

# MAINE STATE LEGISLATURE

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# STATE OF MAINE



## ANNUAL REPORT OF THE STATE AUDITOR SEVENTIETH EDITION

FOR THE PERIOD

JULY 1, 1988 - JUNE 30, 1989

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

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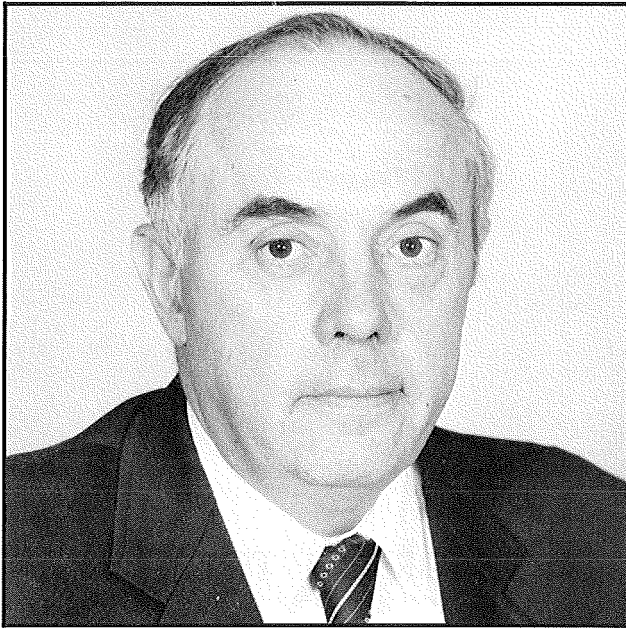
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# SEVENTIETH REPORT OF THE STATE AUDITOR

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  
1911-1912  
1913-1914  
1915-1916  
1917-1921  
1922-1940  
1940-1944  
1945-1956  
1957-1964  
1965-1968  
1969-1970  
1970-1970  
1971-1976  
1977-1977  
1977-1984  
1985-1987  
1987-

Charles P. Hatch  
Lamont A. Stevens  
Timothy F. Callahan  
J. Edward Sullivan  
Roy L. Wardwell  
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Augusta  
Lewiston  
Augusta  
Farmingdale  
Manchester  
Augusta  
Lewiston  
Biddeford  
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 1989 fiscal year audit of the State of Maine was performed in conformity with the provisions of the Single Audit Act of 1984. Following are the independent auditor's report on the component unit financial statements, schedule of reportable conditions, reports on internal controls, report on compliance with laws and regulations, and excerpts from our management letter. Our audit also included certain other reports relating to compliance with federal regulations as well as our report 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, Station #66, Augusta, Maine 04333-0066. In addition, the financial statements of the State of Maine oversight unit and the complete management letter are included in our Single Audit Report.

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 were proud to have our State Auditor be the recipient of the 1990 Inspector General's Integrity Award from the U.S. Department of Health & Human Services "For outstanding leadership in enhancing staff professionalism and the quality of the Maine Single Audit." In accepting this award, Mr. Scribner praised the efforts of the entire staff of the Department of Audit for their dedication, hard work and professional audit approach in meeting the challenge of serving the people of Maine with quality audit services.

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

Area Code 207  
Tel. 289-2201

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

**INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying component unit financial statements of the State of Maine oversight unit, as of and for the year ended June 30, 1989, as listed in the table of contents. These component unit financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these component unit 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 component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit 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 component unit 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 component unit financial statements are not reasonably determinable.

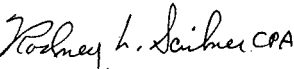
The state records certain revenues related to block grant awards as they are encumbered that, in our opinion, should be recorded when the expenditure is made, to conform with generally accepted accounting principles. If those revenues had been recorded in conformity with generally accepted accounting principles, Special Revenue Fund total assets and fund balance would have been decreased by \$6,716,029 as of June 30, 1989, and Special Revenue Fund revenues for the year ended June 30, 1989, would have been decreased by \$6,716,029.

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, 1989, and sales and service revenues and operating expenses, for the year ended June 30, 1989, are not reasonably determinable.



In our opinion, except for the effects on the component unit financial statements of not recording certain transactions in accordance with generally accepted accounting principles as described in the third preceding paragraph; and except for the effects on the component unit financial statements of recording certain revenues as discussed in the second preceding paragraph; and except for the effects of the matters discussed in the first preceding paragraph, the component unit financial statements referred to above present fairly the financial position of the State of Maine, oversight unit, at June 30, 1989 and the results of its operations and the changes in financial position of its proprietary and similar trust 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.

As described in Note 19 to the financial statements, certain fund balances have been restated.

 CPA  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990



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

Area Code 207  
Tel. 289-2201

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
STRUCTURE RELATED MATTERS NOTED IN A COMPONENT UNIT  
FINANCIAL STATEMENT AUDIT CONDUCTED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

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, as of and for the year ended June 30, 1989, and have issued our report thereon dated June 22, 1990.

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

In planning and performing our audit of the component unit financial statements of the State of Maine, for the year ended June 30, 1989, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control structure.

The management of the State of Maine, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of component unit financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- ° Cash
- ° Investments
- ° Revenue, receivables, and receipts - governmental funds
- ° Service revenue and receivables - proprietary fund types
- ° Expenditures for goods and services and accounts payable
- ° Payroll and related liabilities
- ° Inventories
- ° Property, equipment, and capital expenditures
- ° Debt and debt service expenditures
- ° Grant and similar programs

For all of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the component unit financial statements. All immaterial reportable conditions that we found and the state agencies to which they relate are identified in the accompanying schedule of reportable conditions.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable condition that we believe to be a material weakness.

#### 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.

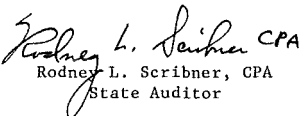
Accounting transactions are initiated by the various state agencies and processed for payment or otherwise entered into the state accounting records by the Bureau of Accounts and Control. The volume of accounting transactions is such that the bureau, with its current staffing level, appears able to perform 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 1989 was issued in June of 1990).

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

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the State of Maine, in a separate letter dated June 22, 1990.

This report is intended solely for the use of management, the legislature, and the Office of Inspector General - U.S. Department of Health & Human Services. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990

STATE OF MAINE  
SCHEDULE OF REPORTABLE CONDITIONS  
FOR THE YEAR ENDED JUNE 30, 1989

AGENCY/PROGRAM	CONDITION
Department of Administration - Bureau of Public Improvements	General Fixed Assets Account Group records are incomplete because various state agencies' reports of their General Fixed Assets (GFA) to the Bureau of Public Improvements are incomplete and inaccurate.
Incomplete General Fixed Assets Account Group records (1) <u>Prior Year Finding</u>	We again recommend that the Bureau of Public Improvements conform to the requirements of the State of Maine <u>Manual of Financial Procedures</u> , Section 66 to ensure that GFA inventory records are brought up to date.
Auditee Response:	We acknowledge the ongoing problems regarding the incomplete records pertaining to the General Fixed Assets Account Group. We have mailed out reminders to agencies in order to make them aware of the reporting requirements. However, we do not have the statutory authority to force agencies to respond.
Department of Audit	A \$5.9 million transfer of monies from the Unorganized Territory Education and Services Fund (U.T.E.S. Fund) was recorded as a reduction of revenue in the Special Revenue Fund and an increase of revenue in the General Fund (the fund originally making the disbursements).
Interfund transfer improperly coded as revenue adjustments (2) <u>Prior Year Finding</u>	These transactions resulted in overstating General Fund revenues; and understating General Fund operating transfers, Special Revenue Fund revenues, and Special Revenue Fund operating transfers.  In accordance with 36 MRSA Section 1605 we recommend that monies transferred from the U.T.E.S. Fund to agencies for expenditures, which are attributable to the municipal cost component, be classified in the financial statements as an operating transfer out of the Special Revenue Fund and as an operating transfer into the General Fund.
Auditee Response:	This office and the controller will make a concerted effort to correct the situation.
Department of Educational and Cultural Services - Bureau of School Management	Neither loans made to Post Graduate Health Professional Program recipients still in school, nor some loans made to Blaine House Scholars are established as loans receivable on the records of the State Controller. Consequently state assets are understated by approximately \$9 million. We also noted that the related reserve for uncollectible accounts was established at 100% of the recorded receivables balance.
Education loans receivable (3) <u>Prior Year Finding</u>	We recommend that the department record loans receivable and the appropriate entries to revenue on the accounting records of the State Controller. We also recommend that the department age the loans receivable annually so that adjustments will ensure sufficient reserve for uncollectible accounts.

## AGENCY/PROGRAM

## CONDITION

Department of Educational and  
Cultural Services - Bureau of  
School Management

Auditee Response:

All functions relative to loans made to Post Graduate Health Professionals recipients have been transferred to the new Higher Education Loan and Grant Authority, a subdivision of F.A.M.E..

Department of Environmental  
Protection

Administration of bond proceeds  
(4)

The Department of Environmental Protection (DEP) administers bond proceeds through the Bureaus of Oil and Hazardous Materials Control, Solid Waste Management, and Water Quality Control. Our examination of the DEP's administrative and accounting controls over bond proceeds disclosed that (a) that there is no central or independent accountability for bond monies and (b) there are no policies or standardized procedures for requesting, expending and accounting for the proceeds.

Lack of centralized authority,  
independent evaluation or moni-  
toring

The DEP Finance office does not oversee bond issuances or use of bond proceeds. It processes invoices, records expenditures, reconciles to the Controller's cash balances, and forwards bond sale requests to the Treasurer's office. It does not evaluate current obligations, assess the need for funds or calculate the amount to be issued. Except for reconciling to the Controller, it does not maintain current or complete records of commitments undertaken.

Lack of segregation of duties

DEP does not segregate program and financial responsibilities. Personnel, primarily engineers, request authorizing legislation. Subsequent to public referendum, they determine when to issue bonds and the amount issued. They develop and approve engineering or consulting contracts for capital projects and authorize all related financial commitments. The same personnel approve invoices, identify appropriation accounts charged, and retain records documenting use of proceeds.

Inconsistent contractual proce-  
dures

DEP negotiates contracts without disclaimers regarding available funds. There is no assurance that future legislatures will not have to fund currently contracted projects should proceeds not be available, or should DEP not be able to sell bonds.

DEP negotiates contracts which specify the entire scope of work to be performed while the dollar amount covers only a portion of the work. As construction or consulting services progress, authorized amounts for additional costs are routinely revised through riders, normally used only for work order modifications. This practice promotes the following:

1. Lack of cost controls, timely completion, or accurate budget and funding estimates.
2. Arbitrary cost increases and extended schedules, or obligations to complete work only partially funded.
3. Circumventing the State of Maine bidding process.

## AGENCY/PROGRAM

## CONDITION

### Department of Environmental Protection

Inconsistent contractual procedures (cont'd.)

DEP charged the costs of two projects without contracts to an unrelated project under contract, and used the same contractor for all three projects. Aside from increasing the potential for unauthorized or fraudulent uses of bond proceeds, this practice encourages the following:

1. Improperly distributing expenditures and thereby distorting costs for all projects.
2. Paying for work performed without contractual specifications.
3. Circumventing the state bidding process.

DEP authorized payments but did not document satisfactory completion of contractual agreements. In addition, it did not document the percentage of project completion which it reported to the Federal Environmental Protection Agency.

No standard system for financial commitments

Bureaus commit funding through one or more contracts and, in some cases, through letters of intent. They encumber some commitments but not others. All bureaus fund projects differently: one may fund a single project using several bond accounts, or fund several projects using a single account. Different engineers in one bureau obligate funds from all its accounts with no procedures in place to prevent overlapping or excessive commitments against the accounts.

Incomplete and fragmented records

DEP does not have a centralized or standardized recordkeeping system to account for use of bond proceeds. Each bureau maintains its own records: each uses a different system and each system lacks policies and procedures. Many files contain informal personal memoranda and lack primary documents. Except for one program, DEP's records do not readily identify (a) different projects funded from an individual bond issue, or (b) different bond issues funding an individual project. DEP personnel, attorneys or auditors must undertake extensive reconstruction of events whenever they review projects or bond accounts for cost recoveries or other purposes. The consequence of an inadequate system for making financial commitments and keeping records of those commitments are:

1. Failure to minimize the risk of fraudulent activity or mismanagement of funds.
2. Limited assurance that financial information is current and accurate.
3. Absence of a clear audit trail to allow reasonable reconstruction of financial activities.

Excessive cash balances

DEP was not aware of certain limitations on tax exempt bonds and issued securities in excess of current needs. It did not consider readiness or financial feasibility when it issued bonds for capital projects that were not under contract, on schedule, or completed. Consequently, as of June 30, 1989, all bond appropriation accounts had excessive cash balances relative to the date of bond issuance. In addition, some accounts retained balances long after projects were completed.

# AGENCY/PROGRAM

# CONDITION

## Department of Environmental Protection

## Over issuance of bonds

Our examination revealed that bonds issued exceeded the \$3,000,000 amount authorized for Groundwater Cleanup by \$780,000.

Chapter 72 Private and Special Laws 1985 authorizes:

Account #7660.3 Groundwater Cleanup	\$ 3,000,000
Account #7660.4 Pollution Abatement	12,000,000

Bonds issued according to DEP requests:

Account #7660.3 Groundwater Cleanup	3,130,000
Account #7660.4 Pollution Abatement	6,000,000

Bonds Issued according to Official Statements:

Account #7660.3 Groundwater Cleanup	3,780,000
Account #7660.4 Pollution Abatement	6,000,000

Bond proceeds credited to accounts:

Account #7660.3 Groundwater Cleanup	3,000,000
Account #7660.4 Pollution Abatement	6,780,000

The December 1988 General Obligation bond issue included \$1,330,000 for Groundwater Cleanup. DEP requested the sale and directed the proceeds be credited to the appropriate account. However, the Treasurer's office credited \$550,000 to Groundwater Cleanup and \$780,000 to Pollution Abatement. This action prevented excess proceeds in one account but permitted use of them in another account for a purpose which differed from what was stated in the bond sale's Official Statements. Neither the DEP Finance office nor the bureaus affected knew that bonds were overissued or proceeds credited to a different account.

## Intermingling of taxable and nontaxable proceeds

In March 1989, the Treasurer issued \$650,000 taxable General Obligation bonds for a private water system and credited the proceeds to the Groundwater Cleanup account, thus intermingling taxable and nontaxable proceeds. If projects requiring taxable funding use nontaxable bond proceeds it could result in a violation of the U.S. Tax Reform Act of 1986. There is no evidence that DEP requested taxable bonds or that it knew taxable proceeds had been credited to the Groundwater Cleanup account. Consequently, there is no assurance that only taxable bonds were used for a private water system.

In order to establish and maintain consistent practices and internal control over use of bond proceeds we recommend that DEP immediately develop policies and implement procedures to:

1. Justify the need for additional funds.
2. Determine financial feasibility and readiness of projects.
3. Request new bond issues.
4. Provide authoritative financial oversight and monitoring of bond issues and proceeds that is independent from program responsibilities.
5. Provide consistent practices for committing proceeds.
6. Provide consistent practices for use of contracts, letters of intent and encumbrances.

AGENCY/PROGRAM

CONDITION

Department of Environmental Protection

Intermingling of taxable and nontaxable proceeds (cont'd.)

7. Provide consistent practices for keeping accurate, complete and current records of commitments, contracts, expenditures and account balances.
8. Document all satisfactory engineering, construction or consulting services rendered, work order changes, and the completion status of projects prior to approving payments.

Auditee Response:

The Department of Environmental Protection is greatly concerned with the appropriate administration of bond authority and bond proceeds. The department works to comply with the policies of the Treasury Department and the Attorney General's Office regarding cash balances and the timing of bond issuance. There have been significant improvements in this area.

The issues of lack of segregation of duties, procedures, records maintenance and contractual procedures are also being addressed by the several program bureaus and the Bureau of Administration to verify the nature and extent of the problems and address them.

The Bureau of Administration will request the advice and assistance of the Department of Audit as policies and procedures are improved.

As is evident in the audit, the department has a range of areas utilizing bond authority and proceeds. The greatest amount of the funds are granted to public and quasi-public organizations which are also subject to audit by the State Department of Audit or independent auditors, helping to assure the appropriate fiduciary management of particular projects at the local level.

Department of Finance - Bureau of Accounts and Control

General Fund revenue understated by \$12,930,391 (budgetary basis) (5)

According to PL 1987 Chapter 892, the balance of the Tax Adjustment Reserve Fund after tax refunds should have been recognized as revenue during fiscal year 1989. However, the State Controller did not recognize \$12,930,391 of the remaining balance as revenue on the budgetary basis. The effects have been corrected on the 1989 component unit financial statements.

Auditee Response:

Duly noted. Prior year transaction - no entry necessary.

Department of Finance - Bureau of Accounts and Control

Maine Rainy Day Fund (6)

Noncompliance with statutes

Accounting transactions of the Maine Rainy Day Fund did not comply with statutory provisions.

Subsection 4 of 5 MRSA §1513 states, "...for the period starting July 1, 1988 and ending June 30, 1989, the fund may exceed \$25,000,000 but not more than \$48,000,000...." During 1989 the bureau held the fund to the normal statutory limit of \$25,000,000.

In addition, emergency legislation enacted by Ch. 14 P & S 1989 appropriated \$722,200 from the Maine Rainy Day Fund. The appropriation was effective April 20, 1989; however, the bureau did not process the journal until June 30, 1989.

Auditee Response:

Omission on the part of Accounts and Control but the balance remained at \$25,000,000, on June 30, 1989. Any higher balance would have lapsed. Therefore, adjustment in future period is not needed.



# AGENCY/PROGRAM

# CONDITION

Department of Finance - Bureau  
of Accounts and Control

Wire transfers incorrectly recorded  
as accounts payable  
(7)

The bureau recorded wire transfers originating from state demand deposit accounts on or before June 30, 1989 as accounts payable rather than cash reductions. As a result of the incorrect recording, cash and accounts payable were overstated in the following funds:

Maine Employment Security Commission	\$ 50,000
Maine State Retirement System	4,256,115
Treasurer's Agency Fund	<u>2,318,100</u>
Total	<u>\$6,624,215</u>

We recommend that wire transfers made prior to the end of the fiscal period be recorded as cash reductions in that fiscal period.

## Auditee Response:

Bureau of Accounts and Control does not deal with wire transfers so we had no knowledge of this situation. After discussion with the Audit Dept., Treasury agreed to notify Accounts and Control on a timely basis.

Department of Finance - Bureau  
of Accounts and Control

Inadequate accounting for inter-  
fund transactions  
(8)

## Prior Year Finding

At the end of each fiscal year the Bureau of Accounts and Control (A&C) makes entries to balance the amounts Due To and Due From the various state funds. A&C records Due To amounts based primarily on memos of Due From amounts of agencies providing services. We noted the following problems:

1. Inconsistency between recorded amounts and supporting memos;
2. Lack of supporting documentation and authorizations;
3. Carrying of receivables beyond a reasonable collection period; and
4. Use of the prepaid expense account to balance interfund transactions.

Incorrect recording of interfund transactions distorts fund revenues, expenditures and fund balances.

We recommend the bureau account for Due To and Due From amounts on an accrual basis; the bureau reconcile and age these accounts on a regular basis; and the bureau write-off or reclassify balances as appropriate.

## Auditee Response:

The Bureau is making a strong effort to have departments comply.

Department of Finance - Bureau  
of Accounts and Control

Incorrect use of prepaid expense  
account  
(9)

## Prior Year Finding

The bureau incorrectly used the prepaid expense account. As a result, as of June 30, 1989 recorded assets were overstated and expenditures understated by \$5,964,981.

The bureau debited \$3,849,385 in the General Fund to prepaid expense rather than to expenditures. This was the balancing entry to the amount recorded as "Due To" other agencies for services received. In other funds, the bureau debited prepaid expense to avoid deficits created by posting expenditures to accounts which did not have sufficient funds available.

## AGENCY/PROGRAM

## CONDITION

Department of Finance - Bureau  
of Accounts and Control

Incorrect use of prepaid expense  
account (cont'd.)

### Auditee Response:

We recommend the bureau present an accurate picture of financial positions by recording expenditures in the period when obligations are incurred. Accordingly, the bureau should limit use of prepaid expense for expenditures which benefit a future period. We also recommend that the bureau monitor the accounts to avoid overexpenditure of available funds.

For budgetary purpose, we will have to record it this way; but we will process the correct entries for our GAAP statements.

Department of Finance - Bureau  
of Accounts and Control

Control over blank checks and  
signature plates  
(10)

### Prior Year Finding

Accounting control weaknesses exist in processing state issued checks. Weaknesses include:

1. Blank checks used to properly align the computer printer are not secured prior to their recording, destruction and disposal.
2. During the day a duplicate set of signature plates as well as the blank checks are kept in an unlocked vault.
3. Check stock has not been reconciled to inventory since October 1988.

We recommend the bureau tighten internal control over check processing operations by:

1. Securing blank checks until they are voided, destroyed, or discarded;
2. Storing and locking the duplicate signature plates away from the primary plates;
3. Designating persons, other than employees operating the check signing machine, as the only ones with access to the plates;
4. Maintaining a log book of plate use; and
5. Reconciling check stock to date and periodically thereafter.

### Auditee Response:

Efforts are being made to tighten up security in these areas.

Department of Finance - Bureau  
of Accounts and Control

Deferred Compensation Plan not  
recorded on the Controller's  
official records  
(11)

### Prior Year Finding

The State of Maine is accountable for participant contributions to a Deferred Compensation Plan.

The bureau's 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 accounting records. Consequently, as of June 30, 1989, the bureau had not recorded Deferred Compensation Plan assets/liabilities of \$45,734,747 on the state accounting records.

We recommend that the bureau record all funds or assets entrusted to the state.

### Auditee Response:

We will set up new fund in FY91.

Department of Finance - Bureau  
of Taxation

Telecommunications property taxes  
not properly recorded  
(12)

### Prior Year Finding

A telecommunications personal property tax assessment of approximately \$20.2 million was incorrectly recorded as revenue to the General Fund in 1989 rather than in the 1990 fiscal year.

**AGENCY/PROGRAM****CONDITION****Department of Finance - Bureau of Taxation**

Telecommunications property taxes not properly recorded (cont'd.)

In addition, the assessment of approximately \$16.1 million was incorrectly recorded as revenue in FY 1988. It should have been deferred revenue in FY 1988 and revenue in FY 1989.

Title 36 MRSA Section 457 requires the assessment amount to be determined by August 1, the assessed amount being due on or before October 1 of each year. Government Accounting Standards Board (GASB) states that property tax revenue should be recognized in the year for which the taxes are levied.

The department determined the amount of the telecommunications personal property tax assessment prior to June 30, 1989 and processed the assessment journal entry at that time. 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.

As a result, General Fund revenues were overstated by \$4,026,494 (\$20.2 million less the \$16.1 million) for the fiscal year ended June 30, 1989. General Fund liabilities (deferred revenue) were understated by \$20,157,883 at June 30, 1989.

We recommend that Bureau of Taxation personnel apply appropriate revenue recognition criteria when tax assessment journals are processed.

**Auditee Response:**

As we pointed out last year, the issue has nothing to do with personal care in processing tax assessment journals. Inherent in PL 1987, c. 507, which enacted the Telecommunications Property Tax, was a particular flow of revenue. In order to satisfy the budgetary implications of this bill and the subsequent budgets which have arisen, the accrual of revenue cannot be delayed as you recommend.

**Department of Labor**

Inadequate detail records to substantiate Unemployment Trust Fund accounts receivable  
(13)

Most Unemployment Trust Fund accounts receivable detail records are maintained on a computerized system. As of June 30, 1989 the receivable balance was \$7,813,255. No detail listing of the computerized data is available to identify \$6,809,669 of this balance. Therefore, we were unable to fully substantiate the recorded balance.

We recommend that the Bureau of Employment Security periodically produce and retain a detail listing and reconcile it to the total accounts receivable.

**Auditee Response:**

As of June 30, 1990, for the first time there was to be a printout of the Aging of Accounts which should shed some light on the problem. This is a matter that will be addressed during the current fiscal year as part of the redesign of the tax data base system.

**Department of Labor**

Controller's records do not accurately reflect accounts receivable balance  
(14)

The Bureau of Employment Security does not record receivables for employer tax contributions until it receives the quarterly reports, due 30 days after the end of the quarter. Employers, for whom no report is received, are not included in the receivables.

# AGENCY/PROGRAM

# CONDITION

## Department of Labor

Controller's records do not accurately reflect accounts receivable balance (cont'd.)

At fiscal year end, the bureau established a reserve for uncollectible accounts (except for one million due from the federal government) equal to the receivable balance of \$7,813,255.

We recommend that the Bureau of Employment Security include all amounts due as accounts receivable and establish a reserve at a reasonable level.

## Auditee Response:

The bureau is not aware of the amount due from an employer's account until a quarterly wage report is filed. If an employer fails to file a report, the law allows the bureau to file an estimated report based upon the report filed for the same quarter in the previous year.

These estimates are calculated at 1 1/2 times the report for the previous year - same period. When a report is received from the employer, it replaces the estimated report.

The bureau has not established a reserve for uncollectible accounts equal to the receivable balance. The trial balance establishes the accounts receivable which is offset by an accounts receivable not realized which is in reality a deferred income type of account. There is no reserve for uncollectible accounts receivable; however the receivables are categorized by delinquent contributions, doubtful accounts and bankruptcies-receiverships asset accounts.

The latter two of these categories would be a reasonable estimate for establishing a reserve for uncollectible accounts and have been identified to be addressed in the redesign of the tax database system.

## Department of Mental Health and Mental Retardation

### Augusta Mental Health Institute

Rejected Medicaid claims not re-submitted  
(15)

The Department of Mental Health and Mental Retardation did not pursue collection of Augusta Mental Health Institute accounts receivable from the Medicaid program in a timely manner, resulting in the loss of almost \$0.8 million of revenue. The Department of Human Services had rejected the original claims, and the Department of Mental Health and Mental Retardation did not resubmit the claims within the required time period of one year.

We recommend that the department resubmit any open claims and develop control procedures for claim reimbursement.

## Auditee Response:

The Department has, and will continue to, submit claims whenever possible. The error was caused by an employee not resubmitting claims as had been expected. Procedures are now in place to make certain that a recurrence will be avoided.

## Department of Mental Health and Mental Retardation

Medicare revenue and accounts receivable  
(16)

Institute personnel do not record revenue and accounts receivable from Medicare until payment is received, resulting in an understated balance of both accounts.

We recommend that the department record Medicare billings as receivables at the time they are submitted for payment.

## Auditee Response:

The Department wholeheartedly agrees and changes are in process to correct this situation.

## AGENCY/PROGRAM

## CONDITION

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Bangor Mental Health Institute

Locally handled funds not record-  
ed on Controller's records  
(17)

The Augusta and Bangor Mental Health Institutes act as trustees for patient funds and other locally handled accounts. These are not reflected on the Controller's records.

Section 1300.102 of the Codification of Governmental Accounting and Financial Reporting Standards states, "Fiduciary Funds...are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals...."

We recommend that the institutes record locally handled funds on the state's records.

### Auditee Response:

The Department will explore further the requirements found in Section 1300.102 since this has not been an issue in the past. We will also contact the Controller's Office for guidance and further clarification.

Department of Professional and  
Financial Regulation - Bureau  
of Insurance

Late billing of assessments  
(18)

### Prior Year Finding

Title 24-A, MRSA §237 states, "...the expense of maintaining the Bureau of Insurance shall be assessed annually by the Superintendent of Insurance against all insurers licensed to do business in this State...." Other provisions state, "...on or before April 20th of each year, the superintendent shall notify each insurer of the assessment due...", and "...payment shall be made on or before June 1st."

As of April 20 assessment notices totaling \$1,678,020 were not forwarded to the respective insurers. These assessments, due as of the billing date, were not established as taxes receivable in accordance with generally accepted accounting principles. As a result, taxes receivable and revenues for the 1988-1989 fiscal year were understated while the respective accounts for the 1989-1990 fiscal year are overstated.

We again recommend that the bureau bill assessments on or before April 20 of each year, and record and recognize taxes receivable/revenue at the date of billing in order to present fairly the financial position and operations of the bureau.

### Auditee Response:

The purpose of the assessment is to fund the activities of the Bureau of Insurance for the upcoming year. The assessment therefore has to carry the bureau through the coming fiscal year and permit implementation of applicable legislation enacted that year. Inasmuch as the legislature typically will not conclude its deliberations by April 20th of each year, the bureau is unable to accurately estimate the level of funds necessary to fund operations through the coming fiscal year at that time. Accordingly the Bureau has deferred levying an assessment until the legislative program can be reasonably costed.

A solution to this problem would seem to be simply to change the collection date for such funds to about August 1st of the fiscal year which will benefit from funds so collected. Assessments could be levied on July 1 (this avoids accounts receivable status for funds in transit) and presumably most of the legislative programs to be enacted will have crystallized. The down side to this action would be to deprive the bureau of some investment income from use of funds collected earlier in time.

The Bureau of Insurance will propose legislation during the 115th Legislative Session to solve this problem.

# AGENCY/PROGRAM

# CONDITION

## Maine State Retirement System - Group Life Insurance Program

Verification of premiums received  
(19)

The Group Life Insurance Program does not verify premiums received from local participating districts to determine that the purchased value of insurance and the premium rate for the employee are correct. In addition, the format districts use for reporting makes it difficult to verify premium calculations.

One employee's premium payment was incorrect because the district used an incorrect premium rate and applied this rate to an incorrect level of coverage.

We recommend that the Group Life Insurance Program verify the premiums received and revise the reporting format.

## Auditee Response:

For the audit period, little was done to verify the appropriateness of the levels of insurance in effect on behalf of insured employees. During the period, the program underwent a management change and the small staff encountered a high degree of instability. Over the balance of the fiscal year, one of the major objectives of management was to return to more normal operations and this was achieved.

Life Insurance recognizes that the present system of reporting is susceptible to errors in coverages in force and therefore the premiums that are due. Changes are not reported uniformly and on a timely basis by personnel at the local level. In order to work around these and other acknowledged shortcomings, sweeping changes in the reporting and payment requirements are planned in Fiscal Year 1991. These changes should impact favorably on the point in question.

## Maine State Retirement System - Group Life Insurance Program

Internal control procedures for  
claim payments  
(20)

Procedures for payment of life insurance benefits do not ensure that payments are for eligible beneficiaries and for the proper amounts. In addition, there is neither sufficient nor reliable documentation to assure accurate calculations of benefits due. The following are test results of Group Life Insurance Program payments for basic, supplemental, dependent, and supplemental dividend benefits.

<u>Rate of Incidence</u>	<u>Condition</u>	<u>Amount Questioned</u>
61/84 tested	No application on file	
1/84 tested	Application not signed by employee (signed by Supervisor of Group Life Insurance Program)	
39/84 tested	Claim form on file not authorized	
1/84 tested	Beneficiary form voided without written authorization	
9/84 tested	Payments made to ineligible beneficiaries	\$20,951.78
	Of the total \$13,051.78 in pay- ments went to former employees of the Group Life Insurance Program	

AGENCY/PROGRAM

CONDITION

Maine State Retirement System -  
Group Life Insurance Program

Internal control procedures for  
claim payments (cont'd.)

Rate <u>Incidence</u>	<u>Condition</u>	Amount <u>Questioned</u>
3/84 tested	Eligible beneficiary overpaid	\$ 960.00
1/84 tested	Eligible beneficiary underpaid	( <u>150.00</u> )
Total Questioned		<u>\$21,761.78</u>

We recommend that the Group Life Insurance Program ensure that benefit payments are made only to eligible beneficiaries; that they are for the proper amounts; that they include review of statutes in relation to information UNUM publishes; that they include eligibility determination and benefit calculation according to the specific criteria set forth by statute.

Group Life Insurance must update current file documentation and require that participant files contain at least the following: signed, dated designation of beneficiary forms where applicable; signed, dated requests for change of information in either the application or beneficiary forms; premium payment records showing employer name, employee name, type(s) of coverage, rates paid for each type of coverage, level of coverage, and period of coverage; formalized worksheet for calculation of benefit payments, including references to source documentation, signed and dated by preparer and reviewer; and, claim forms signed and dated by authorized official. We recommend the Group Life Insurance Program explore all available options for proper internal control over group life insurance benefit payments. In addition, the Group Life Insurance Program should take necessary steps to recover payments to ineligible beneficiaries and overpayments to eligible beneficiaries.

Auditee Response:

...a widespread condition reported was "No Insurance Application on File." It was apparently a general practice not to record the document in the microfiche record for the individual once the person retired, hence the lack of documentation as noted. Records management has started to retain the insurance application in all files. It would be incorrect to assume that claims were paid without having the appropriate documentation in hand even though the microfiche does not contain that form.

...(a) second widespread condition was "Unauthorized Claim." It's our understanding that this was reported because no signature of a responsible individual from the Insurance program was found on the form as recorded on microfiche. The requisite signature is on the original of the Claim form and is on file at UNUM in Portland. An unsigned "Copy" was recorded on microfiche. Again, a signed copy of the Claim form is now being microfiched. It is reasonable to assume that because of the existence of the original signed form at UNUM this finding should be reconsidered....

Maine State Retirement System -  
Group Life Insurance Program

Liability for anticipated claims  
(21)

Title 5, Section 18059 of the Maine Revised Statutes Annotated of 1964, as amended, states that payment of premiums shall be based on the basis determined by the board to be actuarially sufficient to pay anticipated claims. Title 5 MRSA, Section 18060 requires an annual review of the Group Life Insurance Program to determine the reserves necessary to pay anticipated claims.

# AGENCY/PROGRAM

# CONDITION

## Maine State Retirement System - Group Life Insurance Program

Liability for anticipated claims  
(cont'd.)

The Group Life Insurance Program has not determined liability for anticipated future claims. Operating revenues were not sufficient to pay benefits and general operating expenses for the fiscal year ending June 30, 1989. Consequently, there was a decrease in assets available for future benefits due.

We recommend that the Group Life Insurance Program engage an actuary to determine liability for anticipated future claims, the reserves necessary to pay anticipated claims, and the premium rate necessary to accumulate sufficient assets to pay anticipated claims. Group Life should adjust premium rates to accommodate actuarial recommendations.

## Auditee Response:

The Retirement System has requested (actuaries) to study the issue of premiums in force and make recommendations based on the need to meet anticipated claims and the expenses of operating the program. The work will be done in conjunction with the actuarial assessment during the summer months and a report, with recommendations, is expected in the early fall of 1991.

## Maine State Retirement System

Pending transactions incorrectly  
recorded  
(22)

The Maine State Retirement System (MSRS) recorded pending investment purchases as decreases and sales as increases to fiduciary cash balances. Because cash balances were not affected until settlement date, pending purchases should have been recorded as accounts payable and pending sales as accounts receivable. As a result, the following accounts were understated at fiscal year end.

Cash	\$16,562,020
Accounts receivable	65,411,647
Accounts payable	81,973,667

We recommend that the MSRS correctly record pending transactions as accounts payable or accounts receivable until the transaction settlement date.

## Auditee Response:

Past practice of the Retirement System has been to "net" sales and purchases for securities against Fiduciary Cash rather than to maintain appropriate accounts payable and receivable amounts. An audit trail is clearly available from records maintained by Boston Safe Deposit Company and time is devoted on a monthly basis to reconcile trades with respect to dates and amounts. This reconciliation of Fiduciary Cash is provided, as a matter of regular practice, to the State Controller. We would take issue with considering the transactions being "incorrectly" recorded as opposed to questioning the accounting treatment of the amounts in question.

For the period of the audit, the Retirement System was using a manual general ledger.... We expect to be able to have an integrated G/L in place sometime in Fiscal Year 1991...(and) are reluctant to cause an increase in the number of manual entries over the course of a fiscal year but would prefer to allow an automated system to better handle fiduciary receivables and payables....



**AGENCY/PROGRAM****CONDITION****Maine State Retirement System**

Interest on zero coupon bonds  
(23)

The Maine State Retirement System recorded prior years appreciation of \$1,090,907 on zero coupon bonds as current operating revenues. As a result, the Group Life Insurance Program showed an operating profit rather than an operating loss for fiscal year 1989.

We recommend that the Retirement System record revenues in the year when earned and record adjustments to fund balance whenever it is necessary to correct operating results of other periods.

**Auditee Response:**

A recognition of past bond value appreciation was made in Fiscal Year 1989 in order to cause the proper value to be recorded at fiscal year-end....

The Retirement System is presently applying the appreciation of value at year-end so current statements will correctly reflect the value of any amounts as income in the appropriate fiscal year.

**Maine State Retirement System**

Documentation of internal control  
inadequate  
(24)

The Maine State Retirement System must maintain records of participant data. Out of 25 recipient files sampled, 1 could not be located. Other problems related to inadequate documentation are:

1. Official documents filed haphazardly in unsecured files.
2. No maintenance of inventory or checklist of file contents.
3. Important benefit calculations on unofficial, unsigned and undated papers.
4. Benefit payment calculations crossed out and revised figures entered on official forms; changes not initialed and authorizations not documented; components of recalculations not identified.

We recommend that Retirement personnel record all benefit computations on official forms authorized by the Board. The forms should contain:

1. All components of calculations, references to authorizing statutes or rules.
2. The name of the employee completing the form.
3. The date of completion and signature of the authorized official who reviewed the form.
4. A document number for the form.

Revisions to previously completed forms should be made on separate forms containing all of the foregoing information including an explanation or justification for change.

We further recommend that the Retirement System determine what documentation is necessary and ensure that all files contain all necessary information organized in a consistent manner.

**AGENCY/PROGRAM**

**CONDITION**

**Maine State Retirement System**

**Auditee Response:**

In the sample drawn, deficiencies were found in records for members who retired from 1979 through 1987. Management considers recent practices introduced to be an improvement in the recordkeeping process. Communication and calculations are now more formal and entries can be easily traced.

The use of a check list recommended by Audit is to be implemented. A better ordering of the files is now taking place.

**Maine State Retirement System**

**Differences in participant data  
(25)**

Retirement maintains a data system of its current and previous participants. Actuaries use this information to determine future retirement obligations and contribution rates necessary to maintain sufficient assets to pay benefits. We tested data given to the actuaries for 25 participants. The tests revealed:

1. A participant listed as active with no evidence of enrollment.
2. A participant's date of termination listed later than date on death certificate.
3. Two inactive participants listed as active.
4. Four participants with invalid dates of hire and/or dates of continuous employment.

We recommend that the Retirement System review and update its participant files; that it compile correct information to use for benefit determination; and that it give accurate information to actuaries.

**Auditee Response:**

We...reviewed the list of apparent deficiencies and (responded)...on an individual basis....

**Maine State Retirement System**

**Accrued interest and dividend  
income not recorded  
(26)**

The Maine State Retirement System did not record accrued interest income of \$245,397 and accrued dividend income of \$934,132. As a result, assets and operating revenue were understated.

We recommend that the Retirement System record all interest and dividends receivable at fiscal year end.

**Auditee Response:**

The recording of the accrued interest on the Property Capital Account was an oversight and has been corrected in Fiscal Year 1990.

**Maine State Retirement System**

**Accrual of refunds  
(27)**

According to the Governmental Accounting Standards Board Codification, Section 1600 pension trust funds should be accounted for on the accrual basis i.e., recognized when the related liability is incurred.

The Maine State Retirement System has not accrued a liability for the amount of contributions to be refunded to nonvested, terminated members.

We recommend that the Retirement System record a liability for accrued refunds payable for all nonvested terminated members who have not received refunds.

**AGENCY/PROGRAM****CONDITION****Maine State Retirement System****Auditee Response:**

Contributions are held in trust by the Retirement System until such time as a member retires, dies, or requests a refund. Only individuals who have terminated service may request a refund of contributions.

Former members may leave funds on deposit with the Retirement System for extended periods of time. It's common for persons to have contributed large sums, leave service and wait years before applying for retirement benefits. It's inappropriate to recognize such funds...because these may never be refunded. No criteria exists by which to measure when or how much may ever be refunded. Listing the total amount would overstate such a liability.

Suggesting that such refunds would be classified as an accrued amount would require that these amounts meet the test of timeliness and measurability in the fiscal period. We feel the nature of the individual accounts precludes making such a judgement.

**Maine State Retirement System**

Accrual of contributions  
(28)

According to the Governmental Accounting Standards Board Codification, Section 1600, pension trust funds should be recognized when earned, i.e., on the accrual basis.

The Maine State Retirement System has not accrued a receivable for the amount of contributions earned but not yet received.

We recommend that the Retirement System record accrued contributions receivable.

**Auditee Response:**

Because of the procedures in place and the operation of the program, no invoicing takes place of either the state or participating districts. No receivable is ever established because the monthly amount is not measurable. Given that the amount is not measurable and the invoice is never generated, it's not possible to recognize the receivable.

We feel our treatment of this matter is consistent with GASB 1600.106 and 1600.107.

**Department of Transportation -  
Motor Transport Services**

Detail records do not support  
accumulated depreciation  
(29)

Motor Transport Services (MTS) uses a computer to maintain depreciation schedules. The agencies control ledger does not agree with the data output by \$4.3 million dollars. In addition, the agencies control ledger does not agree with the records of the State Controller by \$188,526.

We recommend that MTS reconcile its detail records of accumulated depreciation to the control ledger and reconcile the control ledger to the Controller.

**Auditee Response:**

We acknowledge this deficiency and have taken steps to rectify. The Controller's records are correct, the error was created and compounded by limitations in our automated depreciation system.

# AGENCY/PROGRAM

# CONDITION

Department of Transportation -  
Bureau of Aeronautics  
Ferry Service  
Ports and Marine

Each of the department's Enterprise Funds receives an appropriation from the General Fund to defray operating costs. The appropriations made in fiscal year 1989 were:

Operating transfers from General  
Fund not properly classified  
(30)

Aeronautics	\$ 66,208
Ferry Service	1,556,866
Ports and Marine	76,914

The department credited the appropriations to donated surplus (contributed capital) and by passed the Enterprise Funds' operating statements.

The department made similar appropriations in prior fiscal years which resulted in overstatements of donated surplus (contributed capital) by amounts that could not be determined.

The current treatment of General Fund appropriations has contributed to the deficits reported in unappropriated surplus (retained earnings) in the Enterprise Funds' operating statements.

To properly account for the subsidies in accordance with Governmental Accounting and Financial Reporting Standards (GASB 1800.106) appropriations should be reflected as operating transfers.

We recommend that to subsidize the operations of the Enterprise Funds, subsequent appropriations from the General Fund, should be accounted for as operating transfers. We also recommend that, the department adjust accounts for the cumulative effect of the donated surplus and unappropriated surplus for prior periods.

## Auditee Response:

We concur with the auditor's finding and will transfer General Fund contributions to the Enterprise dedicated revenue accounts rather than donated surplus, effective with the transfers for Fiscal Year 1991.

Past years accumulated donated surplus will be transferred in the first quarter of FY91.

## Office of Treasurer of State

Deposits not recorded on State  
Controller's records  
(31)

The Treasurer's office recorded deposits of \$1,934,393 on bank statements but not on the Controller's records as of June 30, 1989.

Some agencies deposit directly to bank demand deposit accounts and then send Income Statements to the Treasurer's office for matching with the deposits. There is a time delay between the deposit of money and submission of Income Statements which results in outstanding deposits at year end. Until an Income Statement is received there is not sufficient information to identify where the deposits should be credited. Nevertheless these deposits already credited to demand deposit accounts are assets of the state and should be recorded on the financial statements at year end.

In order to record deposits in the proper fiscal period we recommend that the Treasurer's office identify outstanding deposits such as including agency name on deposit slips before Income Statements arrive.

AGENCY/PROGRAM

CONDITION

Office of Treasurer of State

Auditee Response:

The \$1,934,393 in question represents deposits by State agencies to the Treasurer's deposit accounts that are not presented to the Treasurer yet on a cash receipt statement. It was resolved that the Controller could get this information from the Treasurer late in July or August if necessary. Further thought will be put into outstanding unknown deposits.

Office of Treasurer of State

Duplicate distribution of earnings on Treasurer's cash pool (32)

Interest earned on the Treasurer's cash pool investments accrued during the month prior to actual receipt. Earnings were also credited to interest income when received. As a result the Office of the Treasurer recorded \$521,706 as interest income twice (when accrued and when received) and subsequently distributed it as earnings on the Treasurer's cash pool. This duplicate distribution resulted in a \$521,706 overstatement of equity in the Treasurer's Cash Pool.

We recommend the Treasurer's office calculate earnings distributed to various funds that are in excess of the amount which should have been distributed. It should correct the error by reducing future distributions to applicable funds, indicating the amount withheld from each distribution and giving the reason. In addition, Treasury should periodically reconcile accrued interest in order to avoid similar errors.

Auditee Response:

A reversing journal was not prepared and is being prepared by the Treasury Dept.

Office of Treasurer of State

Reconciliation of bonds payable (33)

The Office of Treasurer does not reconcile unmatured bonds payable with the Controller's records. A reconciliation of unmatured bonds payable at June 30, 1989 would have prevented the following misstatements:

Highway Bonds	\$21,655,000	overstatement
General Bond Fund Before Tax Changes	( 33,840,000)	understatement
General Bond Fund After Tax Changes	9,100,000	overstatement
Self-liquidating Bonds	( <u>255,000</u> )	understatement
Total General Long-Term Debt	(\$ <u>3,340,000</u> )	

The errors occurred because the Controller's office did not record entries; and because the Treasurer's office forwarded to the Controller a schedule of debt retirement which contained errors.

We recommend that the Office of Treasurer periodically reconcile its records of unmatured bonds payable to the Controller's. In addition, Treasury should review the schedule for debt retirement before forwarding it to the Controller.

Auditee Response:

This item is a responsibility of the Controller - the error resulted in a Controller correction. The Treasurer will give the Controller the outstanding bond figure each time he prepares an Official Statement.

**AGENCY/PROGRAM**

**Office of Treasurer of State**

Bonds issued without Financial  
Order  
(34)

**CONDITION**

In March of 1989 the Office of Treasurer issued taxable bonds amounting to \$5,650,000. The Treasurer did not obtain the Governor's approval prior to issuing the bonds, as required by Chapter 72, Public Laws of 1985; and Chapter 817, Public Laws of 1988.

We recommend that the Treasurer use financial orders to obtain the approval of the Governor prior to issuing new securities.

**Auditee Response:**

Financial orders are routinely prepared, but on this initial taxable borrowing was omitted - signatures required are on the bonds, etc.



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RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROLS  
(ACCOUNTING AND ADMINISTRATIVE) - BASED ON A  
STUDY AND EVALUATION MADE AS A PART OF AN AUDIT  
OF THE COMPONENT UNIT FINANCIAL STATEMENTS AND THE  
ADDITIONAL TESTS REQUIRED BY THE SINGLE AUDIT ACT

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, 1989, and have issued our report thereon dated June 22, 1990. As part of our audit, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, the Single Audit Act of 1984, and the provisions of Office of Management and Budget Circular A-128, Audits of State and Local Governments. For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs in the following categories:

Accounting Controls

Cash  
Investments  
Revenue, receivables, and receipts - governmental funds  
Service revenue and receivables - proprietary fund types  
Expenditures for goods and services and accounts payable  
Payroll and related liabilities  
Inventories  
Property, equipment, and capital expenditures  
Debt and debt service expenditures  
Grant and similar programs

Administrative Controls

General Requirements  
◦ Political activity  
◦ Davis-Bacon Act  
◦ Civil rights  
◦ Cash management  
◦ Relocation assistance and real property acquisition  
◦ Federal financial reports

Specific Requirements  
◦ Types of services  
◦ Eligibility  
◦ Matching level of effort  
◦ Reporting  
◦ Cost allocation  
◦ Special requirements  
◦ Monitoring subrecipients

The management of the State of Maine is responsible for establishing and maintaining internal control systems used in administering federal financial assistance programs. In fulfilling that responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of control procedures. The objectives of internal control systems used in administering federal financial assistance programs are to provide management with reasonable, but not absolute, assurance that, with respect to federal financial assistance programs, resource use is consistent with laws, regulations and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, 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 included all of the applicable control categories listed above. During the year ended June 30, 1989, the State of Maine, expended 91% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

With respect to the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Maine, our study and evaluation was limited to a preliminary review of the systems to obtain an understanding of the control environment and the flow of transactions through the accounting system. Our study and evaluation of the internal control systems used solely in administering the nonmajor federal financial assistance programs of the State of Maine, did not extend beyond this preliminary review phase.

Our study and evaluation was more limited than would be necessary to express an opinion on the internal control systems used in administering the federal financial assistance programs of the State of Maine. Accordingly, we do not express an opinion on the internal control systems used in administering the federal financial assistance programs of the State of Maine. Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of the State of Maine.

Also, our audit, made in accordance with the standards mentioned above, would not necessarily disclose material weaknesses in the internal control systems used solely in administering nonmajor federal financial assistance programs.

However, our study and evaluation and our audit disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material to a federal financial assistance program may occur and not be detected within a timely period.

The following State of Maine agencies, which administer the listed federal financial assistance programs, did not have adequate controls established to ensure that subrecipient audits are performed and properly monitored in accordance with federal regulations.

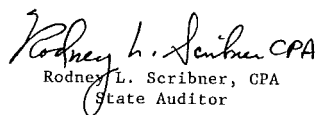
<u>State Agency</u>	<u>Program</u>	<u>Federal Catalog No.</u>
Executive Department - Community Services	Temporary Emergency Food Assistance Program	10.568
	Low Income Home Energy Assistance Block Grant	13.789
	Weatherization Assistance Program	81.042
Department of Corrections	Criminal Justice Block Grants	16.573
	Juvenile Justice and Delinquency Prevention	16.540
Department of Human Services	Special Supplemental Food Program - Women, Infants, Children	10.557
	Child Care Food Program	10.558



<u>State Agency</u>	<u>Program</u>	<u>Federal Catalog No.</u>
Department of Human Services (cont'd.)	Administration for Children, Youth and Families - Child Abuse and Neglect State Grants	13.669
	Social Services Block Grant	13.667
	Preventive Health and Health Services Block Grant	13.991
	Alcohol and Drug Abuse and Mental Health Block Grant	13.992
	Maternal and Child Health Service Block Grant	13.994
	Rehabilitation Services Basic Support	84.126
Department of Labor	Job Training Partnership Act	17.250
Department of Mental Health and Mental Retardation	Social Services Block Grant	13.667
	Alcohol and Drug Abuse and Mental Health Services Block Grant	13.992

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our audit of the 1989 component unit financial statements and (2) our audit and review of the state's compliance with laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance programs. This report does not affect our reports on the component unit financial statements and on the state's compliance with laws and regulations dated June 22, 1990.

This report is intended solely for the use of management, the legislature, and the Office of Inspector General - U.S. Department of Health & Human Services. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

 CPA  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990



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

Area Code 207  
Tel. 289-2201

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
LAWS AND REGULATIONS BASED ON AN AUDIT OF COMPONENT  
UNIT FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS ISSUED BY THE GAO

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, as of and for the year ended June 30, 1989, and have issued our report thereon dated June 22, 1990.

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

Compliance with laws, regulations, contracts, and grants applicable to the State of Maine, is the responsibility of the State of Maine's management. As part of obtaining reasonable assurance about whether the component unit financial statements are free of material misstatement, we performed tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws, regulations, contracts, or grants, that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the component unit financial statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in the 1989 component unit financial statements of the State of Maine.

AGENCY/PROGRAM

CONDITION

Department of Finance - Bureau  
of Accounts and Control

General Fund revenue understated  
by \$12,930,391 (budgetary basis)

According to PL 1987, Chapter 892, the balance of the Tax Adjustment Reserve Fund after tax refunds should have been recognized as revenue during fiscal year 1989. However, the State Controller did not recognize \$12,930,391 of the remaining balance as revenue on the budgetary basis.

Maine Rainy Day Fund

Noncompliance with statutes

Accounting transactions of the Maine Rainy Day Fund did not comply with statutory provisions.

Subsection 4 of 5 MRSA §1513 states, "...for the period starting July 1, 1988 and ending June 30, 1989, the fund may exceed \$25,000,000 but not more than \$48,000,000..." During 1989 the bureau held the fund to the normal statutory limit of \$25,000,000.

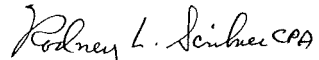
In addition, emergency legislation enacted by Ch. 14 P & S 1989 appropriated \$722,200 from the Maine Rainy Day Fund. The appropriation was effective April 20, 1989; however, the bureau did not process the journal until June 30, 1989.

We considered these material instances of noncompliance in forming our opinion of whether the 1989 component unit financial statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated June 22, 1990 on those component unit financial statements.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the State of Maine complied, in all material respects, with the provisions referred to in the third paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the State had not complied, in all material respects, with those provisions.

We noted certain immaterial instances of noncompliance that we have reported to the management of the State of Maine in a separate letter dated June 22, 1990.

This report is intended solely for the use of management, the legislature, and the Office of Inspector General - U.S. Department of Health & Human Services. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990

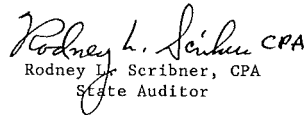
#### SCHEDULE OF SELECTED MANAGEMENT LETTER COMMENTS

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

In planning and performing our audit of the component unit financial statements of the State of Maine oversight unit as of and for the year ended June 30, 1989, we considered the State of Maine's internal control structure in determining our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of several opportunities for strengthening internal controls and operating efficiency. The accompanying Schedule of Selected Management Letter Comments highlight some of our comments and suggestions regarding those matters that are included in our complete management letter dated June 22, 1990. Each management comment in the schedule contains the index number that is used for the management letter included in the separately published 1989 Single Audit Report of the State of Maine.

We have already discussed these comments and suggestions with agency personnel, and we will be pleased to discuss them in further detail at your convenience.

 CPA  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990

STATE OF MAINE

SCHEDULE OF SELECTED MANAGEMENT LETTER COMMENTS

FOR THE YEAR ENDED JUNE 30, 1989

AGENCY/PROGRAM

CONDITION

Department of Administration -  
Office of Information Services -  
Office of Information Services Fund

General Fund positions used to sub-  
sidize Internal Service Fund  
(5)

According to generally accepted accounting principles, revenue should be recorded in the fund providing the goods or services and expenses should be recorded in the fund receiving the goods or services.

The Office of Information Services (OIS) uses the General Fund and an internal service fund. There were several instances where it credited revenue from projects to the Internal Service Fund when General Fund employees worked on the projects.

We recommend that OIS credit revenues to the General Fund when they result from services provided by employees funded under it. We note that the Joint Standing Committee on Audit and Program Review, in its draft review report of the Office of Information Services, made numerous recommendations about the organizational structure and funding of OIS.

Auditee Response:

We have reviewed your finding and recommendation regarding errors in our billings to the General Fund amounting to \$21,204. We have taken measures to credit the General Fund for the amount of revenue that was recognized in the Internal Service Fund. Also, new procedures have been instituted in the Office of Information Services to prevent this from reoccurring.

Department of Administration -  
Bureau of Purchases

Non-compliance with operations  
manual  
(12)

Our review of the purchase order file revealed the following instances of non-compliance with the bureau's operations manual:

1. Of 42 procurement transactions tested 7 had no signatures to show proper authorization.
2. Buyers did not perform a cost/price analysis on items purchased.
3. Personnel did not cross check original contracts to price and specifications per contract leases.
4. Six of eight contracts tested that were sole source or emergency did not contain the required detail explanation.
5. The state purchasing agent had not signed one contract that was over \$50,000.

We recommend that bureau personnel perform periodic reviews of selected contracts to ensure that buyers comply with the required procurement procedures.

# AGENCY/PROGRAM

# CONDITION

Department of Administration -  
Bureau of Purchases

## Auditee Response:

We acknowledge your finding and recommendation regarding deviation from the bureau's operating manual as it pertains to procurement transactions. The bureau is now holding regular meetings/training with buying staff. Significant effort is already being used to insure adequate documentation, approvals and review are accomplished on sole source, confirmation and emergency purchases. A spot check of vendor changes on contract releases will be conducted. It is also the ordering agencies responsibility to review this pricing prior to payment of an invoice. These initiatives will help to ensure compliance with your recommendation.

Department of Administration -  
Bureau of Purchases

Master purchase agreements not  
monitored  
(15)

The Department of Administration - Bureau of Purchases has entered into several master purchase contracts for items ranging from office supplies to computers and office furniture. The bureau does not monitor these contracts to insure restrictive clauses are not exceeded, i.e., spending limits.

We recommend that the Bureau of Purchases include contract restrictions in its database, and that it monitor leases to ensure that all contract provisions are met.

## Auditee Response:

We agree with your recommendation that the bureau monitor master purchase agreements and their related covenants. Beginning with FY91, contract purchases are being tracked via a PC database system. Dollars and general commodity descriptions are being tracked. Blanket contracts for individual agencies are now being encumbered through MFASIS. Payments "draw down" the encumbrances, limiting the total expenditures to the contract limit.

Department of Agriculture, Food  
and Rural Resources

Maine Milk Pool

Fund type classification  
(17)

The Codification of Governmental Accounting and Financial Reporting Standards (GASB) Section 1300.102 states:

Fiduciary funds - the trust and agency funds - are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Title 7, Section 3153, MRSA established the "Maine Milk Pool," a fund where monies collected from Maine milk dealers are credited. It also established the rules for redistributing these funds to eligible market producers.

Funds collected in Maine Milk Pool are credited to a special revenue fund account and redistributed to market producers according to a formula mandated by the legislature.

Recording the funds collected for the Maine Milk Pool in a special revenue fund account rather than a fiduciary fund, resulted in an overstatement of \$2.5 million dollars in special revenues reported by the state on its year end 1989 financial statements.

We recommend that, in accordance with the Maine Milk Pool statutes, funds collected from Maine milk producers be credited to a fiduciary fund type.

**AGENCY/PROGRAM****CONDITION**

Department of Agriculture, Food  
and Rural Resources

We concur with the Auditor's recommendation and will pursue Fiduciary Fund status with the Department of Finance.

**Auditee Response:**

Department of Finance - Bureau  
of Accounts and Control

The Bureau of Accounts and Control (A&C) journaled a \$500,000 General Fund working capital advance to the Special Revenue Fund of the Department of Environmental Protection. There were several incorrect entries:

The bureau incorrectly accounted  
for working capital advance  
(71)

1. A&C recorded the working capital advance as revenue and as an asset of the Special Revenue Fund.
2. It recorded the Special Revenue fund liability as Due to Other Funds rather than Working Capital Advance Payable.
3. It recorded a \$25,000 repayment as an increase to both the Special Revenue Fund asset and liability accounts.

At fiscal year end 1989, Special Revenue Fund assets were overstated by \$525,000 and liabilities were overstated by \$50,000.

We recommend that a person other than the preparer review journal entries for correct coding; and that the bureau prepare appropriate journal entries to correct the account records.

**Auditee Response:**

After our discussion about this matter, we assigned someone to review and correct this situation.

Department of Finance - Bureau  
of Alcoholic Beverages

The Bureau of Alcoholic Beverages uses a periodic inventory system and a "current cost" method to record the inventory value of alcoholic beverages. The bureau applies current market rates, as determined by vendor price quotations, to inventory quantities per physical counts in order to yield the cost of inventory on hand.

Inventory valuation method  
(81)

Current cost is not a generally accepted inventory valuation method since it can cause misstatements of the value of ending inventory and the costs of goods sold: price increases will inflate the value of ending inventory reducing the cost of goods sold while price decreases will have the reverse effect.

Due to rapid inventory turnover and the nullifying effect of both price increases and price decreases during the period of audit, we do not believe this inventory valuation method has a material effect on the financial statements.

We recommend that the Bureau of Alcoholic Beverages record inventory values at the lower of cost or market and adopt a standard means of accounting for the flow of inventory costs such as first in - first out, average cost, or last in - first out.

**Auditee Response:**

The Bureau of Alcoholic Beverages agrees that the current valuation method should be changed. However, due to budget restrictions we have been unable to change these programs.

AGENCY/PROGRAM

Department of Human Services -  
Division of Data Processing

No alternative computer processing  
plan  
(93)

Prior Year Finding

CONDITION

The sophisticated capability of on-line computer systems results in unique security exposures that require backup and recovery procedures and related contingency plans in the event of a disaster.

The Division of Data Processing is the interface between the Department of Human Services' operations and the state's centralized computers, of which the department is the largest user. The division maintains computer applications for administering departmental operations which includes client database for the Aid for Families with Dependent Children and Medical Assistance Programs. Lack of any recovery plan on behalf of the state's centralized computer system could seriously hamper the department's continuity of operations in relation to these programs.

We recommend that the division coordinate an effort with the Bureau of Data Processing (which operates the state's centralized computers) to develop, implement and test an alternative data processing plan to provide for uninterrupted processing capability. The state's Office of Information Services is currently doing a risk analysis to help develop a disaster recovery plan which will address this deficiency.

**Auditee Response:**

We agree with the recommendation, and have started the coordination effort. The Division's chief systems analyst recently participated in the RFP preparation and proposal evaluation for a Disaster Recovery Plan software package, to be used state-wide. This coordination effort will continue, with input to the Bureau of Data Processing plan.

Department of Human Services -  
Bureau of Income Maintenance

Overpayments of households  
(96)

The federal government collects food stamp overpayments resulting from household error or fraud. The Department of Human Services receives a portion of these collections.

The collections are deposited into the dedicated account and are used for other Human Services programs, primarily Child Support Enforcement.

We were unable to locate any legislative authorization for the treatment of these monies as dedicated revenue.

Because the General Fund supports administrative costs of the Food Stamp Program, the State's share of these collections should be redeposited into the General Fund.

We recommend that the department transfer the balance of the dedicated account to the General Fund.

We also recommend that future collections be deposited directly into the General Fund undedicated revenue account.

**Auditee Response:**

This revenue has been used to meet the State's share of administrative cost of the Food Stamp Program in past years, thus requiring a smaller General Fund appropriation request. Our intentions are to submit authorizing legislation to permit us to retain these collections for matching purposes and continue the practice of a reduced appropriation request.



# AGENCY/PROGRAM

# CONDITION

Department of Human Services -  
Bureau of Income Maintenance

ASPIRE Program expenses incurred  
by the Department of Labor charged  
to the Department of Human Services  
appropriation account  
(98)

Title 5, MRSA, Section 1667, states:

Not later than June 1st of each year, the governor shall require the head of each department or agency of the State government to submit to the bureau of the budget a work program for the ensuing fiscal year. Such work program shall include all appropriations, revenues, transfers and other funds, made available to said department or agency of its operation....

According to an agreement between the Commissioners of the Department of Labor (DOL) and the Department of Human Services (DHS), the DOL provided or contracted for services relating to the Additional Support for People in Retraining and Education Program (ASPIRE). The expenses DOL incurred, \$892,000 in state and \$416,000 in federal expenditures to DHS accounts, were charged directly to a DHS General Fund appropriation account under the Aid to Families with Dependent Children (AFDC) program.

We recommend that DOL seek an appropriation from the legislature to fund the state's share of services provided by DOL for the ASPIRE program. DHS should transfer federal AFDC funds to DOL when reimbursing ASPIRE Program expenses.

## Auditee Response:

There are a number of issues that impact on this recommendation:

After September 30, 1990, the Maine ASPIRE Program will be part of the Federal Welfare Reform Act and all funds (with the exception of Child Care) will be transferred from AFDC (Title IV-A) to Title IV-F.

We and our federal representatives question the propriety of transferring IV-A or IV-F FFP from the "Single State Agency." The Maine Department of Human Services, to any other agency. Since the single state agency is the only agency which can file the claim for Federal Financial Participation (FFP) under all sections of Title IV, specifically, IV-A and IV-F (CFR 250.73), transferring funds is inappropriate.

The accountability for how IV-A and IV-F funds are spent is invested in the single state agency. DOL must submit a claim to us and an accounting of what they did to earn the FFP. Current statutes and accounting systems through the Department of Finance prohibit us from making such a transfer as recommended above.

The Federal Government wishes to work with "one single state agency" for these Title IV accounts. DOL receives FFP under their own titles. There is the distinct problem that federal dollars would or could through error be used to "seed" FFP - Definitely a violation of the law.

## Department of Labor

Inadequate record of employers'  
surety deposits  
(109)

The Commissioner of the Department of Labor may require employers participating in the direct reimbursement method to provide surety deposits. The Bureau of Employment Security (BES) turns these sureties over to the Office of the Treasurer for safekeeping. BES does not have an accurate record of what is held in treasury, and therefore may not require adequate surety deposits from all companies.

**AGENCY/PROGRAM****CONDITION****Department of Labor**

Inadequate record of employers' surety deposits (cont'd.)

**Auditee Response:**

We recommend that BES maintain a complete record of sureties received and required, and periodically reconcile its record to the physical inventory at treasury.

In response to the fiscal year 1988 audit, on November 16, 1989, the Department of Audit was sent a summary schedule and copy of a computer printout of all direct reimbursement employers and the surety amount for each account.

Since July 7, 1989, the Bureau's U.S. Tax, Contributions Unit, has maintained an inventory of all sureties held at the Office of the State Treasurer and now keeps copies of sureties in the employer files as well.

As direct reimbursing employer accounts are reviewed, those accounts with inadequate sureties are notified by letter. The letter requests that the amount of surety be increased and informs the employer that failure to comply may result in reversion to taxable status.

This review will be built into the proposed redesign of the tax database system to ensure an accurate recalculation and update of all direct reimbursement employers' sureties.

**Department of Mental Health and Mental Retardation**

Medicaid uncollectables not written off  
(118)

Accounts receivable and the reserve for other accounts receivable for the State of Maine are both overstated: the Department of Mental Health and Mental Retardation has not written off almost \$0.8 million of receivables from the Medicaid program. The resulting net value of receivables is not misstated on the financial statements, but is misleading.

We recommend that the department write off those receivables that have been identified as uncollectable.

**Auditee Response:**

The Department agrees and steps have already been taken to correct this situation and to prevent future occurrences.

**Department of Professional and Financial Regulation**

Securities not on deposit with Treasurer of State  
(143)

Insurers' deposits of \$20,965,675, which were on record with the Treasurer's Liability to Trust Funds ledger, did not agree with the Controller's record of \$21,226,285 insurers' deposits.

The Bureau of Insurance's record of insurers did not include ten insurers that were on record with the State Treasurer.

There were ten insurers that did not maintain a minimum actual market value of at least \$100,000 as stipulated by Title 24-A, MRSA, §412.

We recommend that the Superintendent of the Insurance Bureau maintain the record of securities on deposit for each insurer doing business in this or any other state, and annually update the records with the Treasurer.

# AGENCY/PROGRAM

# CONDITION

Department of Professional and  
Financial Regulation

Auditee Response:

The degree of variance was fairly small; however, we find that the reconciliation procedure established in the past has not been maintained. We have taken corrective action to reinstitute such a procedure. There continues to be difficulty monitoring such a deposit system however, since the Treasurer on occasion will release maturing securities comprising deposits without prior approval of the Bureau. In order for the system to work as intended, the Treasurer should be a custodian who follows the directives of the Superintendent respecting the investment, maintenance and release of deposited funds.

Public Utilities Commission

PUC assessed revenue in excess  
of amount allowed by statute  
(145)

Prior Year Finding

The Public Utilities Commission (PUC) revenue recognized during fiscal year 1989 exceeded the limits imposed by statute. Title 35-A MRSA Section 116 states that the assessment is to produce revenues of not more than \$2,309,000 annually beginning in the 1988-89 fiscal year. During fiscal year 1989 revenues recognized totaled \$2,765,544, exceeding the limitation by \$456,544.

We recommend that the current statute be changed to specify that revenues collected during the year are to fund the subsequent fiscal year's expenditures. This would require establishing monies collected as deferred revenue during the year collected and as revenue in the subsequent year.

Auditee Response:

The Public Utilities Commission concurs in the finding of the State Auditor and will be submitting legislation in January of 1991 to resolve this matter.

Maine State Retirement System

Incorrect valuation of stock  
(148)

The Maine State Retirement System incorrectly valued donated stock. It also recorded the sale of 10,000 shares of this stock as a gain on sale of investments with no reduction to the investment account balance.

According to the Codification of Governmental Accounting Standards (GASB) section 1400.113 assets acquired by gift should be recorded at fair market value as of the date of donation. Retirement should also record at cost reductions to the asset account on sales of investments. The difference should be charged to gain or loss.

The stock had a fair market value of \$27.50 per share on the date of donation. Retirement recorded the stock at \$25 per share when acquired. It recorded a sale of 10,000 shares as a gain on sale of investments. Consequently, on the June 30, 1989 financial statements investments were overstated by \$126,542; gain on sale of investments was overstated by \$250,000; and beginning fund balance was overstated by \$123,457.

Auditee Response:

The Retirement System received stock as UNUM moved from a mutual insurance to a stock company. The basis for the distribution by UNUM was...twenty-five dollars per share. When originally received, no cost was assigned to the shares and when sold, the total proceeds of the sale were recognized as a gain. The sale that took place in Fiscal Year 1989 has been adjusted by a journal entry taking into account the assigned value of the stock.

# AGENCY/PROGRAM

# CONDITION

## Department of Transportation - Ferry Service

Island Ferry Service has not taken physical inventory of maintenance parts and operational supplies (158)

### Prior Year Finding

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 the department take a physical inventory of maintenance parts and operational supplies; that it calculate the value of the inventory items; and that it make necessary adjustments to the State Controller's records.

## Auditee Response:

Progress has been made in the inventory since the last audit. A stores clerk has been hired, a new computer system installed and 90% of inventory coding has been completed. All inventory must be entered into the automated system before the inventory is valued and adjustments made. We anticipate completion in Fiscal Year 1991.

## Department of Transportation - Ports and Marine

Loan receivable not established (159)

The Department of Transportation, in conjunction with the Department of Economic and Community Development, loaned the Eastport Port Authority \$87,500 to cover site acquisition costs for the Eastport Cargo Facility. The Department of Transportation's portion of the loan amounted to \$55,000 to be repaid in ten annual installments of \$5,500. Ports and Marine did not establish the loan as a receivable in its accounting records.

We recommend that the department establish the loan receivable on the records maintained by Ports and Marine. We also recommend that the balance reflect the receipt of subsequent payment(s) on the loan.

## Auditee Response:

We concur with the auditor's recommendation. Receivables will be established prior to June 30, 1990.

## Department of Transportation

### Ports and Marine Transportation Division

Marine Ports Enterprise Fund should be eliminated (160)

Enterprise funds are generally used to account for operations that are financed and operated in a manner similar to a private business enterprise.

In 1984 the Department of Transportation sold the Maine State Pier to the City of Portland. Prior to that time the operations of the state pier were accounted for in the Marine Ports Enterprise Fund (MPEF).

Since substantially all business type activities of the MPEF were eliminated with the sale of the pier, we recommend discontinuing the use of the Enterprise Fund to account for the remaining financial transactions. This action may result in a one time increase to the General Fund of approximately \$290,000.

## Auditee Response:

We recognize that enterprise funds are generally used to account for operations that are financed and operated in a manner similar to a private business enterprise and we acknowledge that this account has not been used as such in the recent past. Nevertheless, we anticipate that this fund will, in fact, be a working enterprise account in the not-to-distant future.

# AGENCY/PROGRAM

# CONDITION

Department of Transportation

We share your concern regarding this matter but in the interest of efficiency and effectiveness, any changes would only create unnecessary burdens on the Department of Transportation and it would be unable to accomplish its mission as mandated by the Legislature.

Ports and Marine Transportation Division

Auditee Response:

Department of Transportation - Motor Transport Services

Motor Transport Services (MTS) does not maintain any detail to support the entries to the work in process inventory account. The State Controller's balance of \$1,674,660 in the work in process account could not be substantiated.

Work in process inventory not reconciled (162)

Prior Year Finding

We again recommend that MTS maintain a computerized listing of jobs completed during the year and in process at year end. This will establish the validity of the amount reported on the state's accounting records.

Auditee Response:

With the implementation of MFASIS the work in process has become a problem that needs to be solved with input from the Bureau of Accounts and Control. We will address this problem as time permits.

Department of Transportation - Motor Transport Services

The Department of Transportation - Motor Transport Services (MTS) accepted a proposal to fund the department's equipment lease purchase program, not to exceed \$12.5 million as authorized by Chapter 348, Public Laws, 1987.

Lease-purchase agreement (163)

Incorrect accounting for the underwriting fees, interest expense, and unused portion of the amount authorized have resulted in the understatement of lease purchase payables on the balance sheet.

We recommend that MTS review the accounting for the lease-purchase agreement and make the necessary adjustments to reflect the correct balance in the lease-purchase payable account.

Auditee Response:

We concur with the auditor's finding and recommendation and will process appropriate journals to correct existing records and future transactions will be recorded properly.

Department of Transportation - Motor Transport Services

Motor Transport Services (MTS) maintains a parts and fuel inventory to support the Department of Transportation's fleet of vehicles. Our review of these inventory records disclosed the following:

Supply and fuel inventory records not accurate (165)

1. A physical count is taken of selected items on a cyclical basis. Any variances identified are adjusted by the stockroom manager on the computerized perpetual inventory records. These adjustments are made without proper supervisory approval. In addition, causes for the adjustments are not investigated.
2. In March of each year a total inventory valuation is determined based on the perpetual parts inventory and a physical examination of liquid fuels. The value, according to the State Controller's records, is adjusted to the physical count. The net adjustment is not based on an actual count of parts and fuel, but is divided arbitrarily on a 50-50 basis.

AGENCY/PROGRAM

CONDITION

Department of Transportation -  
Motor Transport Services

Supply and fuel inventory records  
not accurate (cont'd.)

3. In March 1989, Motor Transport Services (MTS) personnel prepared a journal entry to adjust the State Controller's inventory valuation to the physical count. The adjustment of \$332,207 was not approved nor submitted to the State Controller for posting.
4. The liquid fuel inventory records do not have adequate cost information to readily identify the valuation of liquid fuel on hand.
5. Site visits to the Bangor and Fairfield garages disclosed that fuel tanks were not locked.

We recommend that the department establish internal controls for the supplies inventory. These controls should address segregation of duties between record maintenance and supervisory approval when they make adjustments to inventory. MTS or Department of Transportation management should approve significant year end adjustments.

We also recommend that MTS personnel develop an adequate costing system for its liquid fuels inventory.

Auditee Response:

Supply and fuel inventory has been a persistent problem and to reduce this concern we have taken several corrective measures that will increase the integrity to both liquid and hard stock inventory.

Office of Treasurer of State

Interest income not correctly  
accrued  
(169)

According to the Codification of Governmental Accounting and Financial Reporting Standards (GASB) Sec. 1600 governmental fund revenues should be recognized in the accounting period in which they become measurable and available. Further, non-expendable trust fund revenues should be recognized in the accounting period in which they are earned and become measurable.

As of June 30, 1989 treasury had not recorded interest earned on investments of certain funds. As a result, assets and revenues of the funds are understated. The funds are:

General Bond Fund - After Tax	
Changes	\$242,837
Treasurer's Cash Pool - Investments	13,171
Treasurer's Cash Pool - Certificate	
of Deposit	3,830
Trust Fund - Attorney General	17,569
Trust Fund - Treasurer's Safekeeping	57,636
Trust Fund - Several Trusts	9,100
Trust Fund - Lands Reserved Trust	8,325

We recommend that the Office of the Treasurer accrue interest income in accordance with generally accepted accounting principles.

AGENCY/PROGRAM

CONDITION

Office of Treasurer of State

Auditee Response:

General Bond Fund after tax changes reflect the non-accrual of earnings in the invested bond proceeds account and consideration will be given to have all investments mature annually on 6/30/90 to allow the Controller to fully recognize 100% earnings. Accruals should not be prepared in this account due to a portion of the income having to be set aside for the I.R.S.

Office of Treasurer of State

Collateral for state deposits  
(172)

As of June 30, 1989, uncollateralized deposits of the state were in excess of \$56.6 million. The Treasurer's policy on collateralization of deposits, while in compliance with applicable statutes, does not fully safeguard state assets.

We recommend that the Treasurer consider the economic risk associated with maintaining deposit balances in excess of insured or collateralized levels and, when appropriate, communicate with financial institution officials to determine any action to be taken.

Auditee Response:

The Treasurer requires collateral in all cases where necessary and is in compliance with the law on collateral and gives consideration to economic conditions.

Office of Treasurer of State

Miscoding of interest income  
(173)

The Office of Treasurer incorrectly credited to investments \$108,112 interest earned on investment of bond proceeds. As a result, investments and interest income were understated on the June 30, 1989 financial statements.

We recommend that the Treasurer's office record this interest as income rather than a reduction of investments.

Auditee Response:

Item corrected by Treasury during audit.

Office of Treasurer of State

Arbitrage calculations  
(175)

The Office of Treasurer calculates interest earnings on bond proceeds that are subject to arbitrage. These amounts are set aside for future payment to the Internal Revenue Service. Errors in arbitrage calculations for two outstanding bond issues resulted in withholding \$20,499 less than required on the earnings.

We recommend that the Office of Treasurer assure accuracy when calculating earnings subject to arbitrage.

Auditee Response:

Calculations will be checked to correct the possibility of wrong postings.