

# MAINE STATE LEGISLATURE

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# **STATE OF MAINE MANAGEMENT LETTER And Other Reports**

**For the Year Ended  
June 30, 2003**



**State of Maine Department of Audit  
Gail M. Chase, CIA  
State Auditor**





GAIL M. CHASE, CIA  
STATE AUDITOR

## STATE OF MAINE DEPARTMENT OF AUDIT

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### LETTER OF TRANSMITTAL

Honorable Beth G. Edmonds  
President of the Senate

Honorable John Richardson  
Speaker of the House

Honorable John E. Baldacci  
Governor of the State of Maine

We are pleased to submit the State of Maine Management Letter and Other Reports for the Year Ended June 30, 2003. In the course of our audit of the basic financial statements of the State of Maine, and our consideration of internal control, we became aware of matters that offer opportunities for our government to improve its operations. Comments on these matters accompany the Management Letter as findings and recommendations.

This year, we have also included reports resulting from other engagements that were performed during the year ended June 30, 2003. A summary explanation of the purpose and the results of these engagements precedes each report. We previously distributed these reports to those immediately affected. However, they have not been generally distributed and are published here in order to give you additional information, and to let you know of some of the other activities of the Department of Audit.

Please feel free to contact the Department of Audit with any questions that you may have.

Respectfully submitted,

Gail M. Chase, CIA  
State Auditor  
State of Maine

December 28, 2004



**State of Maine**  
**Management Letter for the Year Ended**  
**June 30, 2003**

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### MANAGEMENT LETTER

In planning and performing our audit of the basic financial statements of the State of Maine for the year ended June 30, 2003, we considered the State of Maine's internal control. We did so to determine our auditing procedures for the purpose of expressing an opinion on the financial statements. We did not do so to provide assurance on internal control.

However, during our audit we became aware of several matters that offer opportunities for strengthening internal control and efficiency of operations. The following findings summarize our comments and suggestions regarding those matters. We have issued two reports, dated April 28, 2004 and June 18, 2004, which address reportable conditions and material weaknesses in internal control. These can be found in the Single Audit Report and are titled *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards* and *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*. This letter does not affect these reports, nor does it affect the Independent Auditor's Report, dated April 28, 2004 on the basic financial statements.

We have included responses to our findings by the audited agencies. We would be pleased to discuss these findings in further detail at your convenience.

Gail M. Chase, CIA  
State Auditor

April 28, 2004





# DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

## 1. Bureau of Accounts and Control

### **Finding:** Preparation of financial statements not timely

The Bureau of Accounts and Control was not timely in its preparation of the State's financial statements or in making the statements available to the Department of Audit. Title 5 M.R.S.A. § 1547 states:

Following the official close of the State's fiscal year ending on June 30th, the Department of Administrative and Financial Services, Bureau of Accounts and Control, under the direction of the State Controller, shall prepare and complete all financial statements, notes, and other documentation considered necessary by the State Controller in accordance with all governing rules, statutes and generally accepted accounting principles. This information must be made available to the Department of Audit no later than November 1<sup>st</sup> of that year.

The Bureau of Accounts and Control did not provide all required financial information until some months after the statutory deadline.

### **Recommendation:**

We recommend that the Bureau of Accounts and Control make available to the Department of Audit complete financial statements by the statutory deadline.

### **Auditee Response/Corrective Action Plan:**

*Contact Person: Douglas Cotnoir, Manager of Financial Reporting & Analysis, 626-8428*

*We acknowledge that a complete package of financial information was not provided to the Auditors by the statutory deadline. Numerous circumstances contributed to the time lag, including implementation of new financial reporting software, staff turnover, and unforeseen demands on the financial reporting staff to resolve fiscal difficulties in other areas of government. We have a fully-staffed Financial Reporting Team, have successfully implemented new reporting software, and have expanded our closing guidance to State agencies and component units. We will work closely with the agencies and component units, as well as the auditors, to meet the statutory deadline so that the auditor can render an opinion in order for the Controller to issue Maine's CAFR within six months of the close of the fiscal year.*

# DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

## 2. Bureau of Accounts and Control

**Finding:** Internal control procedures regarding approvals prior to payment not followed

The Department of Public Safety and the Bureau of Accounts and Control did not follow established control procedures related to disbursements. The Department of Public Safety approved a payment of \$1.2 million to the wrong vendor because of the use of an incorrect vendor code. A subsequent review and approval process at the Bureau of Accounts and Control also failed to detect the error.

Internal control procedures over disbursements at the Department of Public Safety require that after an invoice is prepared for processing, a second individual review and approve the invoice. This process should include a review for the correct amount, correct payee (vendor code), appropriate expenditure category and proper account coding. The review process did not detect that the vendor code written on the invoice did not match the name of the company that submitted the invoice. A review and approval process at the Bureau of Accounts and Control for invoices exceeding \$2,500 similarly did not detect the incorrect coding. Within a few days, however, the vendor to whom the check was issued returned the check to the Department of Public Safety. Upon receipt, accounting staff caused the check to be voided. The invoice coding was corrected, and the invoice was approved by a second individual and was submitted to the Bureau of Accounts and Control for final approval and processing.

### **Recommendation:**

We recommend that the Department of Public Safety and the Bureau of Accounts and Control exercise more care when reviewing invoices prior to approving for payment.

### **Auditee Response/Corrective Action Plan:**

*Contact: Terry Brann, 626-8420*

*The Bureau will continue to do all it can to prevent this type of mistake.*

# DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

## 3. Division of Financial and Personnel Services

### **Finding:** Incorrect valuation used for certain capital leases (**Prior Year Finding**)

The Division of Financial and Personnel Services used incorrect values of capital leases in the State's financial statements. The Financial Accounting Standards Board's (FASB) Statement of Financial Accounting Standards No. 13, *Accounting for Leases*, requires that fair market values of leases be utilized for valuation and classification of leases. In fiscal year 2003, 46 leases (carried forward from fiscal year 2002) remained with incorrect fair market values. This caused the State's fixed assets and accumulated depreciation to be overstated by \$3,146,640 and \$2,521,705, respectively. In fiscal year 2003, only one newly acquired lease was recorded at an incorrect fair market value leading to an additional overstatement of the State's fixed assets of \$334,593 and an overstatement of accumulated depreciation of \$35,948. In total, errors in the Division's valuations and classifications of leases resulted in an overstatement of nearly \$3.5 million in fixed assets and \$2.6 million in accumulated depreciation on the financial statements for fiscal year end 2003.

### **Recommendation:**

We recommend that the State ensure compliance with the requirements set forth in FASB 13 for all capital leases.

### **Auditee Response/Corrective Action Plan:**

*Contact: Carol Elsemore, Managing Staff Accountant, 624-7383*

*In fiscal year 2002, after much discussion with and help from the Department of Audit, the Division of Financial and Personnel Services (DFPS) implemented many changes to its Lease accounting procedures.*

- Of the \$3.5 million identified by the Department of Audit as an overstatement of fixed assets, \$2.6 million is attributable to one lease of temporary office space in Winthrop. When the Winthrop lease began, DFPS determined that the lease should be a capital lease, based upon using an assessment of 100% of fair market value, per Maine Revenue Service listings. During fiscal year 2003, correspondence from the Town of Winthrop revealed that commercial property in Winthrop is assessed at 86% of fair market value. The change caused this particular lease to change from a capital lease to an operating lease. Given the*

## DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES

*timing of this discovery, the fact that the lease ended December 31, 2003, and the immateriality on the financial statements, an adjustment was not done.*

- *DFPS made a \$334,593 increase in the fair market value of a lease during fiscal year 2003 based on an amendment to the lease to increase the cost per square foot by \$0.17. DFPS was under the impression that any change in the cost or square footage of a lease was cause for reevaluation. Discussions with the Department of Audit have indicated that only “significant changes” in a lease should be cause for reevaluation. The Department of Audit’s definition of “significant” was 5%. Given that this change in lease terms is less than the 5% standard to determine significance, we can agree that the adjustment should not have been made. DFPS will use the 5% standard for reevaluation so that future valuations will be correct under FASB 13. Again, given the timing of this discovery and the immateriality on the financial statements, an adjustment will not be done at this time.*

### **Corrective Action Plan**

*Contact: Carol Elsemore, Managing Staff Accountant, 624-7383*

#### *Corrective Action:*

- 1. Of the \$3.5million variance in Capital Leases value, \$2.6million was for a lease that expired in December 2003 so no further action is needed for that lease.*
- 2. Only changes of 5% or greater will result in a reevaluation of current leases.*



# DEPARTMENT OF AGRICULTURE

## 4. Office of Agricultural, Natural and Rural Resources

**Finding:** Grant award was made to employee without approval; the award exceeded the amount allowed

The Department of Agriculture did not obtain the required consent of the State Purchases Review Committee when making a grant award to an employee of the State of Maine. In addition, the amount of the award exceeded the amount allowed by the Request for Proposal by \$1,580.

Rider B of the contract with the employee/grantee includes a standard clause, commonly referred to as “State Employees Not to Benefit.” This clause requires that no contract with employees be negotiated without the written consent of the State Purchases Review Committee. In addition, the official Request for Proposal document states that grant funding cannot exceed 75% of the project cost. In this case, the employee/grantee received both a federal and State grant for the same project, resulting in grant funding exceeding the limit by \$1,580.

### **Recommendation:**

We recommend that the Department of Agriculture obtain the consent of the State Purchases Review Committee when required, and adhere to program requirements, when making grant awards.

### **Auditee Response/Corrective Action Plan:**

*Contact: Peter Mosher, 287-7608*

*The Department agrees with the audit finding that the required consent of State Purchases Review Committee was not obtained before granting an award to an employee of the State. The Department will obtain the written consent of the State Purchases Review Committee in compliance with standard clause number 12 commonly referred to as State Employees Not to Benefit.*

*In addition, the Department has discussed the overpayment with the employee. He will be repaying the overpayment of \$1,580 to the Department within the next two weeks.*



# DEPARTMENT OF CONSERVATION

## 5. Bureau of Administrative Services

### **Finding:** Residual balances in the Federal Expenditure Fund

The Department of Conservation has a residual balance of \$1.5 million dollars in the Federal Expenditures Fund, the result of the Department not always having recorded expenditures and related revenue in the same fund. In the past, the Department recorded revenue and associated cash (that reimbursed the State for the federal share of expenditures) in the Federal Expenditures Fund, while it recorded certain expenditures in other funds. The *Codification of Governmental Accounting and Financial Reporting Standards* Section 1300.119 requires that expenditures and the associated revenue and cash should be accounted for in the same fund.

### **Recommendation:**

We recommend that the Department seek legislative direction regarding the disposition of this residual balance.

### **Auditee Response/Corrective Action Plan:**

*Contact: Peter Beringer, 287-8429*

*The DOC believes it is in compliance with State of Maine Financial accounting requirements. The Administrative indirect costs have accumulated in the account over time. The DOC concurs with the recommendation and will seek legislative direction regarding the disposition of the residual balance. The DOC will seek to establish an administration overhead Special Revenue Fund account to separate the federal funds from the indirect overhead funds.*



# DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT

## 6. Office of Community Development

### **Finding:** Noncompliance with reporting requirements

The Department of Economic and Community Development has not filed a quarterly cash transaction report since the report for the period ending September 30, 2002 was filed. This report must be filed no later than 15 working days following the end of each quarter, in accordance with 24 CFR 85.41(c). According to departmental personnel, the U.S. Department of Housing and Urban Development asked that no subsequent reports be submitted until errors in the September 2002 report have been corrected.

### **Recommendation:**

We recommend that the Department of Economic and Community Development correct and file the amended September 2002 report, and submit all subsequent reports as soon as possible thereafter.

### **Auditee Response/Corrective Action Plan:**

*Contact: Orman Whitcomb, 624-9819*

*During the audit, we were greatly assisted in establishing a means to access financial information from the State accounting system to assist in reconciling not only our revolving loan account but our grant funds reconciliation as well. We have also been working with our HUD representative to submit an accurate SF 272. As recommended in your audit report, this will be followed up with the submission of all later reports as required.*





## DEPARTMENT OF EDUCATION

### 7. Food and Nutrition Services

**Finding:** Negative cash balance (Prior Year Finding)

As of June 30, 2003, the Nutrition Cluster grant account had a negative balance of \$471,612. There was a negative balance throughout the fiscal year, as there was during the previous fiscal year. The Department of Education is aware of the issue, and is currently researching the cause of the negative cash balance.

**Recommendation:**

We recommend, once the cause of the negative balance is found, that the appropriate accounting entries be made to adjust the account to its correct balance.

**Auditee Response/Corrective Action Plan:**

*Contact: Diane Williamson, Chief Accountant, Department of Administrative and Financial Services, telephone (207) 624-7400.*

*This finding has been resolved. The Chief Accountant completed the research and a revised USDA Food and Nutrition Services Report, number 269, Final 2001 - Revision #2 for October, November, and December, correcting the negative balance was filed in June 2004 with the U.S. Department of Agriculture. A copy of the report is available for review by contacting the Finance Office of the Department of Administrative and Financial Services.*

*Implementation of corrective action and resolution of this finding were completed in fiscal year 2004.*



# DEPARTMENT OF ENVIRONMENTAL PROTECTION

## 8. Bureau of Air Quality

**Finding:** Payments of bills for vehicle leases were incorrectly coded

The Bureau of Air Quality of the Department of Environmental Protection does not have controls in place to ensure proper coding of charges for the lease of motor vehicles. On nine of nine bills, where three funds were to be charged, amounts that should have been allocated to the General Fund and the Other Special Revenue Fund were charged entirely to the Federal Expenditures Fund.

All activities of the Bureau of Air Quality are allowable under the Performance Partnership Grants, so no questioned costs will result from this miscoding. However, the Department has a cost allocation plan, approved by the federal granting agency, which specifies that these costs will be allocated.

During November 2003, Bureau of Air Quality implemented procedures to properly code expenditures on lease billing invoices. Furthermore, during November 2003, the Department's Office of Management and Budget assumed responsibility to review invoice charges prior to entering them in the State's accounting system.

### **Recommendation:**

We recommend that the Department of Environmental Protection adhere to the new procedures to ensure that correct amounts are being charged to grants.

### **Auditee Response/Corrective Action Plan:**

*Contact: Rich Limouze, 287-7029*

*As indicated in the finding, corrective action was taken in November, 2003. The Office of Management Services will continue to review invoice charges for the use of appropriate accounts.*

# DEPARTMENT OF ENVIRONMENTAL PROTECTION

## 9. Office of Management and Budget

**Finding:** No procedures to ensure timely submission of financial status reports

The Department of Environmental Protection and the ACE Service Center do not have procedures to ensure that financial status reports are filed in accordance with 40 CFR 31.41 (b) 4, which requires filing within 90 days after the grant year. The reports for federal fiscal year 2002 were due by December 29, 2002, but were not submitted until May 30, 2003, five months after the required due date.

**Recommendation:**

To avoid suspension of grant funds, annual financial status reports should be filed within 90 days after the grant year.

**Auditee Response/Corrective Action Plan:**

*Contact: George Viles, 287-7832*

*Office of Management Services staff have now taken over the responsibility for the submission of the financial status reports and this should ensure timely compliance.*

*Corrective action taken February, 2004.*



# DEPARTMENT OF HUMAN SERVICES

## 10. Division of Financial Services

**Finding:** Checks not deposited on a timely basis

On November 12, 2003, the Division of Financial Services of the Department of Human Services was holding twenty-five checks that totaled \$126,122. The check dates ranged from May 29, 2003 to November 5, 2003. These checks related to audit settlements, and were received from various providers that receive funding from the Department.

The Division was holding these checks because a determination had not yet been made as to which accounts should be credited on the State's accounting records.

Title 5 M.R.S.A. § 131 states:

Every department and agency of the State, whether located at the Capitol or not, collecting or receiving public money, or money from any source whatsoever, belonging to or for the use of the State, or for the use of any state department or agency, shall pay the same immediately into the State Treasury, without any deductions on account of salaries, fees, costs, charges, expenses, refunds, claims or demands of any description whatsoever.

### **Recommendation:**

We recommend that the Department immediately deposit all checks upon receipt, and ensure that the divisions and bureaus of the Department are instructed to comply with 5 M.R.S.A. §131.

### **Auditee Response/Corrective Action Plan:**

*Contact: Cheryl Libby*

*As of December 2003, procedures are documented on handling audit settlement checks. In addition, a procedure was developed for all unidentified checks to be deposited into a balance sheet account and reconciled monthly.*

# DEPARTMENT OF HUMAN SERVICES

## 11. Division of Financial Services

### **Finding:** Accounting for vaccine costs

The Department of Human Services recorded a charge of \$828,750, for 150,000 doses of influenza vaccine, to the Medical Assistance program account. The cost of immunizations cannot be claimed an expenditure of the program, because the State provides immunizations free of charge to non-Medicaid clients. The charge was recorded on the State of Maine's accounting system, but was not reported to the federal government for reimbursement. As a result, expenditures of the Medical Assistance account were overstated, but there are no questioned costs to the program.

Additional immunization invoices totaling \$122,594 were also charged to the federal and State funds of the Medicaid program.

We believe that these immunizations were to be paid for by the Fund for Healthy Maine, but the appropriation account received no allotment; therefore, no expenditures could be directly posted to that account.

### **Recommendation:**

We recommend that the Department adjust the federal account for invoices that were incorrectly charged.

### **Auditee Response/Corrective Action Plan:**

*Contact person: Elizabeth Hanley, 287-1861*

*DHS agrees with the finding and a journal was processed in July 2004 to correct the amount charged to the federal fund.*

# DEPARTMENT OF HUMAN SERVICES

## 12. Division of Financial Services

### **Finding:** Cash not drawn to cover disbursements (**Prior Year Finding**)

For eight of the twelve months of fiscal year 2003, the Department of Human Services did not draw sufficient cash from the federal government for the amount expended for the Immunization Program.

Although the Department is allowed to draw cash in advance, the average daily cash balances for the federal Immunization Program account were negative. The negative balances ranged from \$41,231 to \$551,256, and the number of negative days cash on hand ranged from 8 to 101 days. Although this does not constitute non-compliance with federal requirements for the program, carrying a negative balance for most of the fiscal year does not reflect proper cash management practices. It appears that the Department used cash from various other Bureau of Health federal programs, which are accounted for in the same account, for the Immunization Program.

### **Recommendation:**

We recommend that the Department of Human Services draw federal cash for actual immediate cash needs as required by the Cash Management Improvement Act

### **Auditee Response/Corrective Action Plan:**

*Contact: Elizabeth Hanley, 287-1861*

*Requests for cash were previously done on a bi-weekly basis. This procedure has been changed to a weekly basis.*

# DEPARTMENT OF HUMAN SERVICES

## 13. Division of Audit

### **Finding:** Untimely receipt of subrecipient audit reports (**Prior Year Finding**)

The Department of Human Services does not have effective controls in place to ensure timely receipt of subrecipient audit reports. Of the 25 subrecipient audit reports that were required to be submitted, four were received after the nine-month period allowed, and one had not yet been received as of October 28, 2003.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D Section .400 requires that pass-through entities ensure that subrecipients expending \$300,000 or more in federal awards during the subrecipients' fiscal year have met the audit requirements of the circular. Subpart C Section .320 requires that audit reports required under the circular be submitted within the earlier of 30 days after the receipt of the auditor's report, or nine months after the end of the audit period.

### **Recommendation:**

We recommend that the Department establish procedures to ensure that applicable subrecipients meet the time requirements required by Circular A-133 for submission of audit reports.

### **Auditee Response/Corrective Action Plan:**

*Contact: John N. Bouchard*

*We agree that the sub recipients were late in filing and one had not filed. Through the use of our division database, twice we notify affected agencies in writing of their need to file A-133 audits timely. Also, through our Division examination procedures, we issue audit findings on those agencies that are late, or that have not filed. We also provide Department internal program management with copies of findings of late agency filings of circular A-133 audits. Department program management then has the option to utilize the sanctions contained in circular A-133 sub part B section .225 should it be deemed necessary. Those options are beyond the scope of our audit oversight responsibilities.*

# DEPARTMENT OF HUMAN SERVICES

## 14. Division of Support Enforcement and Recovery

**Finding:** Excess child support payments calculated incorrectly

The Department of Human Services incorrectly calculated payments made to recipients of the Temporary Assistance for Needy Families (TANF) grant, for child support payments received in excess of monthly TANF benefits paid by the State. We tested 25 of payments to recipients and found 21 in error. Seventeen individuals were overpaid and four were underpaid. Amounts of the incorrect payments ranged from an overpayment of \$438.78 to an underpayment of \$216. The incorrect payments were made with State funds and do not involve federal funds. For federal fiscal year 2003, the Department reported \$551,962 for child support payments received in excess of the monthly TANF benefit.

The incorrect payments resulted from programming errors within the database that has been the Department's primary means of tracking child support collection and disbursement activity since June 2002. The State's Division of Child Support Enforcement and Recovery has made several programming corrections, and believes the problems to have been corrected.

**Recommendation:**

We recommend that the Department ensure that all payments are correctly calculated, and periodically review automated calculations for accuracy.

**Auditee Response/Corrective Action Plan:**

*Contacts: Steve Hussey, 287-2886 and Jerry Joy, 287-2843*

*As of July 13, 2004, programming updates were put into production by BIS to correct all of the calculation errors reported in the finding. The adjustments have been tested and payments are now being calculated correctly.*



## DEPARTMENT OF HUMAN SERVICES

### 15. State Disbursement Unit

#### **Finding:** Control deficiencies in the State Disbursement Unit

The State Disbursement Unit is responsible for the collection and disbursement of child support. We found the following deficiencies in the Unit's internal controls.

1. The Department's regional offices receive child support payments, although infrequently. At the time of our audit, the regional offices did not restrictively endorse the payments before sending them to the Unit via the State's mail system. The regional offices have since been instructed to do this.
2. The Unit uses a safe to store child support payments that are not processed during the day. The combination of the safe is not changed periodically.
3. Designated clerks within the Unit, as well as the supervisor of Unit operations, handle financial adjustments and corrections. There is no way to identify which individual initiated an adjustment or a correction to the records of child support collections.

#### **Recommendation:**

We recommend that the State Disbursement Unit:

1. ensure that regional offices restrictively endorse all negotiable instruments immediately after opening,
2. periodically change the combination for any safe used to store receipts overnight, and
3. provide a means to identify which individual initiated which correction or adjustment.

#### **Auditee Response/Corrective Action Plan:**

*Contact: Alicia Rogers, 287-1882*

*DHS agrees with this finding for FY 2003. In FY 2004, twenty-two restrictive endorsement stamps have been purchased and disbursed to the regional supervisors and support staff that process checks that are not sent directly to Cashiers by the payor/employer.*

*DHS has also changed the combination to the safe and will periodically change it.*

*A request has been made to the programmer to make changes to the payment corrections report to include a user field for an audit trail. Continued follow up on this request is planned.*

# DEPARTMENT OF INLAND FISHERIES AND WILDLIFE

## 16. Bureau of Administrative Services

**Finding:** Incorrect recording of revenues and expenditures

The Department of Inland Fisheries and Wildlife does not always record expenditures and related revenue in the same fund. Certain federal expenditures are recorded in the General Fund while the revenue (and associated cash) to reimburse the State for these expenditures is recorded in the Federal Expenditures Fund. This mismatch of revenue and expenditures has resulted in a cash balance of \$419,145 in the Federal Expenditures Fund at the end of fiscal year 2003.

**Recommendation:**

We recommend that the Department work with the Office of the State Controller to transfer the allowable expenditures to the Federal Expenditures Fund. The cash should be transferred to the General Fund in order to reimburse that fund, or, if legislatively authorized, to the Special Revenue Fund for subsequent expenditure for authorized purposes.

**Auditee Response/Corrective Action Plan:**

*Contact: Donald Ellis, 287-5223*

*Beginning with fiscal year 2005, IF&W staff will ensure that allowable expenditures are transferred to the Federal expenditures fund so that expenses and related revenue are accounted for in the same fund.*



# DEPARTMENT OF LABOR

## 17. Office of Administrative Services

**Finding:** Incorrect payments for travel expense vouchers

Two of thirteen travel expense vouchers that were tested included errors. In one, the Maine Department of Labor underpaid a State employee by \$12.20 for toll charges.

In the second, the Department reimbursed a member of the Division of Deafness Advisory Council \$50.93 in excess of the State of Maine statutory limits for lodging expenses. Title 5 M.R.S.A. § 12002-A states that members of Boards, including Councils, may be paid for expenses at a rate not to exceed the rate normally paid to State employees.

**Recommendation:**

We recommend that the Department reimburse the State employee for the underpayment of \$12.20. We further recommend that the Department monitor compliance with State statutes governing Council member travel and advise members of reimbursement limits.

**Auditee Response/Corrective Action Plan:**

*Contact Person: Rose Bailey, 287-1276*

*We will reimburse the State employee for the underpayment of \$12.20 as suggested by the auditor. The Office of Administrative Services will more closely monitor compliance with the State statutes governing Council member travel and advise members of reimbursement limits.*

# DEPARTMENT OF LABOR

## 18. Office of Administrative Services

**Finding:** Controls not adequate to ensure complete and accurate recording of accounts receivable

The Office of Administrative Services of the Department of Labor did not record accounts receivable transactions in accordance with generally accepted accounting principles. The following items were identified.

- The allowance for uncollectible accounts was valued at \$7,603,281 without examination of past collection experience.
- Revenue of \$1,985,686 should not have been deferred.
- An amount of \$1,430,242, due from beneficiaries as of June 30, 2003 because of overpayments, was recorded as revenue rather than as a reduction to expenses.
- Interstate receivables of \$628,862 were excluded from accounts receivable.
- Employer overpayments of \$305,381 were excluded from liabilities.
- An unsupported amount of \$138,732 was included in accounts receivable.

It is the policy of the State of Maine that receivables are to be presented net of an allowance for uncollectible accounts, and that the allowance is to be based upon past collection experience. Governmental Accounting Standards Board Statement No. 34 requires that unemployment compensation funds be reported in enterprise funds, on the accrual basis of accounting. Expenses should be recorded net of identified overpayments to beneficiaries. All financial accounts should contain a complete record of transactions and balances.

**Recommendation:** The Office of Administrative Services should record transactions pertaining to receivable amounts according to generally accepted accounting principles.

### **Auditee Response/Corrective Action Plan:**

*Contact: Rose M. Bailey, 287-1276*

*The Office of Administrative Services (OAS) will work together with the Bureau of Accounts and Control to record all accounts receivables in the proper manner according to generally accepted accounting principles.*

- *The amount identified as “unsupported” was actually Interstate receivables, but an error was made in the amount recorded.*
- *The amounts \$1,430,242, Benefits employer overpayments is part of the \$1,985,686 amount that was identified as being incorrectly recorded as deferred. We will work with the Bureau of Accounts and Control to ensure that the appropriate entries are made for the period June, 2004.*

# DEPARTMENT OF LABOR

## 19. Bureau of Unemployment Compensation

### **Finding:** Benefit charges not assigned

Benefit charges of approximately \$1,900,000 were not assigned to either an employer or general account, as required by procedures of the Bureau of Unemployment Compensation. An example of a benefit that should be charged to a general account is an amount paid to a claimant that was employed by an individual employer for less than five weeks.

These charges represent 2.1% of the total charged to employer accounts, or 1.6% of all benefit charges excluding federal programs.

### **Recommendation:**

We recommend that all benefit charges be assigned to an employer account or to a general account.

### **Auditee Response/Corrective Action Plan:**

*Contact: Judy Williams, 287-3157*

*We agree that benefit charges should be assigned to an employer account or a general account. However, there are times when the determination of the charge cannot be made initially. The general fund charge number, 90006, was used as a temporary charge mechanism so that claim payments would not be blocked from payment pending the determination of the appropriate charge.*

*The Bureau has implemented some initial steps to improve the charge issues. All Call Center staff have been trained on charge issues. The Bureau has provided a report to each of the Call Centers of all claims that had a 90006 charge for the time frame of July 2003 through the first week in April 2004. The staff is currently reviewing those charges and adjusting the charges to reflect the appropriate employer or general charge account. Another report will be run for the remainder of the state fiscal year and staff will conduct the same review.*

*On an ongoing basis, each month a report will be run for each Call Center of all 90006 charges. The charges will be reviewed and adjusted accordingly to minimize the use in this account for these charges.*



# DEPARTMENT OF LABOR

## 20. Bureau of Unemployment Compensation

### **Finding:** Review procedures not performed (**Prior Year Finding**)

The Department of Labor did not perform certain review procedures on the Federal Unemployment Tax Act (FUTA) certification tape. States are required to annually certify, for each eligible employer, the total amount and dates of contributions that are required to be paid under State law for the calendar year, in order for that employer to be allowed a credit against the FUTA tax.

Section 13 of the *Guide for the Computerized Certification of State FUTA Credits* requires the State to perform certain review procedures when processing the FUTA certification tape.

### **Recommendation:**

We recommend that the Department perform the required review procedures of the FUTA certification tape, as required by the *Guide for the Computerized Certification of State FUTA Credits*.

### **Auditee Response/Corrective Action Plan:**

*Contact: Joan Cook, 287-1248*

*A position in the Tax Section has been assigned the task of performing review procedures to the FUTA certification tape. It will be in compliance with Section 13 of the “Guide for the Computerized Certification of State FUTA Credits,” published by the IRS.*

# DEPARTMENT OF LABOR

## 21. Bureau of Unemployment Compensation Division of Administrative Hearings

**Finding:** Requirement that new employees certify compliance with computer security policy is inconsistently enforced

All newly hired personnel employed in activities directly related to the unemployment compensation program did not certify compliance with the Computer Security Policy of the Bureau of Unemployment Compensation. Only seven of the twelve persons hired during fiscal year 2003 were asked to provide written certification.

Two of the five remaining employees were employed by the Division of Administrative Hearings, which is funded almost entirely by Unemployment Insurance funds. Although the Division does communicate the importance of computer security to personnel, employees are not asked to certify compliance with a computer security policy.

In the remaining three cases, a copy of the certification could not be located.

### **Recommendation:**

We recommend that personnel certify compliance with the Computer Security Policy.

### **Auditee Response/Corrective Action Plan:**

*Contact: Susan Bell, 287-5582*

*The Bureau of Unemployment Compensation Computer Security Policy has been rendered obsolete. It has been replaced with a Departmental Employee Information Security Policy # 010.*

*All employees of the Department are covered by the policy. This new policy is administered by the Department's Office of Human Resources. Employees are required to sign a statement acknowledging that the employee has read and understood the policy. The signed agreements are maintained in the employee's official personnel file in the Office of Human Resources.*



# DEPARTMENT OF PUBLIC SAFETY

## 22. Office of the Commissioner

**Finding:** Internal control procedures regarding disbursements not followed

The Department of Public Safety and the Bureau of Accounts and Control did not follow established control procedures related to disbursements. The Department of Public Safety approved a payment of \$1.2 million to the wrong vendor because of the use of an incorrect vendor code. A subsequent review and approval process at the Bureau of Accounts and Control also failed to detect the error.

Internal control procedures over disbursements at the Department of Public Safety require that after an invoice is prepared for processing, a second individual review and approve the invoice. This process should include a review for the correct amount, correct payee (vendor code), appropriate expenditure category and proper account coding. The review process did not detect that the vendor code written on the invoice did not match the name of the company that submitted the invoice. A review and approval process at the Bureau of Accounts and Control for invoices exceeding \$2,500 similarly did not detect the incorrect coding. Within a few days, however, the vendor to whom the check was issued returned the check to the Department of Public Safety. Upon receipt, accounting staff caused the check to be voided. The invoice coding was corrected, and the invoice was approved by a second individual and was submitted to the Bureau of Accounts and Control for final approval and processing.

### **Recommendation:**

We recommend that the Department of Public Safety and the Bureau of Accounts and Control exercise more care when reviewing invoices prior to approving for payment.

### **Auditee Response/Corrective Action Plan:**

*Contact: David Rand (implementation), 626-3819 and Mary Doughty (oversight) 626-3820*

*Prior to January 2004, individuals with signature authority reviewed each physical bill for validity and accuracy, but only did random checks of the hard copy invoice against the PV document in the MFASIS system. In January procedures were changed to include a verification of all invoices under \$2,500 against the MFASIS system. The Department felt that other controls on the over \$2,500 invoices, such as Purchasing requirements and a review by Accounts and Control, did not necessitate moving to a 100% review of all the over \$2,500 bills. The problem with the \$1.2 payment brought out the need for further review of the over \$2,500 invoices. All payments, both over and under \$2,500, are now verified against the MFASIS accounting system.*

*Implementation of this process is complete.*



# DEPARTMENT OF TRANSPORTATION

## 23. Bureau of Maintenance and Operations

**Finding:** Renting equipment from employees could appear biased

The Bureau of Maintenance and Operations of the Department of Transportation engaged in procurement activity involving equipment rented from individuals, or corporations owned by individuals, who were employed as highway workers of the Bureau. Contracting with Bureau employees could give rise to the appearance of bias in the procurement process.

The Bureau made substantial payments to employees for hourly rental of equipment. This rental activity included heavy equipment such as excavators, bulldozers, graders, trucks, loaders, backhoes, skidders, and semi-tractors. Rental activity also included lighter equipment, such as sickle bar mowers, chain saws, industrial spraying equipment, and handheld power brooms.

Equipment rental payments were made to four individual employees for \$127,976, \$125,968, \$78,779 and \$42,168. Others received amounts totaling \$39,026.

**Recommendation:**

We recommend that the Bureau examine equipment rental activities, and implement policies and procedures that would eliminate any appearance of bias in the procurement process. We note that this process has begun.

**Auditee Response/Corrective Action Plan:**

*Contact: Roger Gobeil, Director, Bureau of Maintenance & Operations, 624-3600*

*We concur with the finding. The Department has notified the employees in question that the practice of renting large construction equipment from people actually on the Department's payroll will end. The letters to these individuals, dated April 21, 2004, offered to transition from the past practice of renting several pieces of equipment to none over the course of this construction season. Each employee was offered the opportunity to rent only one piece of equipment this summer.*

# DEPARTMENT OF TRANSPORTATION

## 24. Bureau of Finance and Accounting

**Finding:** Pier not recorded on State records

The Department of Transportation did not ensure that the State's records for capital assets were complete and accurate.

The construction of a pier was completed as of June 30, 2003. The construction costs were correctly removed from work-in-progress during the fiscal year, but the pier was not added to the State's fixed asset system. This caused capital assets for the Ferry Service Fund to be understated by \$1,862,985. The identified error was corrected for financial statement presentation.

**Recommendation:**

We recommend that the Department of Transportation ensure that its fixed asset records are complete and accurate.

**Auditee Response/Corrective Action Plan:**

*Contact: Gregg Goggin, 624-3122*

*We concur with the finding . This asset was removed from work-in-progress on July 11, 2003, during the thirteenth accounting period and was added to the fixed asset system on July 14, 2003, with an acquisition date of July 1, 2003. All assets removed from work-in-progress will be recorded as an asset in the MFASIS fixed asset system during the same accounting period.*

*This corrective action plan has been implemented.*

# DEPARTMENT OF TRANSPORTATION

## 25. Bureau of Project Development

### **Finding:** Inadequate records management (Prior Year Finding)

The Department of Transportation reorganized in early 2000, resulting in a decentralization of records management. The Department did not provide clear guidance to the Divisions regarding responsibility for the maintenance and archiving of project records. In late 2001, when the Department began scanning project records into an imaging, storage, and web-based retrieval system, project information was not consistently indexed.

Because of the lack of guidance regarding the indexing of project information, and the maintenance and archiving of project records, records management suffered. Retrieval of project information was made more difficult.

### **Recommendation:**

We recommend that the Department of Transportation provide clear guidance on the responsibilities of each Division for the management of project records. Additionally, we recommend that the Department establish procedures to ensure the consistent indexing of source documents within the records retrieval system.

### **Auditee Response/Corrective Action Plan:**

*Contact: Jane Corkum, 624,3123*

*We concur with the finding. The Department has filled the position responsible for records retention and records management. This position will have Department wide responsibilities in spearheading the effort for consistency in records management issues.*

*The transition from the retention of paper files, and then a microfilm based system, and now to the TEDOCS imaging system has been challenging.*

*The Department will be using an improved version of TEDOCS starting in mid June 2004. Concurrent with this new version has been extensive training for those responsible for scanning and indexing information into the system. It is hoped that this will establish the consistency that was not completely present during the transition period.*

*Additionally two members of Project Development staff have been working beyond regular work hours to organize and make useable the paper documentation residing in the Department's 'B' files. Due to the transition from archiving systems, and due to two relocations of the*



## **DEPARTMENT OF TRANSPORTATION**

*Department from Augusta to Winthrop and back to Augusta, it is recognized that records retention suffered.*

*The corrective action plan has been implemented.*

November 2003



# Independent Accountant's Report on Applying Agreed-Upon Procedures

## Capital Riverfront Improvement District



## **WHY THE DEPARTMENT OF AUDIT CONDUCTED THIS REVIEW**

THE DEPARTMENT OF AUDIT WAS ASKED BY THE CAPITAL RIVERFRONT IMPROVEMENT DISTRICT TO PERFORM AGREED-UPON PROCEDURES IN CERTAIN AREAS. SPECIFICALLY, WE TESTED PROCEDURES REGARDING THE CHECKING ACCOUNT, THE SAVINGS ACCOUNT, AND FINANCIAL REPORTING.

## **WHAT THE DEPARTMENT OF AUDIT FOUND**

WHILE PERFORMING 12 PROCEDURES, WE FOUND FOUR EXCEPTIONS.

1. THE DISTRICT'S POLICY REQUIRES THAT CHECKS FOR MORE THAN \$500 BE SIGNED BY TWO AUTHORIZED INDIVIDUALS. WE FOUND TWO CHECKS FOR MORE THAN \$500 THAT WERE SIGNED ONLY BY ONE PERSON.
2. THE JUNE 2003 FINANCIAL REPORT, AND ALL SUBSEQUENT REPORTS, HAD NOT BEEN PRESENTED TO THE BOARD AS OF NOVEMBER 2003.
3. "IN-KIND" DONATIONS WERE NOT INCLUDED IN THE FINANCIAL REPORTS.
4. THE DISTRICT HAD NOT REPORTED ANNUALLY TO THE LEGISLATURE, AS REQUIRED BY LAW.

## **AGREED-UPON PROCEDURES**

AGREED-UPON PROCEDURES ARE A TYPE OF ATTESTATION ENGAGEMENT. UNLIKE AN AUDIT, AN ATTESTATION ENGAGEMENT DOES NOT RESULT IN AN OPINION. AN ATTESTATION ENGAGEMENT RESULTS IN A WRITTEN COMMUNICATION THAT EXPRESSES A CONCLUSION ABOUT THE RELIABILITY OF ASSERTIONS MADE BY ANOTHER PARTY.

AGREED-UPON PROCEDURES ARE SPECIFIC PROCEDURES PERFORMED UPON DEFINED SUBJECT MATTERS, RESULTING FROM THE NEED OF THE USERS OF THE REPORT AND INTENDED TO ASSIST THOSE USERS. THE USERS AND THE PRACTITIONER AGREE TO THE PROCEDURES THAT ARE TO BE PERFORMED. THAT THE PROCEDURES ARE SUFFICIENT ARE THE RESPONSIBILITY OF THE USERS. THE CONCLUSIONS, HOWEVER, ARE DERIVED FROM THE INDEPENDENT WORK OF THE PRACTITIONER. THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS HAS ESTABLISHED STANDARDS FOR AGREED-UPON PROCEDURES, AND FOR ASSESTATION ENGAGEMENTS IN GENERAL.

AGREED-UPON PROCEDURES MIGHT INCLUDE AN INSPECTION OF CERTAIN TYPES OF DOCUMENTS, OR A COMPARISON OF DOCUMENTS OR SCHEDULES WITH CERTAIN SPECIFIED ATTRIBUTES.

## **INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by the management of the Capital Riverfront Improvement District (the District), solely to assist you in evaluating the accounting and financial reporting internal control procedures of the District for the fiscal year ended June 30, 2003. The District's management is responsible for the organization's accounting and financial reporting internal control procedures. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the party specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and results are as follows.

### Agreed-Upon Procedures - Checking Account Procedures

1. We confirmed with the bank the District's checking account balance as of June 30, 2003, and determined that the account balance was reconciled to the accounting records as of that date.

*Results: No exceptions were noted.*

2. We compared the check numbers, payees and payment amounts for all 74 checks returned with bank statements for fiscal year-end June 30, 2003, to the same information recorded on the related paid invoices and/or receipts.

*Results: No exceptions were noted.*

2. We determined whether or not all 74 checks, returned with the District's checking account bank statements for fiscal year-end June 30, 2003, included signatures of authorized payers.

*Results: No exceptions were noted.*

3. We determined whether or not all 24 checks, in amounts of \$500 or more, returned with the checking account bank statements for fiscal year-end June 30, 2003, included signatures of two authorized payers.

*Results: We noted two exceptions to the policy that requires the signatures of two authorized payers for checks in amounts of \$500 or more.*

5. We determined whether or not the Treasurer signed any of the 74 checks returned with the checking account bank statements for fiscal year-end June 30, 2003.

*Results: As required by policy, the Treasurer did not sign any checks.*

#### Agreed-Upon Procedures - Savings Accounts Procedures

6. We confirmed with the bank the balances of the two savings accounts (reserve accounts) as of June 30, 2003, and determined that the account balances were reconciled to the financial report as of that date.

*Results: No exceptions were noted.*

7. We compared the dates and amounts of the eleven cash transfers made from the District's savings accounts during fiscal year-end June 30, 2003, to the dates and amounts of cash transferred into the District's checking account.

*Results: No exceptions were noted.*

8. We determined that the co-chairs of the District authorized the eight transfers of cash from the savings accounts to the checking account for the transfers made between January 1, 2003 and November 5, 2003.

*Results: No exceptions were noted. As required by policy, only co-chairs authorized the cash transfers.*

9. We determined that both co-chairs authorized the eight transfers of \$500 or more of cash, made between January 1, 2003 and November 5, 2003, from the savings accounts to the checking account.

*Results: No exceptions noted. As required by policy, both co-chairs authorized the transfers of cash in amounts of \$500 or more.*

10. We determined that the Treasurer did not authorize any of the eight transfers of cash, made between January 1, 2003 and November 5, 2003, from the savings accounts to the checking account.

*Results: No exceptions noted. As required by policy, the Treasurer did not make any cash transfers.*

#### Agreed-Upon Procedures - Financial Reporting Procedures

11. We determined whether or not monthly financial reports were presented to the Board during fiscal year-end June 30, 2003.

*Results: The June 2003 financial report has not been presented to the Board as of November 5, 2003. The Treasurer's financial reports were presented to the Board for the months of July 2002 through February 2003. The Director of the District provided financial reports to the Board for the months of March 2003 through May 2003. There was no meeting scheduled for June and the meeting in August was for a Board retreat. The Treasurer was not available for the September and October Board meeting; no financial reports were presented to the Board at those meetings.*

*Five months have elapsed from the time a financial report was issued and reviewed by the Board. We recommend that financial reports be presented each time a Board meeting is held.*

*We noted that “in-kind” donations were not included in the financial report. We recommend that the financial reports include an amount for these donations.*

12. We determined whether or not the District has reported annually to the Joint Standing Committee on State and Local Government.

*Results: We found that between January 15, 2001 and November 5, 2003, the District had not reported annually to the Joint Standing Committee on State and Local Government as required by State law. Private and Special Law 1999, c. 58 §9 states:*

*The governing board shall report annually on the district’s activities to the joint standing committee of the Legislature having jurisdiction over state and local government matters beginning on January 15, 2001. The report must include information on the district’s projects, financial condition, efforts to inform and to include the public in district projects and the status of projects with respect to the district master plan.*

*We recommend that the District report to the Joint Standing Committee of State and Local Government in accordance with law.*

We were not engaged to, and did not, conduct an audit, the objective of which would be the expression of an opinion, on the accounting and financial reporting internal control procedures of the Capital Riverfront Improvement District. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Capital Riverfront Improvement District and is not intended to be, and should not be, used by anyone other than this specified party.

Gail M. Chase, CIA  
State Auditor

November 18, 2003



April 2004



## Response to a Request to Review Certain Payments Made from the Bureau of Vocational Rehabilitation

The Bureau of Vocational  
Rehabilitation Must Take Steps to  
Comply with Certain Policies and  
Regulations of the State of Maine.





### **WHY THE DEPARTMENT OF AUDIT CONDUCTED THIS REVIEW**

The Department of Audit was asked by the Commissioner of the Department of Labor to review certain payments that were made from the Portland office of the Department's Bureau of Vocational Rehabilitation. An employee who works in this office had made allegations to the Department of Labor, and to State Controller Edward Karass, regarding the payments. The employee had noticed authorizations for payment for services that the employee did not believe were appropriate. All were made to the same provider, and it appeared to the employee that this provider was being paid for services to clients that were also being provided by another organization. Controller Karass' staff reviewed the payments and supporting information; the State Controller and the Commissioner of Labor decided that the Department of Audit should be involved. The Commissioner asked us not only to review the specific payments in question, but to determine whether or not there was other questionable activity in the Portland office.

### **BACKGROUND**

We met with the two members of the staff of the State Controller who had obtained documentation that the Portland office had entered into an unusual agreement with the provider mentioned above. The provider, an accredited vocational rehabilitation agency, routinely provides services to clients of the Vocational Rehabilitation program. The agreement allowed an employee of the provider to work at the Portland office at the rate of \$27.00 per hour, which was remitted to the provider and charged to specific clients. The employee performed vocational rehabilitation counseling services that are normally performed by State of Maine employees.

We met with Department of Labor personnel, who confirmed that the arrangement existed. The Portland office had been experiencing a high vacancy rate of Vocational Rehabilitation Counselors (40% vacancy, according to the rehabilitation supervisor). The former Governor had ordered a hiring freeze; rather than ask for a waiver, and under the undocumented impression that no contracts would be approved, the vocational rehabilitation supervisor discussed the problem with the vocational rehabilitation regional manager. She was directed to enter into the arrangement. Neither individual requested advice from the Bureau's Director of Fiscal and Data Services.

### **SCOPE AND PROCEDURES**

We limited our review of documents to those at the Bureau of Vocation Rehabilitation's Portland office. We obtained a file of payment activity from that office's Vocational Rehabilitation database for the calendar year 2003. We analyzed this activity to determine trends, to identify anomalies and to scan transactions. Based on our analysis, we judgmentally selected sixty case files for review, to determine if there was evidence of any other unorthodox arrangements. We also selected the records of ten vendors, to determine if they were also involved in such arrangements.

## **WHAT THE DEPARTMENT OF AUDIT FOUND**

### **Finding:**

The Bureau of Vocational Rehabilitation of the Department of Labor violated the State of Maine's procurement and employment policies when it entered into an arrangement with a vendor for the vendor's employee to perform job development services at the Portland Regional Office. There was approximately \$12,000 paid to the vendor for these services.

The Bureau of Vocational Rehabilitation did not send a requisition to the Bureau of Purchases in order to procure services for amounts greater than \$2,500, as required. The Bureau of Vocational Rehabilitation also failed to comply with the Governor's Executive Order by arranging for staff services without requesting and obtaining a waiver.

We found evidence that the Bureau made only one such agreement, with only one vendor. We also found that there was no violation of federal grant requirements, as the services that were provided by the vendor were allowable services under the Vocational Rehabilitation grant.

### **Recommendations:**

We recommend that supervisory personnel:

1. comply with all State of Maine policies and regulations,
2. take all necessary steps to be informed of policies and regulations,
3. contact appropriate administrative personnel at the Bureau of Vocational Rehabilitation with any questions regarding how to properly procure services, and
4. contact the Bureau of Purchases of the State of Maine if those questions cannot be answered by administrative personnel.



August 2004



## Accounting for Restitution, Bail and Extradition Accounts in the State's Judicial System and in the Department of Corrections

Improvements in Communications and Uniform Policies and Procedures Are Needed to Ensure That Victims Receive Restitution.

Uniform Policies and Procedures Are Needed to Account for Bail and Extradition Funds.

Accounting for Restitution, Bail and Extradition Accounts  
in the State’s Judicial System and in the Department of Corrections

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### WHY THE DEPARTMENT OF AUDIT CONDUCTED THIS REVIEW

#### Restitution:

The Department of Audit's review of restitution funds began with notification from the Department of Corrections that certain restitution collections apparently had not been deposited and were unaccounted for. We assisted the Bureau of Accounts and Control in the investigation of the discrepancy. The Bureau made certain recommendations to the Department of Corrections to improve internal controls over cash collections.

We then extended our work to review the entirety of the restitution program, as it had become evident that there were issues other than cash collections that were affecting the operation of the restitution program.

#### Bail and Extradition Accounts:

Title 15 M.R.S.A. §224-A requires that District Attorney extradition accounts be audited annually.

We expanded our review to include bail accounts because forfeited bail may be transferred to the extradition accounts administered by the District Attorneys.

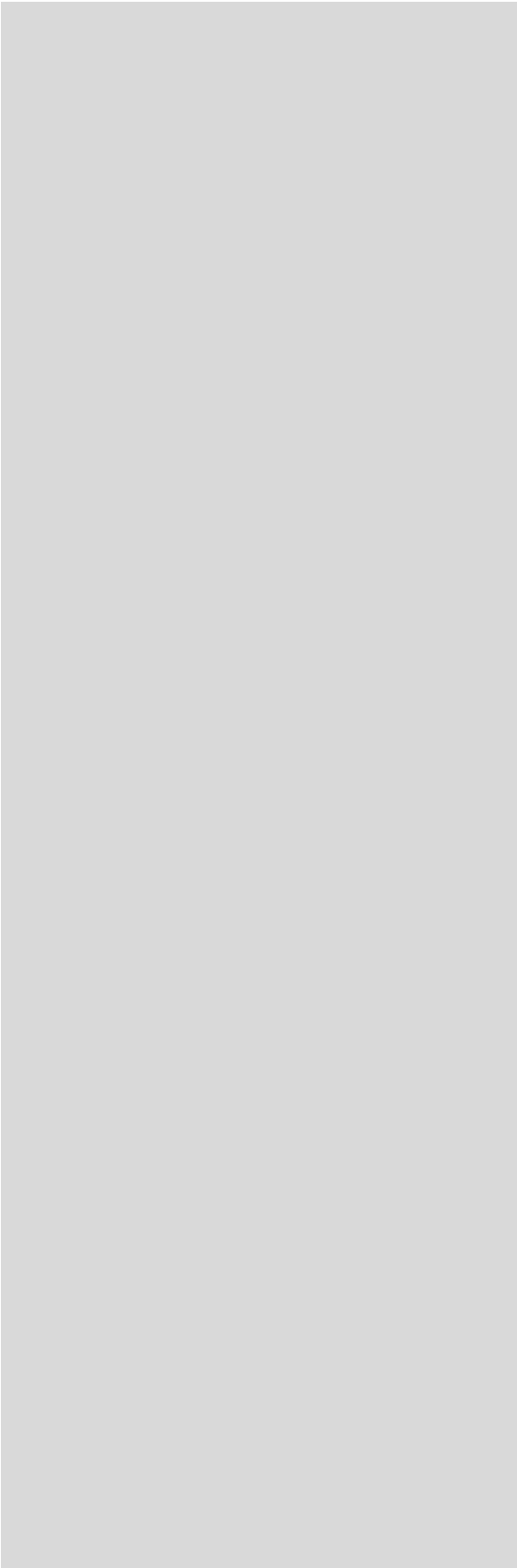
### WHAT THE DEPARTMENT OF AUDIT FOUND

#### Restitution:

1. We found that 17-A M.R.S.A. § 1326-A allows Offices of the District Attorney, multiple courts, and the Department of Corrections to collect and disburse restitution payments. This decentralization results in no single agency having complete knowledge of the status of amounts due or paid, or control of the funds and the associated information. Interagency communication of information and transmittal of funds are major problem areas. Some offenders have paid more than was required, or have not received credit for payments that were made, and some victims have been reimbursed more than was ordered by the courts.
2. Controls are not adequate to ensure compliance with law or complete and accurate accounting of the funds. Processes to record, collect and disburse funds are inconsistent, and in some instances, duplicative between participating agencies.
3. We also found that the funds that were collected were not disbursed to victims "as soon as possible," as required by 17-A M.R.S.A. §1326-A. At one point, the Department of Corrections held restitution funds of approximately \$900,000. In some instances, funds are not disbursed quickly because extensive research is necessary to identify and locate victims due to incomplete or inaccurate records.

#### Bail and Extradition Accounts:

1. We found that Bail Commissioners remitted funds to the Court Clerks timely and completely, and that the funds received by Court Clerks were appropriately recorded. However, we found that one of the three Bail Commissioners who were tested did not maintain a separate checking account as required, but held bail funds in a personal account. The Commissioner has now established a separate account.

- 
2. We found that the Commissioners are not required to, and did not, maintain complete records of their activity.
  3. We found variations in how bail funds were remitted, and in how information was communicated regarding the availability of forfeited bail funds.
  4. We found that extradition accounts were generally well maintained and used appropriately. Four of eight had balances in excess of the \$20,000 ceiling allowed by statute; however, the excess amount was generally not significant and seemed related to timing of payments. We found one instance where extradition funds were used to pay for activities that, while related, did not comply with the limitations of 15 M.R.S.A. §244-A.

## Scope

We examined restitution, bail and extradition funds within the Court system, the Offices of the District Attorneys and the Attorney General, and the Department of Corrections. We reviewed accounting processes, automated systems and the flow of information within and between these agencies.

Restitution consists of amounts ordered to be paid by perpetrators to victims, to compensate victims for their losses. We tested the collection and disbursement of, and accounting for, these funds. We considered whether systems were reliable, and whether amounts were correctly recorded, were complete, were timely, and were in compliance with statute.

Bail is set by Judges, Bail Commissioners or Court Clerks to ensure the appearance of an individual in a court of law. Bail is held temporarily until cases are heard, and then either returned to the payors, applied to amounts due or forfeited due to failure to appear by the individual for whom bail is set. Forfeited bail may be turned over to the District Attorneys to be placed in extradition accounts and used to extradite individuals from other States. Any amounts over \$20,000 are to be remitted for deposit to the State's General Fund.

We tested the collection and remittance of bail by Bail Commissioners and its recording by Court Clerks for completeness, timeliness, accuracy and compliance with statutes. We examined how the availability of forfeited funds was communicated as well as how those funds were remitted to the State of Maine. We also examined extradition accounts for each of the eight District Attorneys.

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## Restitution Findings and Recommendations

### Statewide

1. Finding: Decentralization of restitution activity results in administrative inefficiencies and poor accountability

Collection and payment of restitution is decentralized. Title 17-A M.R.S.A. §1326-A requires that, except when the offender is placed on probation, monetary compensation may be ordered paid to the office of the prosecuting attorney or to the Clerk of the Court. If the offender is placed on probation, the compensation may be ordered paid to the Department of Corrections. The District Attorneys, the Department of the Attorney General, the Department of Corrections, each court and the Administrative Office of the Courts all play a role in the collection, administration and disbursement of restitution funds. No one agency has all of the information that it needs to effectively administer, account for, or ensure prompt and appropriate distribution of, funds collected; communication between the agencies is inadequate.



The restitution program is further complicated by the fact that offenders may have committed multiple crimes in multiple jurisdictions and with multiple victims. Offenders may move from one correctional facility to another, and in and out of probation. Because each agency holds some information about individuals at different points in time, no one agency has a complete record of what is owed and to whom, or how much is held, how much collected, and how much disbursed. Information is transmitted between agencies at multiple locations and may be incomplete or untimely. There is no means to readily verify that all information that should have been sent or received was transmitted. Databases are not linked between agencies and each agency's database is structured differently. Seven of the eight District Attorneys use similar databases, but those databases are not linked. Each administers restitution funds somewhat differently. Victims have no reliable way of knowing whether restitution was ordered, was collected, or whether it is likely to be received. Offenders do not know that the restitution that they have paid was properly credited and paid to the appropriate victim; in some instances, payments to victims are not timely because extensive research is necessary to identify and locate them. In order to ensure that victims are duly compensated for their losses, agencies must have access to complete, accurate and timely information.

Recommendation:

We recommend that the Department of Corrections, the District Attorneys, the Administrative Office of the Courts, and the Office of the Attorney General engage in a collaborative effort to establish protocols for exchanging complete and timely restitution information. We recommend that all agencies maintain current documentation of policies and procedures related to the collection and disbursement of restitution funds.

Administrative Office of the Courts/Judicial Branch

2. Finding: Controls are inadequate to communicate information to other parties.

Judgment and commitment orders do not consistently include sufficient information to allow restitution accounts to be established. There is no systematic means to convey the information from the Judicial Branch to the Department of Corrections. Court Officers of the Department of Corrections obtain copies of the orders; if a Court Officer is not present, copies of the orders are sent to the district where the offender is located, and not to a central administrative location of the Department of Corrections. Department personnel often must contact the District Attorneys or the courts to ascertain names and addresses of victims, and the amount of restitution due. Occasionally, the Department has received restitution payments before any amount due was established. No payment may be made to a victim until all necessary information is available.

Recommendation:

We recommend that the courts develop procedures for recording complete and accurate offender and victim information for all parties involved in a restitution case, and provide adequate documentation to relevant agencies. We recommend that the Judicial Branch transfer information necessary to establish restitution accounts to a central administrative location of the Department of Corrections.

3. Finding: Information systems of the Courts do not provide adequate information.

The Courts record all restitution ordered in the Maine Judicial Information System but do not have access to, and do not record, collection activity by the Department of Corrections or the District Attorneys. There is no one place where a complete record of restitution activity can be obtained. The system itself is cumbersome to use, and restitution information screens are 11 levels deep. Data entry is not always timely; the Courts have reported being understaffed. The system cannot be used to determine an accurate amount of restitution that was ordered, as judges may combine prior restitution orders with current dockets, thus overstating total restitution due from offenders.

It was reported to us that perpetrators have made restitution payments to court clerks but that the clerks applied the amounts toward outstanding fines. Generally, amounts paid are to be applied to restitution before other fines and fees. Clerks have limited ability to determine whether defendants owe restitution: they have access to docket information for the court in which they work but do not have access to information regarding restitution ordered in other jurisdictions.

Recommendation:

We recommend that the Courts expand the capacity of its information systems to allow personnel to determine the status of cases for all jurisdictions, and develop procedures that will facilitate accurate recording of restitution balances.

District Attorneys

4. Finding: Policies and procedures for disbursing restitution funds are inconsistent.

Policies and procedures of the eight District Attorneys regarding the timing of payments made to victims are inconsistent. Some waited until the full restitution amount was collected before disbursing it, others disbursed funds as payments were received. Funds were disbursed at different intervals ranging from weekly to two or three times a year. Payment is required to be made as soon as possible after an agency receives the money, per 17-A M.R.S.A. §1326-A.

Priorities set for payments to businesses or individuals differed. There is no clear statutory mandate on how to reimburse insurance companies and banking institutions for their financial losses, or whether they should be included in restitution orders. One Office reported disbursing funds to individuals before insurance companies, even though the companies may be considered to be “victims.” Others indicated that they did not prioritize payments to individuals or to businesses.

None of the District Attorneys reported holding significant balances of restitution for victims who could not be located. However, we found that there did not appear to be clear direction as to when to dispose of those funds, and whether to remit them to the State of Maine as abandoned property, or to send them to the county as reimbursement for costs incurred.

Because the District Attorneys and the Department of Corrections may collect restitution from the same offender, there have been instances where a victim was overcompensated or an offender paid more than was ordered.

The Victim’s Compensation Program of the Attorney General is also entitled to reimbursement from restitution funds for payments that it has made to crime victims. Program personnel must contact each District Attorney’s office to learn what restitution has been ordered and how much the program should expect to receive, and each office has its own protocol for sharing that information.

#### Recommendation:

We recommend that the District Attorneys adopt standard policies and procedures for the management, accounting, recording, prioritizing and timing of payments to victims. We further recommend that the District Attorneys work with other agencies to develop better protocols for communication.

#### 5. Finding: Certain internal controls are inadequate.

Some District Attorneys do not have adequate segregation of duties regarding accounting for restitution funds. One clerk performs the incompatible functions of recording information, collecting payments, disbursing funds to victims, and reconciling bank accounts.

Seven of the eight District Attorney offices use a system that does not have designated database fields to record disbursements. Because check detail is not entered into these fields, the system can not be used to facilitate bank reconciliations or to provide an adequate record of disbursements.

#### Recommendation:

We recommend that each of the District Attorneys’ Offices segregate certain duties. We further recommend that the restitution database be enhanced to include check details and a bank reconciliation function.

## Department of Corrections

6. Finding: Controls over managing and accounting for collections of restitution were inadequate.

The following conditions existed prior to policy changes effective February 2, 2004:

The Department of Corrections allowed cash payments to be accepted by probation officers and personnel of regional offices and correctional facilities.

Regional offices did not adequately segregate duties of clerks who were involved in restitution collections, and clerks' activities were not adequately monitored.

Standard pre-numbered cash receipts were not always used. Cash receipts books were not adequately safeguarded. Though the issuance of cash receipt books was recorded, the usage of cash receipts tickets was not recorded, monitored or reconciled with issuance records.

There were isolated instances where the same Corrections Officers collected and disbursed restitution funds without the knowledge or consent of the Department's Central Office.

### Recommendation:

The Department of Corrections implemented a new policy, effective February 2004, as a result of the review performed by the Bureau of Accounts and Control, whereby all payments are remitted to, and disbursed by, the Department's Central Office. Cash payments are not accepted. We therefore make no further recommendation.

7. Finding: The State's accounting system is not used for restitution payments, and the Department's records are not reconciled.

The Department of Corrections issues payments to victims from its own checking account. Payments made from the account are not subject to the usual internal controls of the Offices of the State Treasurer and the State Controller. Checks are signed by either of two managers at the Department. All activity in the checking account is recorded in the State's accounting system through the use of positive and negative cash receipts. Normally, disbursements of the State of Maine are made through the use of payment vouchers. Although the State Treasurer reconciles all positive cash receipts (deposits), the Department has not reconciled the checking account balance to its books or to the State's accounting records.

### Recommendation:

We recommend that the Department of Corrections discontinue use of the separate checking account, and use the State of Maine's accounting system to record and disburse payments. We further recommend that the Department reconcile its internal records to the State's accounting records.

8. Finding: Database lacks adequate controls over security, and over data input and processing.

The database that is used by the Department of Corrections for restitution allows adjustments to be made to the Department's accounting records without supervisory oversight, and supervisors do not have the necessary access to the database to review clerks' activities.

Deleted restitution database records cannot be retrieved due to inadequate archiving procedures. Approximately one third of the clerks have the ability to delete entire records, and have access to the entire database rather than just to the data necessary to complete their duties.

Recommendation:

The Department of Corrections plans to replace the restitution database with a financial module in its system in the near future. We recommend that the Department of Corrections carefully consider application controls when implementing new systems.

9. Finding: Restitution is not disbursed in a timely manner, and there are no statutory provisions for prioritizing payments to victim types.

The Department of Corrections does not make payments in accordance with 17-A M.R.S.A §1326A, which requires restitution disbursements to be made to victims as soon as possible. Although the Department disburses funds twice each week, the Department maintained a cash balance of over \$700,000 in fiscal year 2003; at one point, the balance exceeded \$900,000. The Department indicated that it was unable to identify or locate victims for approximately \$200,000 of the balance. Disbursements from the account average \$1.5 million annually.

The Department's practice is to pay individual victims before businesses or other claimants, and to pay the earliest case first. This practice may not be consistent with those of the other entities that pay restitution to victims. There are no statutory provisions for prioritizing payments to victim types.

Recommendation:

We recommend that Department of Correction establish procedures in order to make payments to victims in a timely manner.

We recommend that statewide policy be established or statute be amended to address the priority in which restitution should be disbursed to victims.

10. Finding: Processes for collection of restitution within the Department of Corrections are not standardized.

The correctional facilities collect restitution and other payments. They use unique accounting systems to track restitution activity, and have no standard forms or processes, and no central monitoring of such activity. One facility reported being six months behind in forwarding restitution collections to the Department of Corrections regional offices, due to staff shortages.

Recommendation:

We recommend that the Department provide guidance to the correctional facilities to standardize procedures regarding restitution.

Bail and Extradition Findings and Recommendations

11. Finding: There are inconsistent practices for depositing and coding forfeited bail.

Any bail that is forfeited is remitted by the Courts to the prosecuting District Attorney for deposit in that Attorney's Extradition Account. The account is limited to \$20,000; any excess is to be remitted to the General Fund. If the attorneys do not request the forfeited bail because their Extradition Account is at the limit, the individual courts deposit the funds to local banks and the Administrative Office of the Courts (AOC) prepares a cash receipt to credit the General Fund. Some District Attorneys received forfeited bail regardless of the balance in their Extradition Account, and then sent any excess amounts either to the AOC or to the Department of the Attorney General for deposit to the General Fund. Because the AOC and the Attorney General's Office used different revenue codes and also used miscellaneous revenue codes, it is not possible to determine how much revenue is derived from forfeited bail in the State's accounting system.

Recommendation:

We recommend that the excess forfeited bail funds be remitted to a single entity for deposit to the General Fund. We further recommend that the entity consistently use a unique accounting code to identify this revenue stream.

12. Finding: There is a lack of consistent policies and procedures for management of extradition accounts.

The Offices of the District Attorneys, with one exception, did not have documented policies for use of extradition funds. These policies should address allowed expenses, per diem rates, required documentation, timing of reviews and reconciliation, timing and frequency of deposits, and how excess funds are to be remitted to the General Fund.

In one Office, we found two expenditures of \$725 for employees to attend conferences regarding extradition. Title 15 MRSA §244-A specifically states that extradition account funds are “to be used solely for the purposes of paying the expenses of extraditing persons charged with or convicted of a crime in this State and who are fugitives from justice...”

Recommendation:

We recommend that the Offices of the District Attorneys develop standard policies and procedures for the management of extradition accounts.

13. Finding: Inadequate review of extradition accounts

Title 15 MRSA §224-A requires a monthly review by each District Attorney of expenses charged to the extradition account. Several of the Offices of the District Attorneys did not review these accounts on a monthly basis.

The statute also requires that the account be reviewed to determine whether any funds over the statutory limit of \$20,000 must be transferred to the General Fund. Four of eight Offices had balances in excess of the \$20,000 ceiling allowed by statute; however, the excess amounts were generally not significant and seemed related to timing of payments. At the time of our audit, no funds were due to the General Fund, other than a reconciling amount of \$1,835 for old outstanding checks.

Recommendation:

We recommend that the District Attorneys adopt and follow standard procedures to review extradition accounts to ensure compliance with statute.

14. Finding: Timeliness of processing bail funds

There are delays in the remittance of forfeited bail by the Courts to the District Attorneys. The Maine Rules of Criminal Procedures, Rule 46, requires that bail be forfeited 30 days from the date the defendant is notified of impending forfeiture, unless a judge requests the bail funds to be set aside for other purposes. Our statistical analysis showed that for 20 percent of all bail records in calendar 2002 involving forfeitures, checks were written to the District Attorneys in excess of 65 days after the “notice sent” date.

Recommendation:

We recommend that the Courts write and follow procedures to ensure timely remittance of forfeited bail.

15. Finding: Incomplete data

Personnel of the courts do not always complete two data fields in the Maine Judicial Information System, the “Notice Sent” field and the “Posted Date” field. Without this information, it is impossible to determine if transactions are being processed in a timely manner.

Recommendation:

We recommend that procedures be established to ensure that all required data is entered in the automated system.

16. Finding: The activities of Bail Commissioners are inadequately monitored.

The Courts provide only limited oversight of the activities of the Bail Commissioners. The Courts do not maintain summary level bail collection information on each Bail Commissioner that can be reconciled with Bail Commissioners’ records. Bail bond forms, which are the primary record of a cash receipt, are not pre-numbered or tracked by the Courts. Certain Bail Commissioners disposed of their copies of completed bail bond forms. We also found that one Commissioner temporarily deposited bail funds in a personal checking account in violation of the Bail Manual. The Commissioner subsequently opened a separate checking account to comply with the requirement.

Recommendation:

We recommend that specific policies and procedures be developed to monitor the financial activities of Bail Commissioners.

17. Finding: There was a variance of \$23,000 between accounting records and the bank balance.

The Administrative Office of the Courts reported that the balance of bail account activity recorded in the Maine Judicial Information System for all courts was approximately \$23,000 less than that reported on bank statements. The Office spent significant time to research the difference, which had accumulated over a number of years, and an legislative appropriation was requested and received.

Recommendation:

We recommend that the Administrative Office of the Courts continue to monitor the reconciliations of individual courts so that identified variances can be addressed immediately.





October 2003



## Independent Auditor's Report on Applying Agreed-Upon Procedures for the Workers' Compensation Board

After correcting initial errors, the  
Workers' Compensation Weekly  
Compensation Rates for 2004 are  
correct



### **WHY THE DEPARTMENT OF AUDIT CONDUCTED THIS REVIEW**

The Workers' Compensation Board makes an annual request that the Department of Audit perform tests of the Weekly Compensation Rates for the upcoming year. These rates are used to establish the weekly benefit amount to be paid to individuals who are eligible under law for the benefit.

### **WHAT THE DEPARTMENT OF AUDIT FOUND**

We selected a sample of wages, recalculated the weekly benefit and compared our results to the Weekly Compensation Rates table. The table was not in agreement, because it had not been updated to conform to federal income tax changes.

After we reported this to the Workers' Compensation Board, changes were made to the table. Subsequent tests found that our calculations were now in agreement with the table.

### **AGREED-UPON PROCEDURES**

AGREED-UPON PROCEDURES ARE A TYPE OF ATTESTATION ENGAGEMENT. UNLIKE AN AUDIT, AN ATTESTATION ENGAGEMENT DOES NOT RESULT IN AN OPINION. AN ATTESTATION ENGAGEMENT RESULTS IN A WRITTEN COMMUNICATION THAT EXPRESSES A CONCLUSION ABOUT THE RELIABILITY OF ASSERTIONS MADE BY ANOTHER PARTY.

AGREED-UPON PROCEDURE ARE SPECIFIC PROCEDURES PERFORMED UPON DEFINED SUBJECT MATTERS, RESULTING FROM THE NEED OF THE USERS OF THE REPORT AND INTENDED TO ASSIST THOSE USERS. THE USERS AND THE PRACTITIONER AGREE TO THE PROCEDURES THAT ARE TO BE PERFORMED. THAT THE PROCEDURES ARE SUFFICIENT ARE THE RESPONSIBILITY OF THE USERS. THE CONCLUSIONS, HOWEVER, ARE DERIVED FROM THE INDEPENDENT WORK OF THE PRACTITIONER. THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS HAS ESTABLISHED STANDARDS FOR AGREED-UPON PROCEDURES, AND FOR ASSESTATION ENGAGEMENTS IN GENERAL.

AGREED-UPON PROCEDURES MIGHT INCLUDE AN INSPECTION OF CERTAIN TYPES OF DOCUMENTS, OR A COMPARISON OF DOCUMENTS OR SCHEDULES WITH CERTAIN SPECIFIED ATTRIBUTES.

## Independent Accountant's Report On Applying Agreed-Upon Procedures

We have performed the procedures described below, which were agreed to by the Workers' Compensation Board, solely to assist you in evaluating the Weekly Compensation Rates for 2004. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Workers' Compensation Board. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

1. We reviewed that portion of the applicable statute, 39-A MRSA §102, which describes the calculation of an injured employee's benefits.

*Results: No exceptions were noted.*

2. We selected 25 average gross weekly wage amounts within all of the applicable filing status categories and the corresponding tax brackets from the Table of Weekly Compensation Rates for 2004 provided by the Workers' Compensation Board on August 4, 2003. We recalculated the weekly benefits and compared the results to the table.

*Results: Our calculations were not in agreement because the workers compensation table had not been updated for federal income tax changes resulting from the federal 2003 Public Law 108-27, The Jobs and Growth Tax Relief Reconciliation Act of 2003. Additionally, we also noted that the dollar threshold used to calculate self-employment tax was incorrect. We discussed these discrepancies with you and you reprinted the table after making what you believed to be the appropriate changes.*

3. We examined the income tax rates and brackets entered into the revised table.

*Results: We found that our calculations were agreement with the table.*

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the accuracy of the Weekly Compensation Rates For 2004. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the Workers' Compensation Board and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Gail M. Chase, CIA  
State Auditor  
October 28, 2003