computer system.

We recommend that controls be implemented that provide adequate segregation of duties for personnel involved in the preparation and recording of transactions.

Auditee Response:

We concur with the finding and recommendation and steps have been taken to reduce this problem. However, with limited staff coupled with leave time and other work obligations, it is not always possible to assure complete separation. We will strive to reduce this control concern.

Department of Transportation

No year end inventory taken

With the exception of periodic counts made during the course of the year, which may not include all inventory items, no overall inventory count is conducted at the end of the fiscal year.

A test of computer inventory records disclosed discrepancies in 10 of 21 items selected, providing little assurance of the accuracy of computer generated inventory quantities and associated value.

We recommend that a complete physical inventory be conducted on an annual basis. Adjustments between actual inventory and perpetual records should be evaluated to determine additional control procedures that might be necessary to safeguard the state's property.

Auditee Response:

We agree with the findings and recommendations. Existing procedures establish that year-end inventory be performed the last week of March. This has been customary at Motor Transport since the year-end is a peak time for both financial and stockroom personnel.

AGENCY/PROGRAM

CONDITION

Department of Transportation

Motor Transport Service has hired an inventory clerk specifically to conduct a continuing physical inventory. We will continue to address the problem with our objective being a substantial reduction in inventory discrepancies.

A complete physical inventory on an annual basis has not been performed at Motor Transport Service for several years. Instead, a continuing physical inventory system has been used with adjusting entries made on a continuing basis. Prior attempts at a complete annual inventory resulted in substantial overtime costs due to the necessity of conducting inventory during off hours. However, the feasibility of conducting a complete physical inventory on an annual basis will be considered.

Department of Transportation

Equipment valued
incorrectly

Some equipment constructed by Motor Transport Services personnel has been recorded to fixed asset records as having no cost. Material and labor costs incurred in the construction of equipment has not been properly capitalized.

We recommend that a review of equipment construction costs be performed to determine those costs which have been incorrectly charged, and adjustments be made accordingly. Procedures should be implemented to insure that future construction costs are correctly recorded.

Auditee Response:

This finding is noted. The standard procedure for capturing costs of construction equipment is to establish a job order. As costs are incurred, they are charged to that job order. Since the job has not been closed, no charges or adjustments are made. When the job is complete and closed, proper transactions are made. Therefore, we are of the opinion that there is no reason to change this process.

AGENCY/PROGRAM

CONDITION

Department of Transportation

Secondary equipment not
recorded consistently

Secondary equipment (i.e. attachments) is not recorded to fixed asset records consistently. In some instances the cost of plows, sanders, welders, etc. is included in the total vehicle cost; in other cases these items are recorded separately. When a vehicle whose total cost included attachments was sold and the attachments removed, no value for those items removed was indicated in the computer equipment records.

We recommend that the cost of secondary equipment be segregated on fixed asset records to insure an accurate listing of items owned by the State.

Auditee Response:

We concur with the auditor's findings. Lease/purchase equipment was established as a single unit of equipment intentionally for identification purposes. At this time, some secondary lease/purchase equipment has been segregated. With the implementation of the new equipment management system, this inconsistency will no longer be a concern.

Department of Transportation

Work in process inventory
not reconciled

Previous audit reports cited the fact that the work in process inventory is not reconciled to the State Controller's records. No change has occurred during the period under audit.

Prior year finding

We again recommend that work in process be reconciled to the State Controller's records. A computerized listing of jobs completed during the year and in process at year end should be maintained to establish the validity of amounts being reported on the state's books of account.

Auditee Response:

We have been unable to reconcile work in process since the Motor Transport Service accounting system was automated. During the development process, accounting personnel expressed their concerns. However, the need for this capability was apparently rejected.

AGENCY/PROGRAM

CONDITION

Department of Transportation

However, we will continue to investigate the feasibility of providing necessary information through the existing system.

Department of Transportation — Enterprise Funds

State Controller's required procedures do not conform to recommended accounting procedures

The State Controller's office requires reimbursement of airport lessees' expenditures, originally paid by the Augusta State Airport, to be recorded as income rather than as a reduction of expenses. This practice does not conform to recommended accounting procedures as both income and expense accounts are overstated.

We recommend that the department and the State Controller amend their procedures to reflect generally accepted accounting principles.

Auditee Response:

This finding is noted. However, the procedures established by the State Controller covering the accounting of recording reimbursements by lessees need to be addressed by the State Controller's Office.

Department of Transportation — Motor Transport Services Internal Service Fund

Time recording to work in process is inconsistent

A system to record time spent on work in process exists. However, procedures established to maintain time spent on individual jobs are not being followed. We determined that shop employees frequently "clock in" using one job number but "clock out" using another. In all such instances, computer time data must be adjusted by the payroll department based upon information supplied by the foreman. The accuracy of man-hours and associated labor costs charged to individual jobs is, at best, suspect.

We recommend that procedures be implemented which will ensure that the time recording system is properly utilized.

Auditee Response:

While we concur with the finding of fact, we believe the occasional breaches of proper procedure are promptly discovered and are adjusted to maintain the integrity of the system.

AGENCY/PROGRAM

CONDITION

Department of Transportation

Motor Transport Services Internal Service Fund

Fund

Equipment valuation
understated

Staff is again being advised of the importance of following the proper procedure to record time spent on work in process.

Total equipment valuation, as recorded on the State Controller's books, is understated due to the following conditions:

1. Some items have been depreciated beyond their listed salvage value;
2. Equipment acquired as surplus property is recorded at no cost;
3. Shop equipment depreciation for the month of May 1988 was calculated, with corresponding reductions of asset values, three times due to a computer problem.

In each of the above instances, inadequacies within the computer program used to maintain fixed asset and depreciation records were noted by MTS personnel as the cause for the stated undervaluation.

We recommend that computer software modifications be made and additional computer training be provided to MTS personnel to insure that future fixed asset recording and reporting are accurate.

Auditee Response:

1. We are aware of this system flaw and are taking steps to correct values as well as implementing necessary system modifications that will prevent future occurrence.
2. As stated in previous audit responses, any "new" equipment obtained from federal surplus will be set up with an estimated fair value. It's been several years since we have received any major equipment. Recent acquisitions include small tools and miscellaneous parts and surplus supplies.
3. We are aware of this error in the automated depreciation system. However, we are unable to rectify without major system improvements. In light of the new equipment information system currently

AGENCY/PROGRAM**CONDITION****Department of
Transportation**

in the implementation stage, to proceed with any system changes is not advisable. Monthly reconciliations do consider depreciation overstatement.

**Urban Mass Transit
Administration (UMTA)
Grants**

Internal grant activity
records not reconciled to
State Controller's books

Federal expenditures reported in the Schedule of Federal Financial Assistance have not been reconciled to the State Controller's records. Expenditures of the fiscal year ended June 30, 1988, approximately \$168,000, were not accrued and included in reported amounts.

We recommend that reconciliations between records maintained by the department of UMTA transactions and the State Controller's records be prepared. Accruable items should be included in the Schedule of Federal Financial Assistance whether or not reimbursement of these items has been requested.

Auditee Response:

We acknowledge that the \$168,000 of accrued expenditures were not considered in the Schedule of Federal Financial Assistance for fiscal year 1988. Every effort will be made to include all accrued expenditures and proper reconciliations with the State Controller's records in the Schedule of Federal Financial Assistance for fiscal year 1989.

**Urban Mass Transit
Administration (UMTA)
Grants**

UMTA cash reimburse-
ment requests inaccurate
and untimely

Urban Mass Transit Authority (UMTA) cash reimbursement requests are not prepared in a timely manner. The amounts requested are not directly related to either amounts actually expended or to the UMTA section where the expenditure was incurred.

Variances between expenditures and reimbursement requests varied from expenditures being \$308,618 greater than the request, to the request being \$96,306 greater than expenditures. Approximately \$480,000 of expenditures under all sections had not been requested for reimbursement from the federal funding source at June 30, 1988.

AGENCY/PROGRAM

CONDITION

Department of Transportation

Urban Mass Transit Administration (UMTA) Grants

We recommend that procedures be developed to insure that:

1. Reimbursement is sought promptly from the U.S. Department of Transportation;
2. Reimbursement is sought from the UMTA section under which the expenditure was made; and
3. Reimbursement is sought for neither more nor less than the amount of the expenditure.

The \$480,000 of expenditures of those incurred were not drawn down during the fiscal year, but transcend two fiscal years. This condition is created by untimely drawdowns, particularly at year-end. With the addition of the new Accountant II, this deficiency will be substantially reduced.

Urban Mass Transit Administration (UMTA) Grants

UMTA expenditures not
transferred to Federal
expenditure accounts

Prior year finding

As has been previously reported, UMTA charges recorded to state Highway Fund accounts have not been transferred to the federal expenditure accounts. Approximately \$1 million had not been transferred at June 30, 1988.

We recommend that the identification and journal transfer process already undertaken continue until all appropriate transfers have been made.

Auditee Response:

We concur with the auditor's finding that approximately \$1,000,000 remains as an obligation to the Highway Fund and that this condition distorts expenditure records. We have recently hired an additional accountant whose primary task is to assure proper and timely letter-of-credit transactions which includes appropriate journals to the federal account. A concentrated effort will be made to reduce this outstanding obligation.

AGENCY/PROGRAM

CONDITION

(Office Of) Treasurer of State

Visa and Mastercard purchases

The Office of Treasurer of State has not reconciled statements of one of its bank accounts in a timely manner. The reconciliation for the December 1988 bank statement had not been performed as of April 1989. The delays are due to the bank's report format and the inclusion of Mastercard and Visa charge sales with cash deposits.

We recommend that the department continue to work with the bank to improve the reporting format, and consider segregating credit card activity.

Auditee Response:

As the liquor stores perfect their techniques in utilizing the credit card machines and when the Department of Finance begins to file more timely income statements as a result, timely account reconciliations can be accomplished. Treasury expects the problem to run into early 1990. Meetings with the bank are ongoing and Treasury is allowing an employee to work overtime to keep abreast of the bank statements.

(Office Of) Treasurer of State

Insufficient control over "makeover" checks

Memoranda from the Office of Treasurer of State to the Bureau of Accounts and Control authorizing "makeover" checks to replace void checks and authorizing the resulting accounting adjustments include the typed name of the Deputy State Treasurer as approving authority; no handwritten approval signature appears on the memoranda.

The practice is long-standing. Memos are usually hand carried by a treasury staff member to appropriate staff at the Bureau of Accounts and Control. Since both staffs are relatively small and employees know one another, it is felt to be unnecessary and inconvenient to sign each memo.

We recommend that all memoranda authorizing "makeover" checks and appropriate accounting adjustments be signed by the approving Treasury official or by his/her designee(s).

AGENCY/PROGRAM**CONDITION****(Office Of) Treasurer of State**

A signed request from the Deputy State Treasurer will accompany the request to the Bureau of Accounts and Control for make-over checks.

(Office Of) Treasurer of State

Withholding of federal income taxes

The Internal Revenue Service "Circular E — Employee's Tax Guide" requires employers with \$3,000 or more of withheld federal income taxes at the end of any eighth-monthly period to deposit the taxes within three banking days after the end of that eighth-monthly period.

From October 1987 through December 1987 there were 14 instances noted totaling \$16,250 of backup withholding of federal income taxes on lottery prizes that were not reported by the Bureau of Lottery to the Office of Treasurer of State in a timely manner. The \$16,250 was reported on Federal Form 941E as part of current taxes withheld rather than as backup withholding properly reported as a late deposit.

To achieve compliance with Internal Revenue Service tax provisions and to avoid the assessment of penalties, we recommend that the Office of Treasurer of State require that the Bureau of Lottery report withholding amounts in enough time to allow the Office of Treasurer of State to make the required periodic deposits. The department should report federal taxes withheld in its proper status (as current or late) on Form 941.

Auditee Response:

Treasury reports withholding to the Internal Revenue Service as notified by the Bureau of Lottery. Lottery has been notified to be more timely. The Treasurer's office has partially corrected the problem by requiring more frequent deposits by the Bureau of Lottery. We will contact the Internal Revenue Service and attempt to resolve the remaining problem.

AGENCY/PROGRAM**CONDITION****(Office Of) Treasurer of State**

Private trust funds

Prior year finding

An analysis of private trust fund holdings per the Office of Treasurer of State versus the State Controller's records indicate little correlation between the two.

As a result of intermittent communications between the Office of Treasurer of State and the State Controller with regard to receipts, disbursements and changes in holdings, the value of the fund holdings are dissimilar.

We recommend that the Office of Treasurer of State assign an individual the responsibility to reconcile the holdings of the private trust funds with those of the State Controller and prepare any journal entries necessary to reflect the reconciliation.

Auditee Response:

As problems with detail identification arise, corrections are made.

(Office Of) Treasurer of State

List of state depositories

The Office of Treasurer of State is required by 5 MRSA §136 to "prepare an exhibit showing the banks and places in which monies of the state have been kept or deposited during the preceding month and the amount at the time of the exhibit," and to make the exhibit open to public inspection. The required list is no longer being prepared.

To satisfy state statutes and to provide a reference for bank confirmations, we recommend that a list of banks which have held state funds during the preceding month be maintained.

Auditee Response:

Deposit lists are being sent to the Secretary of State.

(Office Of) Treasurer of State

Value of securities
pledged as collateral

The Office of Treasurer of State is required by 5 MRSA §135, to review the value of securities pledged as collateral to cover deposits on January 2 and July 2 of each year. The records maintained by the Office of Treasurer of State reflect collateral reviews which took place on

AGENCY/PROGRAM

CONDITION

(Office Of) Treasurer of State

dates other than those specified and at intervals which exceeded six months.

Irregular review practices increase the possibility of not having an adequate amount of collateral for State of Maine deposits.

To satisfy state statutes and to establish the need and extent of collateral to cover deposits, we recommend that the department establish standard procedures for the required review process.

Auditee Response:

Treasury reconciles collateral every time a certificate of deposit is placed with a bank which makes reviews happen several times a year. It is our thought that this method exceeds the law as January 2 and July 2 are minimal requirements. Therefore, Treasury has standards that exceed the law but will conduct another review if deemed necessary.

(Office Of) Treasurer of State

Year-end reconciliation of
accounts

Some banks' demand deposit statements do not coincide with the end of the state fiscal year, June 30.

Prior year finding

To allow for reconciliation of bank statements as of the last day of the state fiscal year, we again recommend that the Treasury Department request a statement of activity or financial position dated June 30, as necessary.

Auditee Response:

Statements will be requested from the banks as of June 30, 1989.