

MAINE STATE LEGISLATURE

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STATE OF MAINE



EIGHTY-FOURTH ANNUAL REPORT OF THE STATE AUDITOR 1992

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RODNEY L. SCRIBNER, C.P.A.
STATE AUDITOR



JOSEPH M. PLOURDE
February 1932 - October 1992

DEDICATION

We dedicate this annual report to Joseph M. Plourde, a good friend and dedicated public servant.

Joe began his career in state government in 1970 at the Department of Education. In 1974 he became an auditor with the Department of Audit and in 1982 was named Director of the Municipal Bureau.

In 1986, Joe was selected as the Fiscal Administrator of the Unorganized Territories. On behalf of the citizens of this large geographic area of Maine, he provided accounting and auditing consultation and services as well as contact with legislators and government officials on fiscal matters that affected the territories.

Joe's enthusiasm for life, his sense of humor, his respect for others and his kind words for everyone became his hallmark. All of us at the Department of Audit will miss him.

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STATE OF MAINE
DEPARTMENT OF AUDIT

STATE HOUSE STATION 66
AUGUSTA, MAINE 04333

Area Code 207
Tel. 287-2201
FAX 287-2351



RODNEY L. SCRIBNER, CPA
STATE AUDITOR

December 8, 1992

Honorable John R. McKernan, Jr., Governor
Honorable Dennis L. Dutremble, President of the Senate
Honorable John L. Martin, Speaker of the House of Representatives
Members of the 116th Legislature

The Annual Report of the State Auditor for the year ended June 30, 1991 is submitted in accordance with Title 5, MRSA, Section 244 which states, in part:

The State Auditor... shall conduct a continuous postaudit... of the state government. He shall prepare and publish a report for each fiscal year setting forth the essential facts of each audit in summary form...

The Department of Audit conducts audits in accordance with generally accepted government auditing standards. The Annual Report is a summary of the department's activities at the state, county and municipal levels. It also includes compliance and financial items extracted from the comprehensive annual Single Audit of the State of Maine. For a detailed review of the opinions on the state's financial position and results of operations, please refer to the 1991 Single Audit.

The legislature, departments, agencies, organizations and government officials with whom we work have assisted and supported the department's efforts. This cooperation has been essential to us in performing audits, reporting findings and recommending action. This report reflects that combined effort to improve the state's financial reporting practices.

Sincerely,

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

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Editor's Note: The numbering sequence of the Annual Reports has been revised to compensate for previously issued biennial reports that, in their titles, did not reflect that two fiscal year reports were included therein.



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

Rodney L. Scribner, a Certified Public Accountant, is the State Auditor for Maine. Prior to becoming State Auditor in 1987, Mr. Scribner held key positions in state government including those of Commissioner of Finance and Administration, State Treasurer, State Budget Officer, State Controller and Assistant Legislative Finance Officer. He is also a former Deputy Director of the Federal Revenue Sharing Program.

Mr. Scribner is a Commissioner of the Maine Small Business Commission and is a member of the Maine Society of Certified Public Accountants, the American Institute of Certified Public Accountants and the Maine Association of Professional Accountants. He is on the boards of the New England Intergovernmental Audit Forum, the Kennebec Valley Chapter of the American Red Cross and the Children's Castle.

In 1989 Mr. Scribner received the American Institute of Certified Public Accountants Outstanding Public Service Award. In 1990 Mr. Scribner was the recipient of the 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.

STATE AUDITORS

TERMS OF OFFICE

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

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State-Federal-Local

New England Intergovernmental Audit Forum

10 Causeway Street,
Suite 575
Boston, Massachusetts 02222
(617)565-7500



Executive Director

Ellen Bradley

Executive Committee

A. Joseph DeNucci
Chairman
Auditor, Commonwealth
of Massachusetts

Richard J. Ogden
Vice-Chairman
Regional Inspector General
Department of Health and
Human Services

Paul D. McKechnie
Federal Representative
Divisional Inspector
General
Environmental Protection
Agency

Charles L. Connor
State Representative
Legislative Budget Assistant
Concord, New Hampshire

John M. Cashmon
Local Representative
Assistant City Auditor
Boston, Massachusetts

Rodney L. Scribner
Nonfederal At-Large
State Auditor
Maine

Morton A. Myers
Federal At-Large
Regional Manager
Boston, GAO

July 15, 1992

The Honorable Rodney L. Scribner, CPA
State Auditor
State Department of Audit
Key Plaza, 6th Floor
286 Water Street
Station #66
Augusta, ME 04333

Dear Auditor Scribner:

We have reviewed the system of quality assurance in effect for the Auditor of Accounts of the State of Maine for audits issued for the one year period ended July 31, 1991. The purpose of our review was to obtain reasonable assurance of compliance with generally accepted government auditing standards (GAGAS).

We conducted our review under the auspices of the New England Intergovernmental Audit Forum (NEIAF), and used guidelines for quality control peer reviews established by the National State Auditors Association (NSAA).

Our review concluded that the system of quality control in effect for the Department of Audit for the State of Maine during the one year period ended July 31, 1991, provided reasonable assurance of material and significant compliance with GAGAS, and likewise met the objectives of the quality control peer review guidelines established by the NSAA.

Respectfully submitted,

Robert A. Powilatis, Chairman
Quality Review Committee
New England Intergovernmental Audit Forum

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OVERVIEW

The Department of Audit is organized under the Executive Branch of state government. The State Auditor is not a member of the Governor's cabinet but is elected by the legislature. The State Auditor administers the Department of Audit and reports directly to the legislature. The department is organized into five units: Departmental Bureau, Municipal Bureau, Courts Division, Unorganized Territories, and the Administrative Division. Please refer to the accompanying chart, page 3, for the specific duties of each.

The department is authorized to perform financial and compliance audits of state, county and municipal governments. The department's duties include:

- Performing annual postaudits of all accounts and other financial records of state government, including the Judiciary and the Executive Department of the Governor but excluding the Governor's Expense Account;
- Serving as staff agency to the legislature or Governor, upon request, for investigating any aspect of the state's finances;
- Installing uniform accounting systems and performing annual postaudits of all accounts and financial records for counties on a fee for services basis;
- Installing uniform accounting systems and performing audits for cities, towns and villages on a fee for services basis;
- Installing uniform accounting systems and ensuring that an annual audit and postaudit of the municipal cost component is conducted;
- Performing postaudits of all accounts and financial records of any organization requesting or receiving an appropriation from state government; and
- Issuing reports for the annual Single Audit and the Annual Report of the State Auditor, approximately 100 municipalities, school units and counties, the Superior, District and Administrative Courts, organizations that receive state appropriations, as well as reports for special audits requested by the legislature or Governor.

Professional Staff

The department's professional staff reflects the variety of tasks it performs. Its composition includes different disciplines, training, and experience. Many employees have advanced or multiple degrees and have previous careers in public accounting firms, private businesses and other government agencies.

The department encourages its staff to obtain professional certification. As a result, over one-third have been certified either as Certified Public Accountants, Public Accountants, or Internal Auditors. In addition, all staff must earn 80 hours of Continuing Professional Education (CPE) every two years.

The staff provides leadership in professional organizations as members of the boards of directors or chairs of key committees of the New England Intergovernmental Audit Forum, Maine Society of Certified Public Accountants, and the Institute of Internal Auditors. Some are also members of the Association of Government Accountants.

The range and diversity of the staff and its professional designations and achievements have contributed to the department performing multiple duties and maintaining technical competency.

Accomplishments

As a result of the department's commitment to quality it has been recognized as a leader in government auditing. Among its achievements are:

- Received an unqualified quality review report issued by the New England Intergovernmental Audit Forum resulting from an intensive review of the department's systems and procedures;
- Received an award from the U.S. Department of Health and Human Services recognizing the department for professionalism and quality of work;
- Honored a request from the U.S. Department of Health and Human Services to assist another state in developing a similar statewide single audit approach;
- Received letters of appreciation from departments and agencies of state and local governments for professional conduct and assistance provided; and
- Participated in the National State Auditors Association quality review of two other states.

Department of Audit Organizational Chart

State Auditor
Rodney L. Scribner, CPA

Deputy State Auditor
Richard H. Foste, CPA

Organizational Unit	<u>Administrative Division</u>	<u>Departmental Bureau</u>	<u>Courts Division</u>	<u>Municipal Bureau</u>	<u>Unorganized Territories</u>
<u>Organizational Head(s)</u>	Director of Planning and Training – Doreen Sheive Business Manager I – Eleanor Rackley	Director of Audits – Carol Lehto, CPA, CIA Michael Poulin, CIA	See Footnote ④	Director of Audits	Fiscal Administrator
<u>Primary Function</u>	To provide leadership and managerial and administrative support to staff.	To perform the Single Audit of the State of Maine; perform independent postaudits of state agencies; serve as a staff agency to the Legislature or to the Governor, and to safeguard the assets of the state.	To perform a postaudit of all financial records of the Superior, District and Administrative Courts annually.	To provide audit services to municipalities, counties and school administrative units; establish accounting systems for counties and municipalities.	To ensure that the Unorganized Territory Education and Service Fund is expended consistent to statute; publish an annual financial report of the fund.
<u>Funding Source/Staffing</u>	<u>General Fund</u> 1 Director of Planning and Training 1 Business Manager I <u>Other Special Revenue</u> ① 1 Administrative Secretary 1 Secretary 1 Clerk Typist III 1 Clerk Typist II ② 6 Administrative Positions	<u>General Fund</u> 2 Directors of Audit 6 Auditor III 6 Auditor II 3 Auditor I 17 Auditor Positions	<u>General Fund</u> – 1 Auditor III 2 Auditor II 1 Auditor I 4 Auditor Positions	<u>Other Special Revenue</u> 1 Director of Audits 6 Auditor III 3 Auditor II 6 Auditor I 16 Auditor Positions	<u>Other Special Revenue</u> ③ 1 Fiscal Administrator 1 Fiscal Administrator Position
<u>Other Information</u>			④ Court's Division staff have been temporarily assigned to the Departmental Bureau.	① Bureau also includes three secretarial positions in the Administrative Division.	② Program also includes one secretarial position in the Administrative Division.
					⑤ Prior to the enactment of Chapter 622, Public Laws, 1991, this was a General Fund Program.

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AUDIT OPERATIONS

Departmental Bureau

The Departmental Bureau is responsible for the audit of the State of Maine. The department made a significant change five years ago when it performed the audit on a statewide rather than departmental basis. This statewide approach provided audit efficiencies as well as a consolidated Single Audit Report on the financial operations and position of the state and identified problems within individual organizational units and programs.

The Departmental Bureau publishes the State of Maine Single Audit Report annually. The report meets the requirements of the Single Audit Act of 1984 (Act) which requires state and local governments that receive \$100,000 or more of federal financial assistance in any fiscal year to have a comprehensive financial audit in accordance with the Act. The Single Audit Report of 1991 covers the state's expenditures of \$3.1 billion including \$814 million of federal expenditures.

The objectives of the Single Audit were:

- To audit the state's financial statements in accordance with professional auditing standards;
- To assess the state's compliance with federal and state laws and regulations which could have a material effect on the state's financial statements, financial schedules and on major federal financial assistance programs; and
- To assess the adequacy of internal controls and selected administrative controls relating to the management of federal financial assistance programs.

Municipal Bureau

The Municipal Bureau, through the performance of municipal, county and school audits on a fee for services basis, has established the standard for audits of local governmental units. While the Department of Audit does not have regulatory authority over the accounting profession, it has played an important leadership role in ensuring that professional governmental auditing and accounting standards are followed in Maine. The bureau performs this important function through the following activities:

- The quality of the audits conducted by the Department of Audit sets a standard for others to follow;
- A quality control form, developed by the department and used by all independent auditors after completion of a local government audit, assists independent auditors in performing quality reviews of their own work to determine their compliance with auditing standards;
- The Bureau performs petition audits on a fee for services basis at the request of citizens of a municipality when dissatisfaction exists with an audit done by an independent auditor.

- The bureau is advised, as required by statute, of possible fraudulent activities occurring in a governmental unit and, depending upon the circumstances, may counsel the governmental unit about whom to contact and/or the ways to proceed; and
- Periodic review of reports of independent auditors to ensure that they have maintained audit quality has resulted in referrals to the State Board of Accountancy.

Maine has over 500 governmental units consisting of cities, towns, counties, plantations and school units. The Municipal Bureau has helped ensure that the communities of Maine receive audits which meet professional standards.

Courts Division

Due to budgeting and fiscal restraints imposed as a result of state revenue shortfalls, the staff of the Courts Division has been temporarily reassigned to work on the State of Maine Single Audit.

Unorganized Territories

Although operating out of the offices of the Department of Audit, the Fiscal Administrator of the Unorganized Territories is not part of the audit staff.

The Fiscal Administrator provides oversight and monitors the financial activities of the Unorganized Territories, a geographic area encompassing approximately half of the state. Responsibilities of the Fiscal Administrator include:

- Reviewing and analyzing the budgets and expenditures of the Unorganized Territory Education and Services Fund;
- Reporting to the legislature and county commissioners on budgets and expenditures of the Unorganized Territory Education and Services Fund; and
- Publishing an annual financial report of the fund.

Administrative Division

The Administrative Division provides support for the department. Administrative and clerical staff are responsible for the accounting, budgeting, payroll processing, purchasing, staff training, and production of audit reports.

The Administrative Division coordinates training programs to help audit staff meet continuing professional education (CPE) requirements for government auditing of at least 80 hours every two years. These programs are also helpful for sharing ideas and experiences with other associates or other governmental accounting and auditing organizations.

SINGLE AUDIT REPORT OF THE STATE OF MAINE FISCAL YEAR ENDED JUNE 30, 1991

This section of the Annual Report of the State Auditor contains information excerpted from the State of Maine Single Audit Report for the fiscal year ended June 30, 1991. The Single Audit Report, required by federal and state law, is a comprehensive annual report that addresses the financial condition of the state, compliance with state and federal laws and regulations, reports on internal controls, and other findings and recommendations.

Information excerpted from the 1991 Single Audit Report includes: qualifications to the financial statement opinion, identified instances of material noncompliance with laws and regulations, and other matters identified as reportable conditions.

This report does not include all instances of noncompliance reported in the Schedule of Findings and Questioned Costs in the Single Audit Report and in the Management Letter. Also, this Annual State Auditor's Report does not include the actual report language, notes to the financial statements or supplementary information required for the Single Audit Report. We encourage legislators, government officials, citizens of the state and other interested parties to review all information contained in the Single Audit Report. A copy is available at the Department of Audit, Key Plaza Building, 286 Water Street, Augusta, Maine.

Financial Statement Presentation

The opinion on the state's financial statements is qualified because of the following departures from generally accepted accounting principles (GAAP):

- Not all organizational units are included in the financial statements;
- Up-to-date records are not available to support the amounts reported in the general fixed assets account group, i.e., land, buildings and equipment;
- Certain accruals are not recorded; and
- An adequate allowance has not been established for estimated uncollectible sales, corporate and withholding taxes receivable.

Although we have not reprinted the financial statements in this report, we have provided graphs on pages 13 and 14 that represent percentages of revenues and expenditures as presented in the statements.

Compliance With Laws and Regulations

The Single Audit Report also includes four reports relating to compliance with laws and regulations. In all but one it was determined that there were no material instances of noncompliance with laws and

regulations. The Independent Auditor's Single Audit Opinion on Compliance With Specific Requirements Applicable to Major Federal Financial Assistance Programs states:

The result of our audit procedures for the major federal financial assistance programs ... disclosed that the State of Maine did not have adequate systems in place to ensure that subrecipients of federal funds are audited or monitored in compliance with federal regulations.

The following departments had findings:

- Department of Mental Health and Mental Retardation
- Department of Human Services
- Department of Labor
- Department of Defense and Veterans Services
- Department of Corrections

Internal Controls

The internal control structure of state government consists of those policies and procedures established by the government that safeguard its assets and resources and that provide reasonable assurance that the assets and resources are used in a manner consistent with its stated directions. Acceptable internal controls that are in place and functioning as designed help ensure the proper conduct of the government's business. Findings on internal controls are categorized as reportable conditions and material weaknesses.

Reportable Conditions

We noted certain matters relating to the state's internal control structure and operations within the category that we consider to be reportable conditions in conformity with standards established by the American Institute of Certified Public Accountants.

Reportable conditions are those internal controls that have significant deficiencies in their design and operation. These conditions, in our judgement, could adversely affect the state's ability to record, process, summarize, and report financial data that is consistent with assertions in its financial statements. These conditions could also affect the state's ability to administer federal financial assistance programs in accordance with applicable laws and regulations.

We identified 23 reportable conditions within 8 departments or agencies. The description, nature and agencies where we found reportable conditions are identified in detail in the Schedule of Reportable Conditions in the fiscal year 1991 Single Audit Report, pages 69 - 87.

Material Weaknesses

We considered certain reportable conditions to be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the elements in the internal control structure does not reduce to a relatively low level the risk of a) errors or irregularities in amounts that would be material in relation to the state's financial statements; or b) noncompliance with laws and regulations that would be material to a federal financial assistance program which may occur and not be detected within a timely period by employees in the normal course of performing their duties.

Two material weaknesses that we identified are summarized below. A complete description can be found in the 1991 Single Audit Report, pages 62 - 67.

1. The state accounting system must make it possible to fairly present and fully disclose the state's financial position and results of operations of the funds and account groups in conformity with generally accepted accounting principles (GAAP).

The State of Maine accounting system does not meet the reporting requirements of GAAP. We identified 10 significant problem areas in the state's accounting system. These material weaknesses adversely affect the state's ability to account for and report financial data. Similar weaknesses have been noted in prior years.

2. Federal monies administered by the State of Maine are frequently passed through to subrecipients. The state is responsible for the subrecipient's compliance with federal laws and regulations. Accordingly, the state is required to determine a) whether subrecipients have met audit requirements; and b) whether subrecipients spent federal funds according to the programs' related laws and regulations.

We found that subrecipients were not adequately monitored or audited. We noted that 5 agencies and departments administering 31 separate programs were not in compliance. The state receives approximately \$814 million in federal funds. Inadequate monitoring and auditing of subrecipients places the state at risk of losing federal assistance.

Status of Unresolved Significant or Material Findings

The Department of Audit annually reviews and follows up on prior period significant or material findings that have not been resolved. For a detailed review of these unresolved findings please refer to the 1991 Single Audit Report. A list of those findings and cross references to the Single Audit Report follows.

Status of Unresolved Significant or Material Findings and Recommendations

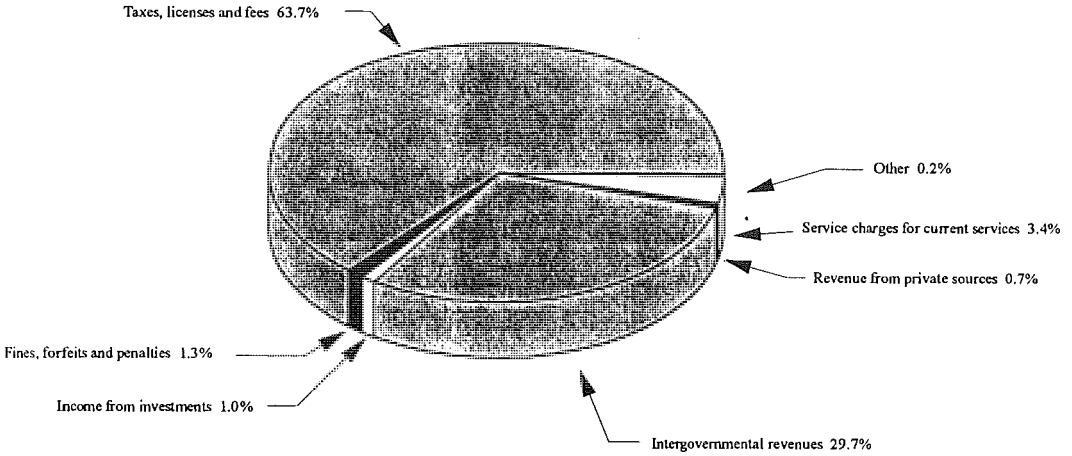
<u>Agency/Finding</u>	<u>Single Audit Report</u>	
	<u>1990</u>	<u>1991</u>
Department of Administration - Bureau of Public Improvements		
Incomplete General Fixed Assets Account Group records	55	69
Executive Department - Division of Community Services		
Subrecipient monitoring	73	64
Department of Finance - Bureau of Accounts and Control		
Lack of sufficient current policies and procedures	52	62
Incorrect use of prepaid expense account	56	74
Deferred Compensation Plan assets/liabilities not recorded	57	75
Department of Finance - Bureau of Taxation		
Allowance for estimated uncollectible taxes receivable	59	78
No reconciliation of individual and corporate income taxes	61	79

<u>Agency/Finding</u>	<u>Single Audit Report</u>	
	<u>(Page Number)</u>	
	<u>1990</u>	<u>1991</u>
Department of Human Services		
Subrecipient audits	73	65
Department of Labor		
Subrecipient audits	73	65
Maine State Retirement System		
Pending transactions incorrectly recorded	64	83
Accrued dividend income not recorded	66	84
Department of Mental Health and Mental Retardation		
Subrecipient audits	73	65
Office of Treasurer of State		
Wire transfers incorrectly recorded as accounts payable	57	86

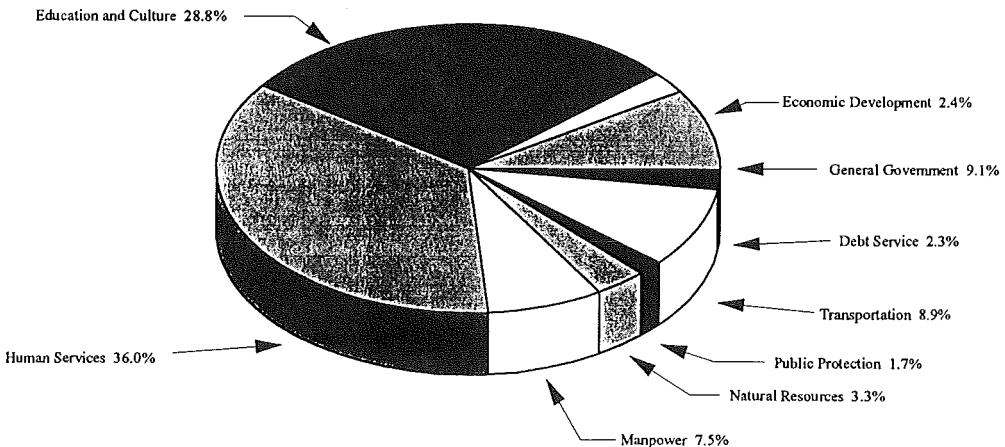
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**State of Maine
Revenues and Expenditures
Fiscal Year Ended June 30, 1991**

**Revenues by Source
(All Governmental Fund Types)**

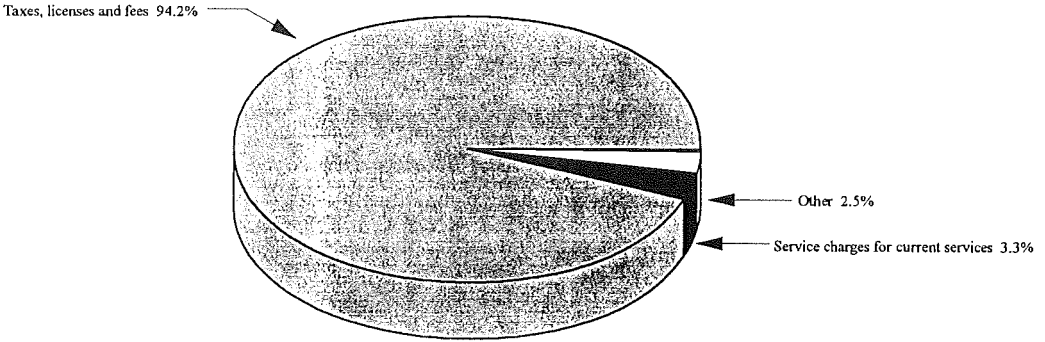


**Expenditures by Function
(All Governmental Fund Types)**



State of Maine
Revenues and Expenditures - General Fund
Fiscal Year Ended June 30, 1991

Revenues by Source
(General Fund)



Expenditures by Function
(General Fund)

