STATE OF MAINE

SINGLE AUDIT REPORT

FOR THE YEAR ENDED

JUNE 30, 1988

STATE DEPARTMENT OF AUDIT
Augusta, Maine 04333-0066

STATE OF MAINE

SINGLE AUDIT REPORT

FOR THE YEAR ENDED

JUNE 30, 1988

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STATE OF MAINE
DEPARTMENT OF AUDIT
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Letter of Transmittal

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

We are pleased to submit the single audit of the State of Maine for the fiscal year ended June 30, 1988.

This report complies with the state's audit requirements contained in Title 5 MRSA, Chapter 11 and the federal audit requirements of the Single Audit Act of 1984, and the associated Circular A-128, issued by the U.S. Office of Management and Budget.

The state has embarked on a plan for reporting on its operation in conformance with generally accepted accounting principles (GAAP). We believe that information obtained by the Bureau of Accounts and Control personnel has already resulted in a positive contribution to the financial reporting process of our state.

We would like to express our appreciation to the federal cognizant audit agency, the U.S. Department of Health and Human Services, and to the Maine Department of Finance and the other state agencies for their assistance during the audit.

We would be pleased to respond to any of your questions or comments about the 1988 single audit report.

Sincerely,

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

STATE OF MAINE
DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
AUGUSTA, MAINE 04333
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Combined Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 6, 1989

Exhibit 1

State of Maine

Combined Balance Sheet - All Fund Types and Account Groups

(Dollars in Thousands)

June 30, 1988

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Account Groups		
Assets	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long-Term Debt	Total (Memorandum Only)
Equity in treasurer's cash pool (note 4)	$267,113	$105,451	$3,950	$40,579	$12,343	$ 9,664	$ 82,425	$	$	$ 521,525
Cash with fiscal agent			927							927
Cash other	133	59			274	5	5,835			6,306
Deposits with U.S. Treasury (note 4)							153,288			153,288
Investments (note 4)				42,200	1		1,333,359			1,375,560
Receivables (net of allowances for uncollectibles) (note 1E)										
Taxes (note 5)	39,744	7,127								46,871
Accounts	7,243	1,781			491	91	1,200			10,806
Notes					1,157					1,157
Loans	3	2			2,314					2,319
Accrued interest							9,011			9,011
Due from other funds	571	4,872			882	5,314				11,639
Due from other governments (note 6)		17,774								17,774
Working capital advances to other funds	4,386	13,182								17,568
Advances from Special Revenue Fund	127									127
Advances to General Fund		205								205
Inventories (note 1E)					7,895	5,753				13,648
Prepaid expenses	121	332			34	75	511			1,073
Annuity for prize winners					605					605
Land, buildings and equipment (note 8)					42,139	51,177	471	299,040		392,827
Accumulated depreciation (note 8)					(6,061)	(33,527)	(98)			(39,686)
Amount available in debt service funds (note 14)									3,950	3,950
Amount to be provided for retirement of general long-term debt (note 14)									305,325	305,325
Total Assets	$319,441	$150,785	$4,877	$82,779	$62,074	$38,552	$1,586,002	$299,040	$309,275	$2,852,825

(Continued)

State of Maine

Combined Balance Sheet - All Fund Types and Account Groups (Continued)

Liabilities and Fund Equity	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long-Term Debt	Total (Memorandum Only)
Liabilities:										
Accounts payable	$ 12,204	$ 5,723	$	$27,820	$ 7,533	$ 2,395	$ 8,148	$	$	$ 63,823
Accrued payroll	10,045	8,287			447	254				19,033
Other liabilities	3,697	4,244			1,818	4,221	40,696			54,676
Due to other funds	9,176	1,909			215	324	14			11,638
Due to other governments		4,321								4,321
Deferred revenue	16,131				39					16,170
Working capital advances payable		200			3,985	13,383				17,568
Matured bonds payable			340							340
Matured interest payable			587							587
Bonds payable (note 14)									309,275	309,275
Total Liabilities	51,253	24,684	927	27,820	14,037	20,577	48,858	-	309,275	497,431
Fund Equity:										
Contributed capital					64,908	4,912	10			69,830
Investments in general fixed assets (note 8)								299,040		299,040
Retained earnings (deficit) (note 2)					(16,871)	12,489				(4,382)
Fund Balances: (note 1E)										
Reserved for encumbrances	14,334	26,097		16,965						57,396
Reserved for other purposes	18,398	124					1,531,950			1,550,472
Reserved for working capital advances	4,386	13,182				574				18,142
Reserved for group life insurance							5,184			5,184
Reserved for tax adjustments (note 19)	48,269									48,269
Reserved for Portland terminal		231								231
Rainy Day Fund	25,000									25,000
Unreserved:										
Designated for debt service			3,950							3,950
Designated for subsequent year expenditures	43,567	75,780		37,994						157,341
Undesignated	114,234	10,687								124,921
Total Fund Equity	268,188	126,101	3,950	54,959	48,037	17,975	1,537,144	299,040	-	2,355,394
Total Liabilities and Fund Equity	$319,441	$150,785	$4,877	$82,779	$62,074	$38,552	$1,586,002	$299,040	$309,275	$2,852,825

The notes to the financial statements are an integral part of this statement.

Exhibit 2

State of Maine

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -

All Governmental Fund Types and Expendable Trust Funds

(Dollars in Thousands)

For the Fiscal Year Ended June 30, 1988

	Governmental Fund Types				Fiduciary Fund Type	Total
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	(Memorandum Only)
Revenues:						
Taxes, licenses and fees	$1,144,655	$263,500	$	$	$ 91,286	$1,499,441
Fines, forfeits and penalties	18,352	2,519				20,871
Income from investments	12,921	4,046	3,427	93	4,753	25,240
Intergovernmental revenue	1,140	562,235				563,375
Revenue from private sources	828	28,168				28,996
Service charges for current services	20,208	37,955				58,163
Contributions -						
Cities, towns and counties					130,814	130,814
University of Maine and Maine Maritime Academy					124,804	124,804
Employees					1,685	1,685
Other revenues	3,260	8,575			3,129	14,964
Total Revenues	1,201,364	906,998	3,427	93	356,471	2,468,353
Expenditures:						
General government	88,269	116,670		3,267	80	208,286
Economic development	20,840	34,903				55,743
Education and culture	633,662	68,154		5,784		707,600
Human services	348,853	388,493		4,190	332,409	1,073,945
Manpower	3,686	31,870				35,556
Natural resources	19,480	30,263		11,672		61,415
Public protection	14,582	30,124				44,706
Transportation	4,777	196,660		1,253		202,690
Debt service			60,289			60,289
Total Expenditures	1,134,149	897,137	60,289	26,166	332,489	2,450,230
Excess of Revenues over (under) Expenditures	67,215	9,861	(56,862)	(26,073)	23,982	18,123
Other Financing Sources (Uses):						
Operating transfers (net)	34,246	(4,018)	57,781		595	88,604
Bond proceeds				37,770		37,770
Other	20,278	(16,695)				3,583
Total Other Financing Sources (Uses)	54,524	(20,713)	57,781	37,770	595	129,957

(Continued)

State of Maine

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -

All Governmental Fund Types and Expendable Trust Funds (Continued)

	Governmental Fund Types				Fiduciary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Uses	$ 121,739	($ 10,852)	$ 919	$11,697	$ 24,577	$ 148,080
Fund Balances - July 1	140,361	146,962	3,031	43,149	190,134	523,637
Adjustments to Fund Balance	6,088	(10,009)		113	(137)	(3,945)
Fund Balances - June 30	$ 268,188	$126,101	$3,950	$54,959	$214,574	$ 667,772

The notes to the financial statements are an integral part of this statement.

Exhibit 3

State of Maine

Combined Statement of Revenues, Expenditures, and Changes in Fund Balances -

Budget and Actual - General and Special Revenue Fund Types

(Dollars in Thousands)

For the Fiscal Year Ended June 30, 1988

	General Fund			Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Taxes, licenses and fees	$1,083,087	$1,173,049	$ 89,962	$ 253,336	$265,719	$ 12,383	$1,336,423	$1,438,768	$102,345
Fines, forfeits and penalties	15,425	18,352	2,927	3,248	2,519	(729)	18,673	20,871	2,198
Income from investments	10,704	12,921	2,217	2,171	4,046	1,875	12,875	16,967	4,092
Intergovernmental revenue	1,279	1,140	(139)	645,424	562,981	(82,443)	646,703	564,121	(82,582)
Revenue from private sources	839	828	(11)	27,444	28,168	724	28,283	28,996	713
Service charges for current services	25,358	20,208	(5,150)	45,422	37,955	(7,467)	70,780	58,163	(12,617)
Other revenues	2,935	3,260	325	16,543	8,575	(7,968)	19,478	11,835	(7,643)
Total Revenues	1,139,627	1,229,758	90,131	993,588	909,963	(83,625)	2,133,215	2,139,721	6,506
Expenditures:									
General government	138,551	88,269	50,282	132,187	116,670	15,517	270,738	204,939	65,799
Economic development	23,717	20,840	2,877	63,173	34,903	28,270	86,890	55,743	31,147
Education and culture	639,965	633,189	6,776	88,974	68,154	20,820	728,939	701,343	27,596
Human services	365,107	349,329	15,778	428,680	387,717	40,963	793,787	737,046	56,741
Manpower	3,770	3,686	84	48,197	31,870	16,327	51,967	35,556	16,411
Natural resources	21,817	19,480	2,337	45,809	30,263	15,546	67,626	49,743	17,883
Public protection	16,796	14,582	2,214	34,706	30,124	4,582	51,502	44,706	6,796
Transportation	17,643	4,777	12,866	246,684	196,660	50,024	264,327	201,437	62,890
Total Expenditures	1,227,366	1,134,152	93,214	1,088,410	896,361	192,049	2,315,776	2,030,513	285,263
Excess of Revenues over (under) Expenditures	(87,739)	95,606	183,345	(94,822)	13,602	108,424	(182,561)	109,208	291,769
Other Financing Sources (Uses):									
Operating transfers (net)	54,323	34,246	(20,077)	5,300	(4,018)	(9,318)	59,623	30,228	(29,395)
Other		20,278	20,278		(16,695)	(16,695)		3,583	3,583
Total Other Financing Sources (Uses)	54,323	54,524	201	5,300	(20,713)	(26,013)	59,623	33,811	(25,812)
Excess of Revenues and Other Financing Sources over (under) Expenditures and Other Uses	(33,416)	150,130	183,546	(89,522)	(7,111)	82,411	(122,938)	143,019	265,957
Fund Balances - July 1	70,233	140,361	70,128	(65,437)	146,962	212,399	4,796	287,323	282,527
Adjustments to Fund Balance		3,709	3,709		(5,463)	(5,463)		(1,754)	(1,754)
Fund Balances - June 30 (Note 3)	$ 36,817	$ 294,200	$257,383	($ 154,959)	$134,388	$289,347	($ 118,142)	$ 428,588	$546,730

The notes to the financial statements are an integral part of this statement.

Exhibit 4

State of Maine

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balances

All Proprietary Fund Types and Similar Trust Funds

(Dollars in Thousands)

For the Fiscal Year Ended June 30, 1988

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Operating Revenues:					
Sales and services	$158,877	$44,116	$ 28	$	$ 203,021
Fees and licenses	13,221				13,221
Profit and loss on sale of securities				38,007	38,007
Interest earned (net of amortization of premiums)			277	55,931	56,208
Contributions plus accrued interest				93,918	93,918
Federal funds	43			28,450	28,493
Employer contributions -					
From General Fund				128,167	128,167
From Special Revenue Funds	17			25,646	25,663
From Other Funds				3,509	3,509
Total Operating Revenues	172,158	44,116	305	373,628	590,207
Operating Expenses:					
Cost of sales and services	95,417	19,977			115,394
Personal services	8,321	11,694		1,564	21,579
General operating expenses	8,392	8,265		1,663	18,320
Depreciation	1,012	5,274			6,286
Refunds of contributions plus interest				9,443	9,443
Interest allowed on individual contributions				37,415	37,415
Health insurance premiums - retired state employees				3,450	3,450
Claim and benefit payments		271		145,697	145,968
Total Operating Expenses	113,142	45,481	-	199,232	357,855
Operating Income (Loss)	59,016	(1,365)	305	174,396	232,352
Nonoperating Revenues (Expenses):					
Other nonoperating revenues (expenses)	4	548			552
Interest income	915	564			1,479
Interest expense		(320)			(320)
Total Nonoperating Revenues (Expenses)	919	792	-	-	1,711

(Continued)

State of Maine

Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balances (Continued)

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Income before Operating Transfers	$ 59,935	($ 573)	$ 305	$ 174,396	$ 234,063
Operating Transfers In (Out)	(61,045)				(61,045)
Net Income (Loss)	(1,110)	(573)	305	174,396	173,018
Retained Earnings/Fund Balances - July 1	(15,317)	12,622	9,286	1,137,729	1,144,320
Adjustments to Retained Earnings/Fund Balances	(444)	440	-	854	850
Retained Earnings/Fund Balances - June 30 (note 2)	($ 16,871)	$12,489	$9,591	$1,312,979	$1,318,188

The notes to the financial statements are an integral part of this statement.

Exhibit 5

State of Maine

Combined Statement of Changes in Financial Position

All Proprietary Fund Types and Similar Trust Funds

(Dollars in Thousands)

For the Fiscal Year Ended June 30, 1988

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Services	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Sources of Working Capital:					
Operations -					
Net income	($1,110)	($ 573)	$305	$174,396	$173,018
Items not requiring (providing) working capital:					
Depreciation	1,012	5,274	___	___	6,286
Working Capital Provided by Operations	(98)	4,702	305	174,396	179,305
Contributed capital	2,469	(285)			2,184
Proceeds from sale of property, plant and equipment	(698)	86			(612)
Other	662	818	___	854	2,334
Total Sources of Working Capital	2,335	5,320	305	175,250	183,210
Uses of Working Capital:					
Acquisition of property, plant, and equipment	596	6,145			6,741
Net Increase (Decrease) in Working Capital	$1,739	($ 825)	$305	$175,250	$176,469
Elements of Net Increase (Decrease) in Working Capital:					
Cash	$ 523	($1,589)	$ 13	$ 28,018	$ 26,965
Accounts receivable (net of allowances)	1,866	14		378	2,258
Investments			292	143,152	143,444
Inventories	783	(490)			293
Other assets	724	1,501		3,318	5,543
Accounts payable	(1,944)	713		373	(858)
Due to other funds	75	(8)		7	74
Working capital advances payable		3,224			3,224
Other current liabilities	(288)	(4,190)	___	4	(4,474)
Net Increase (Decrease) in Working Capital	$1,739	($ 825)	$305	$175,250	$176,469

The notes to the financial statements are an integral part of this statement.

State of Maine

Notes to the Financial Statements

June 30, 1988

1. Summary of Organizational Structure and Significant Accounting Policies

A. Scope of Reporting Entity

For financial reporting purposes, in conformity with generally accepted accounting principles (GAAP), the state should include all funds, agencies, boards, commissions and authorities over which the state's executive or legislative branches exercise oversight responsibility. Oversight responsibility of the state was determined on the basis of budget adoption, funding, outstanding debt secured by revenues or general obligations of the state, authority to appoint an organization's governing board, and the organization's scope of service and financing relationship to the state.

Based on the foregoing criteria, the following entities are part of the state's operations but have been excluded from the state's oversight unit financial statements:

- Board of Overseers of the Bar
- Finance Authority of Maine
- Maine Health/Higher Education Facilities Authority
- Maine Maritime Academy
- Maine Municipal Bond Bank
- Maine School Building Authority
- Maine Insurance Guaranty Association
- Maine State Housing Authority
- Maine Turnpike Authority
- Maine Veterans Home
- University of Maine System

Also meeting the criteria for inclusion as a component unit is the Maine Vocational Technical Institute System, established in April 1986. Results of the operation of its six campuses are included in the financial statements of the state at June 30, 1988. However, Administrative System office revenues and expenditures of $1,118,519 and $996,251, respectively, are not included as they maintain their own accounting records.

B. Basis of Presentation - Fund Accounting

The accompanying financial statements of the state present the financial position of the various fund types and account groups, the results of operations of the various fund types and the changes in financial position of the proprietary and fiduciary funds. The accounts of the state are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following fund categories, fund types, and account groups are utilized by the state:

Governmental Fund Types:

General Fund - Accounts for all financial resources except those required to be accounted for in another fund. The General Fund is the state's major operating fund.

Special Revenue Funds - Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. The Special Revenue Funds include the following:

Highway Fund - Accounts for revenues derived from registration of motor vehicles, operators' licenses, gasoline tax, and other dedicated revenues (except for federal matching funds and bond proceeds used for capital projects). This fund is allocated by the Legislature for the operation of the Department of Transportation to construct and maintain highways and bridges, other programs and a portion of the state police administration.

Other Special Revenue Funds - Account for various special purpose funds which have been established on a self-supporting basis. Revenues are generated by taxes, licenses, fees and federal matching funds and grants.

Capital Projects Fund - Accounts for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds). The state also includes in this fund type proceeds from bond issues for uses other than major capital facilities.

Debt Service Fund - Accounts for the accumulation of resources, principally transfers from other funds, for the payment of general long-term debt principal and interest.

Proprietary Fund Types:

Enterprise Funds - Account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

Internal Service Funds - Account for the financing of goods or services provided by one department or agency to other departments or agencies of the state, or to other governmental units, on a cost-reimbursement basis.

Fiduciary Fund Types:

Trust and Agency Funds - Account for assets held by the state in a trustee capacity or as an agent for individuals, private organizations, other governmental units and/or other funds.

Account Groups:

General Fixed Assets Account Group (Unaudited) - Accounts for all general fixed assets acquired or constructed for use by the state in the conduct of its activities, except those accounted for in proprietary and trust funds.

General Long-Term Debt Account Group - Accounts for all long-term liabilities of the state, except those accounted for in Proprietary Funds or Nonexpendable Trust Funds.

Total Columns on Combined Statements:

Total columns on combined statements are captioned Memorandum Only to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles.

C. Basis of Accounting

Governmental fund revenues and expenditures are recognized on the modified accrual basis. Under the modified accrual basis applied in accordance with generally accepted accounting principles, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due.

Self-assessed taxes, principally income, sales and use taxes are recorded as revenues when reported to the state.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the state; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

Licenses and permits, charges for services, fines and forfeits, and miscellaneous revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Proprietary fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Fiduciary fund revenues and expenses (or expenditures) are recognized on the basis consistent with the fund's accounting measurement objective. Nonexpendable trust and pension trust funds are accounted for on the accrual basis; expendable trust funds are accounted for on the modified accrual basis. Agency fund assets and liabilities are accounted for on the modified accrual basis.

In certain respects, the state's accounting practices may not conform to the requirements of generally accepted accounting principles. At June 30, 1988, the material differences are as follows:

Certain expenditures are recorded when paid rather than when the liability is incurred.

Certain federal revenues are recorded at time of receipt rather than when the obligation is incurred.

Certain medicaid claims expenses are recorded when paid and related federal reimbursements when received rather than when the obligation is incurred.

Certain educational loans receivable are recorded at time of first repayment rather than at the time of loan.

D. Budgetary Process

The budgeted appropriations are prepared on a biennial basis which are based on the request of department commissioners, constitutional officers and independent agencies as revised by the Governor. The legislature has final approval over all appropriations. Interdepartmental transfers require approval of the Governor. Intradepartmental transfers and allocations of special funds require legislative approval.

Budgets are prepared on a cash basis, except that sales and income taxes are accrued when the tax return is received and recorded.

Unencumbered appropriations in the General Fund lapse at year end, unless carried forward to a subsequent year by law.

Budgetary control is maintained at the account level at which appropriations or allocations are approved by the legislature. A quarterly allotment system is the principal means of budgetary control.

E. Assets, Liabilities and Fund Equity

Equity in Treasurer's Cash Pool

The Treasurer's Cash Pool, comprised primarily of short-term certificates of deposit, repurchase agreements, U. S. Treasury Bills and U. S. Treasury Notes, is stated at cost which approximates market value.

Investments

Investments are stated at cost at date of acquisition or fair market value at date of donation.

Deposits with United States Treasury

The federal government requires that unemployment tax receipts be deposited with the United States Treasury. Funds are drawn down as benefits are paid.

Accounts and Notes Receivable

Taxes receivable, accounts receivable and loans/notes receivable are stated as net of reserves on the Combined Balance Sheet dated June 30, 1988. At June 30, 1988, reserves for the accounts were approximately $7.7 million, $10.1 million, and $1.2 million respectively.

Inventories

Inventories of the governmental funds are recorded by the purchases method; however, no entry is made to record the value of inventories on the balance sheet at year end.

Inventories in the Proprietary Funds are stated at the lower of cost (determined on either the moving weighted average or first-in, first-out methods) or market. Inventories consist primarily of merchandise for resale and supplies.

Due to Inmate/Student Guardianship Accounts

Certain assets and their related liabilities, for which the state has fiduciary responsibility, are not recorded on the accompanying financial statements. The amount of such assets and liabilities is not believed to be material.

Fixed Assets (Unaudited)

Fixed assets (including public domain) are valued at historical cost or estimated fair value on the date donated. Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the General Fixed Assets Account Group. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, including drainage and sewerage systems, are capitalized along with other general fixed assets. No depreciation has been provided on general fixed assets.

Land, Buildings and Equipment--Proprietary Funds

Land, buildings and equipment are recorded at cost. Depreciation is computed on the straight-line method in a manner intended to amortize the cost of assets over their estimated useful lives.

Expenditures which materially increase values, change capacities or extend useful lives are capitalized. Repairs and maintenance are charged to operations as incurred.

Donated assets are recorded at their market value on the date donated.

Encumbrances and Appropriations Carried

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the Governmental Funds. Unexpended appropriation balances of the Governmental Funds are available for subsequent expenditure to the extent that encumbrances have been approved by the end of the fiscal year. Encumbrances outstanding at year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

Fund Balance Reserves

The state's fund balance reserves represent those portions of fund balance (1) not available for appropriation or expenditure or (2) legally segregated for a specific future use.

Nonmonetary Federal Assistance

Nonmonetary federal financial assistance is not reflected in the component unit financial statements. Inventory valuations of such assistance approximate $14.4 million as of June 30, 1988.

F. Other Accounting Policies

Property Tax Revenue

Property taxes levied for the current year are "available" and are, therefore, recognized as revenue even though collectible in the period subsequent to the levy. The state's property tax collection record shows that most of the property taxes due are collected during the year of levy.

Vacation and Sick Leave

The state accounts for vacation leave payments to employees on a cash basis, rather than accruing a liability when the obligation is incurred as required by generally accepted accounting principles. Employees do not vest in sick time; therefore, expense for sick time is recorded when paid.

2. Stewardship, Compliance and Accountability

Several enterprise funds have accumulated deficits aggregating approximately $16.9 million at June 30, 1988. These deficits are covered by working capital advances from the General Fund and Special Revenue Funds and additional advances can be made subject to legislative approval.

3. Budget/GAAP Differences

The state does not prepare its budget in accordance with generally accepted accounting principles (GAAP). The cumulative effect on fund balances due to differences between the state's revenues and expenditures presented on a budgetary basis of accounting in Exhibit 3 and GAAP basis as presented in Exhibit 2 for the fiscal year ended June 30, 1988 are as follows:

(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balance (Exhibit 3)	$294,200	$134,388
Accrued payroll	(10,045)	(8,287)
Accounts payable	(16,131)	
Accounts receivable	164	
Fund balance (Exhibit 2)	$268,188	$126,101

4. Deposits and Investments

The following information is provided as required by the Governmental Accounting Standard's Board Statement No. 3, "Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements."

Authority for State of Maine deposits and investments: The deposit and investment policies of the State of Maine's Treasury Department are governed by Title 5, Section 135, et. seq. of the Maine Revised Statutes Annotated. State of Maine deposits must be held in depositories organized under the laws of this state or depositories located in this state not to exceed an amount equal to 25% of the capital, surplus and undivided profits of such depository unless fully secured by the pledge of certain securities as collateral or fully covered by insurance. Money in excess of that necessary to meet current obligations may be invested in: bonds, notes, certificates of indebtedness or other obligations of the United States which mature within 24 months, prime commercial paper, tax-exempt obligations or bankers' acceptances. The Treasurer may also participate in the securities loan market by lending state-owned bonds, notes or other certificates of indebtedness of the Federal Government if fully collateralized by treasury bills or cash. In addition, the State Treasurer may invest up to $4 million in lending institutions at a 2% lower-than-market yield, providing these financial institutions lend operating funds (equal to the amount on deposit) to agricultural enterprises in this state at 2% interest rate reductions.

In some cases, deposits and investment policies of certain component units are established by governing councils or boards to whom such responsibility has been delegated by statute; however, all deposits, investments and repurchase agreements of State of Maine component units are specifically authorized by law.

In accordance with applicable statutory authority, the State Employee's Retirement System and Group Life Insurance Program have invested in common stocks, bonds, fixed income and convertible securities, mortgages and real estate.

Deposits: The following summary presents the amount of state deposits which are fully insured or collateralized with securities held by the state or its agent in the state's name (Category 1); those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent in the state's name (Category 2); and those deposits which are not collateralized (Category 3) at June 30, 1988.

(Dollars in Thousands)

	Category 1	Category 2	Category 3	Carrying Amount	Bank Balance
Demand & Time Deposits	$ 8,902	$ 0	$72,392	$ 81,294	$ 81,294
Maine Employment Security Commission Deposits with U.S. Government	153,288	0		153,288	153,288
Totals	$162,190	$ 0	$72,392	$234,582	$234,582

Investments: The State of Maine categorizes investments according to the level of credit risk assumed by the state. Category 1 includes investments that are insured, registered or held by the state's agent in the state's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the state's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent, but not in the state's name. Certain investments have not been categorized because securities are not used as evidence of the investment. These uncategorized investments include ownership interest in mutual funds and investment pools in which the Maine State Retirement System and the deferred compensation plan participates.

The following summary identifies the level of credit risk assumed by the state and the total carrying amount and market value of state investments.

(Dollars in Thousands)

	Carrying Amount				Market
	Category 1	Category 2	Category 3	Total	Value
Repurchase agreements	$ 29,200	$ 2,460	$	$ 31,660	$ 31,707
U.S. Government securities	88,677		2,925	91,602	92,966
Corporate bonds & notes	377,214		2,223	379,437	382,110
Corporate stocks	43		2,903	2,946	2,787
Money market holdings			1,902	1,902	1,902
Mortgage loans		288		288	288
Subtotal	495,134	2,748	9,953	507,835	511,760
Add amounts for Maine State Retirement System:					
Bonds		806,865		806,865	807,465
Corporate stocks		274,246		274,246	345,146
	$495,134	$1,083,859	$9,953	1,588,946	1,664,371
Add amounts not categorized because securities are not used as evidence of investments:					
Investment pools in which the Maine State Retirement System participates:					
Comingled funds				186,318	205,718
Real estate				1,835	1,835
Mortgages				71	71
Investment pools in which the deferred compensation plan participated:					
Life insurance				38,621	38,621
Total Investments				$1,815,791	$1,910,616

5. Property Taxes

Property taxes are assessed by the State Tax Assessor on properties located in the unorganized territories of Maine. Such taxes are levied on July 15th of the fiscal year in which they are due. Property taxes are due on October 1 and formal collection procedures begin on November 1. Unpaid property taxes become a lien on March 1 of the following calendar year (the same fiscal year as the original date of levy).

6. Due from Other Governments - Grants Receivable

Due from other governments is comprised of federal grants receivable, which represent categorical grants comprised of, for the most part, health and welfare and transportation programs in the amount of $4.9 million; federal block grant awards encumbered in the amount of $10 million; and Community Development Block Grant funds in the amount of $2.85 million for an interim financing plan operated by the Department of Economic and Community Development.

7. Joint Ventures

The State of Maine has entered into a compact with the State of Vermont and the State of New Hampshire subject to the following terms and conditions (not all-inclusive): Tri-State and Daily Numbers tickets are sold in each of the party states and processed in a central area (Vermont). A proportional share of revenues and expenses are allocated to each state based on the amount of ticket sales made by each state. Exceptions are the facilities management fee which is based on a contracted percentage or operating revenues that varies from state to state; Daily Number expenses which are allocated to each state based on Daily Number ticket sales; and per diem charges which are allocated based on actual charges generated by each state.

The commission has designated that a minimum of 50% of gross revenues be reserved for prize awards and agent bonuses. A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following week's drawing.

The governing body of this compact, the Tri-State Lottery Commission, is comprised of one member from each of the party states. Commission members are appointed by and serve at the pleasure of their respective party states. The commission elects a chairman from among its members annually. The commission exercises control over budgeting and financing policies.

As of and for the year ended June 30, 1988, the following selected financial information was included in the Balance Sheet and Statement of Revenues, Expenses and Retained Earnings of the Tri-State Lottery Commission:

(Dollars in Thousands)

Total Assets	$67,230
Total Liabilities	67,230
Retained Earnings	-
Total Revenues	80,967
Total Expenditures	50,795
Allocation of Funds to Member States	29,897
Net Increase/Decrease in Retained Earnings	(1,103)

Included in liabilities is approximately $66.2 million for prizes payable; these have been provided for primarily through the purchase of annuity contracts.

In prior years, prize expense was understated because of the method used to account for the establishment of a contingency prize pool. This pool assures that funds are available to provide for a jackpot prize when lower tier winners reduce the jackpot pool below an acceptable level. The proper accounting treatment would have been to charge to prize expenses increases in contingency for future prizes. As a result of the above error, retained earnings as of July 1, 1987 has been reduced by $1,103,000.

8. Fixed Assets

Fixed assets in the General Fixed Assets Account Group, Enterprise Funds and Internal Service Funds consist of the following (unaudited):

(Dollars in Thousands)

	(Unaudited) General Fixed Assets Account Group	Enterprise Funds	Internal Service Funds
Land	$ 31,118	$ 554	$ 293
Buildings and Improvements	170,328	9,589	3,842
Equipment and Fixtures	97,594	31,996	47,042
	299,040	42,139	51,177
Less accumulated depreciation	-	6,061	33,527
	$299,040	$36,078	$17,650

Depreciation is not provided for in the General Fixed Assets Account Group. Depreciation of fixed assets in the Proprietary Funds is provided on the straight-line basis over their estimated useful lives which are as follows:

Asset	Life (Years)
Buildings and Improvements	10-40
Equipment and Fixtures	2-5

9. Maine State Retirement System - Pension Systems and Obligations

A. Plan Descriptions

The State of Maine maintains three contributory defined benefit pension plans through the Maine State Retirement System (MSRS), an agent multiple-employer public employee retirement system (PERS).

MSRS provides retirement, death, and disability benefits for substantially all state employees, public school teachers, employees of minor political subdivisions, and certain local participating districts and agencies. State employees are vested after 10 years of state service or the equivalent. The Judicial Retirement System (JRS) provides the same benefit for judges and the Legislative Retirement System (LRS) provides benefits for members of the state's legislature.

Employees who are members of MSRS and retire at age 60 are entitled to an unreduced annual retirement benefit that is generally 2% of the member's average final compensation multiplied by the years of membership service, reduced for retirement before age 60. Certain law enforcement officers, liquor inspectors and airline pilots employed before 9/1/84 may retire at younger ages. Law enforcement personnel employed before 9/1/84 are entitled to a benefit of 50% of the member's average final compensation plus 2% for each year of service in excess of 20.

Employees covered by the JRS receive a general annual benefit that is the sum of (1) 2% of the average final compensation multiplied by years of membership service and creditable service transferred from the Retirement System, and (2) 75% of November 30, 1984 salary for the position held at retirement, pro-rated for service less than 10 years, all reduced for retirement before age 60.

Employees covered by the LRS receive a general annual benefit that is 2% of the average final compensation multiplied by years of creditable service, reduced for retirement before age 60.

MSRS and JRS covered employees are required to contribute to the system at a rate, set by statute, of 6.5% of earnable compensation. LRS covered employees participate with a 4.0% contribution. The state contributes the remaining amounts necessary to fund the systems. The percentage for the fiscal year ending June 30, 1988 (without local participating districts) was 19.47%.

The number of participating employers, active members, and retirees and beneficiaries drawing benefits at June 30, 1988 is as follows:

	MSRS	JRS	LRS	Total
Employers: State and Districts	273	*1	*1	273
Active Members: State	14,917	56	59	15,032
Teachers	20,797	-	-	20,797
Local Participating Districts	9,239	-	-	9,239
Retirees/Beneficiaries with Benefits	21,027	4	-	21,031

*Included in state employer total

B. Funding Status and Progress

The amount shown below as the "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used to determine contributions to the system.

The pension benefit obligation was computed as part of an actuarial valuation performed as of June 30, 1988. Significant actuarial assumptions used in the valuation include a rate of return on the investment of 8.0%, projected salary increases of 6.0% per year and cost of living increases of 4.0% annually.

At June 30, 1988, the unfunded pension benefit obligation in millions of dollars are as follows:

Pension benefit obligation:	
Retirees, beneficiaries, and terminated vested employees	$1,257
Current employees:	
Accumulated employee contributions	461
Employer-financed vested	398
Employer-financed nonvested	661
Total pension benefit obligation	2,777
(Does not include obligations or liabilities for health insurance)	
Net assets available for benefits at cost (market value is $871)	799
Unfunded pension benefit obligations	$1,978

C. Contributions Required and Contributions Made

The System's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Significant actuarial assumptions used to compute actuarially-determined contribution requirements are the same as those used to compute the pension benefit obligation. Level percentage of payroll employer contribution rates are determined using the entry age actuarial funding method.

Contributions were made by employers and employees in accordance with actuarially determined requirements computed through an actuarial valuation performed as of June 30, 1988. Employer contributions, as a percentage of Active Member Payroll, amounted to 8.16% attributed to normal cost and 11.31% attributed to an annual amortization payment for a total of 19.47%. Employee contributions amounted to 6.5% of total earnings. The annual active member covered payroll for the year ending June 30, 1988 amounted to $757,687,649.

D. Trend Information

Ten-year trend information calculated in accordance with the Governmental Accounting and Financial Standards (June 15,1987) published by the Governmental Accounting Standards Board is not available.

10. Other Pension Systems and Obligations

In addition to the Maine State Retirement System (MSRS), the state also has separate pension plans for cetain former employees and beneficiaries of employees of the Judicial and Public Safety Departments. These plans were in existence prior to the establishment of the MSRS and do not cover current employees. As of June 30, 1989, there were 54 payees of the Public Safety plan and 44 payees of the Judicial plan. 1989 pension payments for these two plans were $665,000 and $1,475,000 respectively. Pension payments are funded by legislative appropriations.

11. Other Employee Benefits

Postretirement Health Care Benefits: In addition to providing pension benefits, the State of Maine provides certain health care benefits for many retired employees. Basic benefits cover hospital and physicians' services as well as major medical expenses and care of mental health conditions, alcoholism and substance abuse. These benefits are provided through insurance companies whose premiums are based on an experience rating determined by past claims activity. Premium payments are made by the Maine State Retirement System using funds generated from current contributions and return on investments. The State of Maine recognizes the cost of providing these benefits as claims are paid, which totaled approximately $3.3 million for the fiscal year ended June 30, 1988.

Postretirement Life Insurance Benefits: In addition to providing pension and health care benefits, the State of Maine provides certain life insurance benefits for retired employees who participated in the group life insurance program as active employees. Benefits are paid by the State on a scaled distribution based on the number of years of employee's participation. Payments of claims are made by the Maine State Retirement System using funds generated from premiums paid by employees while in active status and by the State after retirement for employees who participated for 10 continuous years prior to retirement. The State of Maine recognizes the cost of providing these benefits as claims are paid to beneficiaries plus an administrative fee to the Retirement System and a "retention fee" to UNUM which totaled approximately $2.0 million for the fiscal year ended June 30, 1988.

Deferred Compensation Plan: The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the State (without being restricted to the provisions of benefits under the plan), subject only to the claims of the state's general creditors. Participants' rights under the plan are equal to those of general creditors of the state in an amount equal to the fair market value of the deferred account for each participant.

In the past, the plan assets have been used for no purpose other than to pay benefits. The state believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

12. Construction and Other Significant Commitments

The state is responsible for funding a portion of local governments' school construction and renovation costs. As of June 30, 1988, these commitments totaled approximately $296.9 million payable over 20 years.

13. Lease Commitments:

The state has commitments for various leases of office and storage space which extend for terms of one to twenty years. The state expects that these leases will be renewed or replaced by similar leases. In general, these leases contain nonassignability clauses and escalation clauses in addition to predetermined rent increases. These escalation clauses permit rental payments to be adjusted if any of the following costs for the premises are in excess of the amounts of such costs for the original lease year: real estate taxes, lessor's costs for utilities or lessor's cost for insurance. Lease commitments for the next five years under noncancelable leases are as follows:

(Dollars in Thousands)

Fiscal Year Ending June 30,	Minimum Lease Payments
1989	$8,770
1990	7,957
1991	6,832
1992	5,367
1993	4,644

Rental expense for the year ended June 30, 1988 was approximately $7.0 million.

Capital leases for computer equipment are accounted for as equipment in the Combined Balance Sheet. Future minimum lease payments for the next five years are as follows:

(Dollars in Thousands)

Year Ending June 30,	Minimum Lease Payments
1989	$2,051
1990	1,398
1991	-
1992	-
1993	-
Total Minimum Lease Payments	$3,449

14. Bonds and Notes Payable

General obligation bonds are backed by the full faith and credit of the state and must be paid in annual installments beginning not more than one year after issuance of such bonds. Changes in general obligation bonds outstanding for the year ended June 30, 1988 are as follows:

(Dollars in Thousands)

Bond Type (Rate Range)	Outstanding July 1, 1987	Additions	Reductions	Outstanding June 30, 1988
General Purpose (4.0% to 11.2%)	$183,990	$45,270	$28,100	$201,160
Highways & Bridges (1.5% to 11.3%)	92,365	5,000	9,195	88,170
College, University and Veterans Home Facilities (3.0% to 11.3%)	20,220		1,275	18,945
Bond Anticipation Notes (4.3% to 4.7%)	8,500	1,000	8,500	1,000
Totals	$305,075	$51,270	$47,070	$309,275

Bond Anticipation Notes are issued by the state in anticipation of the proceeds of voter-authorized bond issues.

The annual requirements to amortize all bonds and notes outstanding as of June 30, 1988 are as follows:

Fiscal Year	Principal	Interest
1989	$ 42,955	$ 20,348
1990	38,530	17,443
1991-1995	147,195	53,625
1996-2000	60,465	17,150
2001-2005	19,685	2,720
2006-2010	445	15
Totals	$309,275	$111,301

At June 30, 1988, the state has approximately $234 million of authorized debt not issued. Its use is restricted by various laws relating to its authorization.

In November, 1988, approximately $73 million in additional general long-term bonds was approved by voters in a referendum election. From July 1, 1988 through May 15, 1989, the state issued $71.8 million in general obligation bonds and $9 million in bond anticipation notes to be payable over ten years.

15. Workers' Compensation

The state assumes the full risk of claims filed for workers' compensation. The state recognizes the cost of claims as they are paid. No liability for workers' compensation claims is recognized in the accompanying financial statements.

16. Interfund Receivables and Payables

No material eliminations of interfund receivables and payables are included in the financial statements.

17. Segment Information for Enterprise Funds

The State maintains enterprise funds which provide various goods and services and are classified for segment reporting as follows:

Bureau of Alcoholic Beverages

The sale of alcoholic beverages is controlled through State operated stores or licensed agents. Net income is transferred to the General Fund.

Maine State Lottery

The Lottery operates the daily "numbers games" and participates in the Tri-State Lottery which began operations during the fiscal year ending June 30, 1986. Net income is transferred to the General Fund.

Department of Transportation Services

This department operates the Augusta Airport, marine ports and ferry services in the mid-coastal region of the state.

Other Enterprise Funds

Other enterprise funds consist of numerous entities which are financed and operated in a manner similar to private business, and include the following enterprises:

Prison Industries
Community Industrial Building Fund
Potato Marketing Improvements and Seed Potato Board Funds
State Forest Nursery
State Osteopathic Loan Fund

Financial segment information as of and for the year ended June 30, 1988 for the State's enterprise funds is as follows:

State of Maine

Segment Information for Enterprise Funds, Continued

(Dollars in Thousands)

	Bureau of Alcoholic Beverages	Maine State Lottery	Department of Transportation Services	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	$86,897	$82,463	$ 1,135	$ 1,663	$172,158
Depreciation expenses	97	40	858	17	1,012
Operating income (loss)	34,061	26,950	(2,412)	417	59,016
Operating transfers in (out)	(33,779)	(27,266)			(61,045)
Tax revenues	12,870		4		12,874
Net income (loss)	277	(23)	(2,305)	941	(1,110)
Capital contributions	524		56,445	7,939	64,908
Property, plant and equipment:					
Additions	66	38	598	47	749
Deletions			1,718	455	2,173
Net working capital	77	(51)	749	(35)	740
Total assets	11,005	3,102	36,456	11,511	62,074
Total equity	601	(51)	36,338	11,149	48,037

18. Commitments and Contingencies

Litigation: The State of Maine and its officers are defendants in various lawsuits. Legal counsel for the State and its various agencies have reviewed the status of pending litigation and are unable to determine the amount of probable loss to the State. Accordingly, no provision has been made in the accompanying financial statements for any losses which may arise from the ultimate settlement of these claims or lawsuits.

Federal Grants: The State participates in a number of federal assisted grant programs. Substantially all grants are subject to either the Federal Single Audit Act or to financial and compliance audits by the grantor agencies or their designees. Disallowances and sanctions as a result of these audits may become liabilities of the State. The audits of all these programs for or including the year ended June 30, 1988, have not yet been completed. Accordingly, the State's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time. The State is, however, currently involved in administrative proceedings with certain Federal agencies contesting various disallowances related to Federal Assistance Programs. The disallowances totaled approximately $3.9 million. The state's management believes ultimate disallowances, if any, will not have a material effect on the financial statements.

Student Loan Guarantees: The Maine State Board of Education (MSBA), guarantees educational loans made by private lenders to certain resident students. Total outstanding guarantees issued by MSBA approximated $301.7 million at June 30, 1988. The U. S. Department of Education reinsures losses under these guarantees up to 100%. When losses are in excess of 5% or 9% of the total loans in repayment status the reinsurance rate decreases to 90% and 80%, respectively.

Other Contingencies: The State is guaranteeing the obligations of the Finance Authority of Maine and the Maine School Building Authority which totaled approximately $55.6 million at June 30, 1988.

The State has a reserve fund restoration commitment with the Maine Municipal Bond Bank and the Maine State Housing Authority. The required reserves for these two entities are calculated based on total debt outstanding. As of June 30, 1988, the total outstanding debt of these two agencies approximated $1.1 billion.

In addition, the State has a moral obligation to guarantee the debt of the Maine Health and Higher Education Facilities Authority and the Maine Turnpike Authority. This debt totals approximately $254 million.

19. Subsequent Events

A. Federal Reimbursement

According to Department of Human Services financial records, the State of Maine is due approximately $1,880,000 in federal funds on behalf of the Foster Care - Title IV-E Program. This was due to a lack of timely payments of bills by the federal government (federal monies awarded to this program are based on estimates compiled by the state agency and adjustments are subsequently made after actual expenditures have been determined), as actual expenditures exceeded the award amounts during those fiscal quarters beginning October 1, 1986 through and including the quarter ending September 30, 1988. In March of 1989 the Legislature provided additional appropriations from the General Fund as an advance against the anticipated revenue in order that federally funded Child Services oriented programs would be adequately supported. These appropriations were as follows:

Child Welfare Services	$ 600,000
Aid to Families with Dependent Children - Foster Care	400,000
Total	$1,000,000

When payments are received by the department they are designated to be deposited in the General Fund undedicated revenue.

B. Individual Income Tax Surplus Return Fund Program

On June 29, 1989, Ch. 495 P.L. appropriated $16.5 million from the General Fund to the Individual Income Tax Surplus Return Fund Program, to provide funds to reimburse the General Fund for revenues lost that otherwise would have been collected except for the changes in income tax rates enacted in this Act.

C. Excess Cash Reserves

On October 20, 1988 the Maine Department of Educational and Cultural Services received official notification from the U.S. Department of Education concerning the status of reserve funds of the Maine Guaranteed Student Loan Program (MGSLP). The U.S. Department of Education has determined that the MGSLP is holding excess cash reserves totaling $3,281,413. The U.S. Department of Education will apply MGSLP's pending and future eligible reinsurance claims filed with the department to the $3,281,413 owed by the MGSLP until the excess reserve is depleted.

D. Management of Student Loan Programs

On July 10, 1989 Ch. 559 P.L. transferred the responsibility for management of student loan programs from the Department of Educational and Cultural Services to the Finance Authority of Maine. The transfer is to be completed by January 1990. Approximately $15 million in expenditures will no longer appear as part of the State of Maine's financial records as the Finance Authority of Maine is a component unit but is not included in the financial statements of the oversight unit of the State of Maine.

E. Certificates of Participation

On July 13, 1988, the Department of Transportation, Motor Transport Service entered into an agreement, through Merrill/Norstar Bank, to issue \$12.5 million in certificates of participation. The proceeds of such certificates are being used to finance the lease/purchase of various vehicle pool and highway maintenance equipment. Repayment of the obligation to Merrill/Norstar will be financed from revenues generated by equipment rental charges to the Highway Fund and various other state agencies' funds through fiscal year 1993. This obligation is secured by the lease/purchase equipment and is due and payable not later than December 30, 1993.

F. General Obligation Bonds

During fiscal year 1989, the State of Maine issued \$71.8 million of general obligation bonds. The bonds carry interest rates from 5.35% to 14.375% and mature on various dates from July, 1989 to December, 1998. The bonds will be used to finance highway projects, land for conservation and public recreation purposes, environmental protection projects, school buses, improvements to correctional facilities, airport improvements and other miscellaneous capital projects.

All of the bonds are full faith and credit obligations of the state.

The highway bonds are payable in the first instance from monies irrevocably set aside in the State Highway Fund. The State Highway Fund receives all motor vehicle and motor vehicle fuel related revenues of the state.

G. Discontinued Operations

The State of Maine substantially discontinued operations of the Maine State Forst Nursery during the 1989 fiscal year. The state is currently leasing the nursery to a private party. Assets of the nursery, on the balance sheet at June 30, 1988, consists of various cash and cash equivalents, receivables, land, buildings and equipment with value of \$493,817.93 (net of reserves for uncollectibles and accumulated depreciation). Liabilities of the nursery included various accounts payable, advance sales of nursery stock and due to other funds for working capital advances aggregating \$204,387.78. Net income shown on the operating statement of the nursery for fiscal year 1988 was \$105,918.48.

STATE OF MAINE
DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Supplementary Information
Schedule of Federal Financial Assistance

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

We have audited the component unit financial statements of the State of Maine for the year ended June 30, 1988, and have issued our qualified report thereon dated July 6, 1989. Our audit of such component unit financial statements was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in the Government Auditing Standards, issued by the U.S. General Accounting Office and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The Schedules of Federal Financial Assistance do not include the federal grants, contracts and agreements of those activities and programs which are part of the reporting entity and have been excluded from the component unit financial statements as more fully described in Note 1A to the component unit financial statements. In addition, the Schedules do not include federal grants, contracts and agreements as they relate to the Military Bureau.

As described in Note 2C, the accompanying schedules are prepared primarily on the cash basis of accounting. Consequently, certain expenditures are recognized when paid rather than when the obligation is incurred.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The accompanying Schedules of Federal Financial Assistance are presented for purposes of additional analysis and are not a required part of the component unit financial statements. The information in the schedules has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Rodney L. Scribner CPA

Rodney L. Scribner CPA
State Auditor

July 6, 1989

State of Maine
Schedule of Federal Financial Assistance - Major Programs
June 30, 1988

Schedule A

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Defense and Veterans' Services			
Federal Emergency Management Agency	83.516	Disaster Assistance	$ 4,240,364
Total			4,240,364
Department of Educational and Cultural Services			
U.S. Dept. of Agriculture	10.550	Food Distribution Program (Note 3A)	5,770,362
	10.555	National School Lunch Program	10,981,499
U.S. Dept. of Education	84.010	Educationally Deprived Children-LEAs	15,244,735
	84.027	Handicapped-State Grants	8,478,565
	84.032	Higher Education Act Insured Loans	3,175,771
	84.048	Vocational Education-Basic Grants to States	4,248,208
Total			47,899,140
Department of Human Services			
U.S. Dept. of Agriculture	10.551	Food Stamps (Note 3B)	47,273,124
	10.557	Special Supplemental Food Program-Women,Infants,Children	8,944,568
	10.558	Child Care Food Program	4,342,314
	10.561	State Admin. Matching Grants for Food Stamp Program	4,306,077
U.S. Dept. of Health and Human Services	13.658	Foster Care-Title IV-E	4,681,629
	13.667	Social Services Block Grant	12,908,031
	13.714	Medical Assistance Program	222,315,859
	13.780	Family Support Payments to States-Assistance Payments	53,324,976
	13.783	Child Support Enforcement	4,283,905
	13.992	Alcohol and Drug Abuse and Mental Health Block Grant	4,005,989
	13.994	Maternal and Child Health Service Block Grant	3,006,984
U.S. Dept. of Education	84.126	Rehabilitation Services-Basic Support	9,056,848
Total			378,450,304

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Labor			
U.S. Dept. of Labor	17.225	Unemployment Insurance (Note 3F)	12,476,805
	17.207	Employment Service	4,147,696
	17.250	Job Training Partnership Act	9,578,539
Total			26,203,040
Executive Department-Planning Office/Department of Economic and Community Development			
U.S. Dept.of Housing and Urban Development	14.228	Community Development Block Grants/States Program	13,061,306
Total			13,061,306
Department of Transportation			
U.S. Dept. of Transportation	20.205	Highway Planning and Construction	67,845,148
Total			67,845,148
Executive Department- Div of Community Services			
U.S. Dept of Health and Human Services	13.789	Low Income Home Energy Assistance	23,005,269
Total			23,005,269
Total Federal Financial Assistance - Major Programs			$560,704,571

See accompanying notes to the Schedule of Federal Financial Assistance.

State of Maine
Schedule of Federal Financial Assistance - Nonmajor Programs
June 30, 1988

Schedule B

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Administration			
U.S. Environmental Protection Agency	66.702	Asbestos Hazards Abatement Assistance	$ 60,927
General Services Administration	39.003	Donation of Federal Surplus Personal Property (Note 3E)	2,629,595
Total			2,690,522
Department of Agriculture			
U.S. Dept. of Agriculture	10.025	Plant and Animal Disease and Pest Control	53,782
	10.156	Federal-State Marketing Improvement Program	18,591
	10.162	Inspection Grading and Standardization	361,143
	10.950	Agriculture Statitical Reports	18,904
U.S. Environmental Protection Agency	66.700	Pesticides Enforcement Program	111,465
Total			563,885
Department of Defense and Veterans' Services			
Federal Emergency Management Agency	83.400	Emergency Management Institute-Training Assistance	70,317
	83.503	Emergency Management Assistance	526,692
	83.505	State Disaster Preparedness Grants	27,497
	83.508	Radiological Instrumentation	26,258
	83.509	Facility Survey, Engineering and Development	38,140
	83.511	Radiological Protection Planning and Development	33,679
	83.512	State and Local Emergency Operating Centers	46,450
	83.514	Population Protection Planning	119,162
	83.519	Hazard Mitigation Assistance	14,931
Total			903,126
Department of Educational and Cultural Services			
U.S. Dept. of Agriculture	10.553	School Breakfast Program	819,205
	10.556	Special Milk Program for Children	174,233
	10.559	Summer Food Service Program for Children	295,262
	10.560	State Admin. Expenses for Child Nutrition	234,444

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Educational and Cultural Services (cont.)			
U.S. Dept. of Agriculture	10.564	Nutrition Education and Training Program	54,253
U.S. Dept. of the Interior	15.904	Historic Preservation Fund-Grants-In-Aid	317,484
Nat'l Foundation for Arts and Humanities	45.001	Promotion of the Arts-Design Arts	8,183
	45.003	Promotion of the Arts-In-Education	78,188
	45.007	Promotion of the Arts-State Programs	340,400
U.S. Dept. of Education	84.002	Adult Education-State Administered Program	678,000
	84.003	Bilingual Education	51,562
	84.004	Civil Rights Technical Assistance and Training	218,796
	84.009	Education of Handicapped Children	695,282
	84.011	Migrant Education-Basic State Formula Grant Program	2,878,548
	84.012	Educationally Deprived Children-State Admin.	228,956
	84.013	Neglected and Delinquent Children	165,828
	84.024	Handicapped Early Childhood Education	27,759
	84.029	Handicapped Education	85,493
	84.034	Library Services	498,825
	84.035	Interlibrary Cooperation	105,029
	84.049	Vocational Education-Consumer and Homemaking Education	103,474
	84.069	Grants for State Student Incentives	272,231
	84.146	Transition Program for Refugee Children	62,758
	84.151	Federal,State and Local Partnerships-Educational Improvement	2,328,529
	84.154	Public Library Construction	213,533
	84.155	Removal of Archietectural Barriers to the Handicapped	247,713
	84.164	Grants for Strengthening the Skills of Teachers	332,868
	84.167	Library Literacy	12,703
	84.173	Handicapped-Preschool Incentive Grants	1,316,960
	84.176	Paul Douglas Teacher Scholarship	59,595
	84.184	Nat'l Program for Drug Free Schools and Communities	595,393
	84.185	Robert C. Byrd Scholarship	44,414
	84.196	Education of Homeless Children and Youth	217
Total			13,546,118
Department of Environmental Protection			
U.S. Environmental Protection Agency	66.001	Air Pollution Control Program Support	657,577
	66.419	Water Pollution Control	661,036
	66.433	State Underground Water Source Protection	32,126
	66.438	Construction Management Assistance	817,104
	66.454	Water Quality Management Planning	242,326
	66.500	Environmental Protection-Consolidated Research	(36)
	66.801	Hazardous Waste Management Program	212,856
	66.802	Hazardous Substance Response Trust Fund	47,204

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Environmental Protection (cont.)			
U.S. Environmental Protection Agency	66.804	State Underground Storage Program	144,987
Total			2,815,180
Department of Inland Fisheries and Wildlife			
U.S. Dept. of the Interior	15.600	Anadromous Fish Conservation	80,828
	15.605	Sport Fish Restoration	1,120,366
	15.611	Wildlife Restoration	1,191,495
	15.612	Endangered Species Conservation	44,497
U.S. Dept. of Transportation	20.005	Boating Safety Financial Assistance	252,026
Total			2,689,212
Department of Human Services			
U.S. Dept. of Agriculture	10.550	Food Distribution (Note 3C)	592,814
U.S. Dept. of Health and Human Services	13.118	Acquired Immune Deficiency (AIDS) Activity	231,708
	13.130	Primary Care Services	125,342
	13.141	Alcohol & Drug Abuse Treatment & Rehabilitation Block Grant	187,037
	13.262	Occupational Safety and Health Research Grants	88,882
	13.268	Childhood Immunization Grants	165,829
	13.283	Centers for Disease Control-Investigations and Tech. Assist.	119,823
	13.628	Development of Operational Definitions for Children	9,739
	13.633	Grants for Supportive Services and Senior Centers	1,412,344
	13.635	Special Programs for the Aging-Nutrition Services	2,188,088
	13.645	Child Welfare Services-State Grant	1,404,576
	13.647	Social Services Research and Demonstration	464,140
	13.652	Adoption Opportunities	6,443
	13.659	Adoption Assistance	483,925
	13.668	Special Programs for the Aging-Title IV	138,650
	13.669	Child Abuse and Neglect State Grants	96,161
	13.671	Family Violence Prevention and Services	38,625
	13.672	Child Abuse Challenge Grants	121,000
	13.673	Dependent Care Planning and Development Grant	50,000
	13.777	Survey and Certification of Health Care Providers	687,125
	13.787	Refugee and Entrant Assistance	765,535
	13.790	Work Incentive Demonstration Program	519,884
	13.802	Social Security-Disability Insurance	2,894,328
	13.977	Sexually Transmitted Diseases Control Grant	107,453
	13.987	Health Programs for Refugees	5,395

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Human Services (cont.)			
U.S. Dept. of Health and Human Services	13.988	State Based Diabetes Control Programs	169,185
	13.991	Preventive Health and Health Services Block Grant	841,901
U.S. Dept. of Justice	16.575	Crime Victim Assistance	134,278
U.S. Dept. of Labor	17.235	Senior Community Service Employment Program	375,860
ACTION	72.001	Foster Grandparents Program	190,656
U.S. Dept. of Education	84.128	Rehabilitation Services-Special Projects	85,816
	84.129	Rehabilitation Training	45,315
	84.132	Centers for Independent Living	485,296
	84.177	Independent Living Services, Older/Blind	80,690
U.S. Dept. of Health and Human Services	-----	Superfund	80,459
	-----	Cancer Control Program Capacity	22,648
	-----	New Vocational Rehabilitation Program-SSA	535,844
	-----	Improving EMS for Children	244,469
	-----	Cooperative Health Statistics System	22,333
U.S. Dept. of Agriculture	-----	Food Stamp Work Registration and Job Search Contract	363,368
Total			16,582,964
Judicial Department			
U.S. Dept. of Justice	16.541	Juvenile Justice and Delinquency Prevention	2,395
Total			2,395
Department of Labor			
U.S. Dept. of Labor	17.002	Labor Force Statistics	519,507
	17.006	Economic Growth and Employment Projections Data	78,661
	17.202	Certification of Foreign Workers for Temp. Employment	269,578
	17.203	Labor Certification for Alien Workers	258,179
	17.232	CETA Closeout	95
	17.245	Trade Adjustment Assistance	1,554,662
	17.246	Employment & Training Assist.-Dislocated Workers	726,326
	17.500	Occupational Safety and Health	256,356
	17.600	Mine Health and Safety Grants	65,112
	17.801	Disabled Veterans Outreach Program	388,868
	17.802	Veterans Employment Program	32,000
	17.804	Local Veterans Employment Representative Program	427,732
Total			4,577,076

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Public Safety			
U.S. Dept. of Transportation	20.600	State and Community Highway Safety	524,518
	20.218	Motor Carrier Safety Assistance Program	111,809
Total			636,327
Executive Department-Planning Office			
U.S. Dept. of Commerce	11.305	State and Local Economic Development Planning	46,267
	11.419	Coastal Zone Management-Program Administration Grants	2,451,289
	11.420	Coastal Zone Management-Estuarine Research Reserves	50,286
U.S. Dept. of the Interior	15.612	Endangered Species Conservation	10,258
Total			2,558,100
Department of Transportation			
U.S. Department of the Interior	15.145	Indian Grants-Economic Development	936,426
U.S. Dept. of Transportation	20.106	Airport Improvement	27,877
	20.308	Local Rail Service Assistance	2,286
	20.500	UMTA Capital Improvement Grants	1,724,817
	20.505	UMTA Technical Studies Grants	107,590
	20.507	UMTA Capital and Operating Assistance Formula Grants	567,668
	20.509	Public Transportation for Nonurbanized Areas	865,818
Total			4,232,482
Department of Marine Resources			
U.S. Dept. of Commerce	11.405	Anadromous and Great Lakes Fisheries Conservation	75,162
	11.407	Commercial Fisheries Research and Development	207,636
U.S. Dept. of the Interior	15.600	Anadromous Fish Conservation	37,820
Total			320,618
Department of Mental Health and Mental Retardation			
U.S. Dept. of Health and Human Services	13.125	Mental Health Planning and Demonstration Projects	29,648
	13.242	Mental Health Research Grants	575,173
	13.244	Mental Health Clinic or Service Related Training Grants	148,835

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Department of Mental Health and Mental Retardation (Cont'd.)	13.608	Child Welfare Research and Demonstration	1,880
	13.630	Basic Support and Advocacy Grants	279,197
U.S. Dept. of Health and Human Services	13.631	Developmental Disabilities-Projects of National Significance	92,117
	13.668	Special Programs for the Aging-Title IV	74,186
	13.982	Mental Health Disaster Assistance & Emergency Mental Health	158,598
U.S. Dept. Education	84.024	Handicapped Early Childhood Education	66,754
Total			1,426,388
Department of Corrections			
U.S. Dept. of Justice	16.540	Juvenile Justice & Delinquency Prev.-Allocation to States	186,685
	16.550	Criminal Justice Statistics Development	31,179
Total			217,864
Department of Conservation			
U.S. Dept. of Agriculture	10.063	Agricultural Conservation Progam	2,260
	10.664	Cooperative Forestry Assistance	62,661
	10.904	Watershed Protection and Flood Prevention	8,326
U.S. Dept. of the Interior	15.808	Geological Survey-Research and Data Acquisition	70,035
	15.904	Historic Preservation Fund Grants-In-Aid	1,972
	15.916	Outdoor Recreation-Acquisition, Development and Planning	10,123
Nuclear Regulatory Commission	77.001	Radiation Control-Training Assistance & Advisory Counseling	3,241
Total			158,618
Maine Human Rights Commission			
U.S. Dept. of Housing and Urban Development	14.156	Lower Income Housing Assistance Program	5,475
	14.401	Fair Housing Assistance Program-State and Local	74,554
Equal Employment Opportunity Commission	30.002	State & Local Anti-Discrimination Agency Contracts	118,434
Total			198,463
Executive Department-Div of Community Services			
U.S. Dept. of Agriculture	10.550	Food Distribution - TFAP (Note 3D)	1,561,265
	10.568	Temporary Emergency Food Assistance Program - Administration	182,950

Recipient/Grantor Agency	Federal Catalog Number	Program Title	Expenditures
Executive Department-Div of Community Services (cont.)			
U.S. Dept. of Health and Human Services	13.792	Community Services Block Grant	1,994,579
U.S. Dept. of Energy	81.042	Weatherization Assistance for Low Income Persons	2,592,303
Total			6,331,097
Office of Energy Resources			
U.S. Dept. of Energy	81.042	Petroleum Violation Escrow Funds	2,251,750
Total			2,251,750
Total Federal Financial Assistance - Nonmajor Programs			62,776,639
Total Federal Financial Assistance - Major Programs			560,704,571
Total Federal Financial Assistance			$623,481,210

See accompanying notes to the Schedule of Federal Financial Assistance.

STATE OF MAINE

Notes to the Schedule of Federal Financial Assistance

June 30, 1988

1. PURPOSE OF THE SCHEDULE

Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, requires a Schedule of Federal Financial Assistance showing total expenditures for each federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA). Significant federal financial assistance programs which have not been assigned a CFDA number have been identified.

2. SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity - The accompanying schedule includes all federal financial assistance programs of the State of Maine for the fiscal year ended June 30, 1988. The reporting entity is defined in Note 1A of the component unit financial statements of the State of Maine.

B. Basis of Presentation - The information in the accompanying Schedule of Federal Financial Assistance is presented in accordance with OMB Circular A-128.

1. Federal Financial Assistance - Pursuant to the Single Audit Act of 1984 (Public Law 98-502) and OMB Circular A-128, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, non-monetary federal assistance, including food stamps, and food commodities, is included in federal financial assistance and, therefore, is reported on the schedule of federal financial assistance. Federal financial assistance does not include direct federal cash assistance to individuals.

2. Major and Nonmajor Programs - The Single Audit Act of 1984 and OMB Circular A-128 establish the levels of expenditures or expenses to be used in defining major and nonmajor federal financial assistance programs. Major programs for the State of Maine are those which exceeded $3,000,000 in expenditures, distributions, or issuances for the fiscal year ended June 30, 1988.

C. Basis of Accounting - The information presented in the Schedule of Federal Financial Assistance is presented primarily on the cash basis of accounting, which is consistent with the other federal grant reports. Maine's component unit financial statements are reported on the modified accrual basis of accounting and, therefore, the schedule's data may not be directly traceable to the component unit financial statements.

3. VARIOUS PROGRAM NOTES

A. Department of Educational and Cultural Services - Food Distribution Program (CFDA #10.550): The reported total of federal financial assistance represents the value of food commodities distributed to various schools, institutions, and other qualifying entities. The value of inventory at June 30, 1988 was $955,750.

B. Department of Human Services - Food Stamps (CFDA #10.551): The reported total of federal financial assistance represents the value of food coupons issued. The value of inventory at June 30, 1988 was $12,309,073.

C. Department of Human Services - Food Distribution (CFDA #10.550): The amount reported represents cash in lieu of commodities expended in the Elderly Feeding Program.

D. Executive Department - Division of Community Services - Food Distribution (CFDA #10.550): The reported total of federal financial assistance consists of the value of food commodities distributed under the Temporary Emergency Food Assistance Program (TEFAP). The value of inventory at June 30, 1988 was $910,353.

E. Department of Administration - Bureau of Purchases - Federal Surplus Property (CFDA #39.003): Distributions are reported at their federally assigned value. The value of inventory at June 30, 1988 was $223,829.

F. Department of Labor - Unemployment Insurance (CFDA #17.225): Total expenditures reported under CFDA #17.225 is composed of the following:

U.I. Administrative Grant	$ 8,636,744
Trade Readjustment Act (FUBA)	2,248,595
Unemployment Compensation for Federal Employees	691,129
Unemployment Compensation for Ex-service Personnel	831,405
Unemployment Compensation for Ex-postal Workers	99,096
Federal Supplemental Compensation	(32,112)
Employment & Training Assistance/Public Service Employment	985
Special Unemployment Assistance/Previously Uncovered Services	963
Total	$12,476,805

4. RECONCILIATION OF THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

Each agency utilized its own methods and interpretations of reporting requirements to develop information contained in the Schedule of Federal Financial Assistance. A reconciliation of total federal expenditures, as reflected in the component unit financial statements of the State of Maine for the year ended June 30, 1988, to the Schedule of Federal Financial Assistance indicated a net variance of approximately 0.15%.

STATE OF MAINE
DEPARTMENT OF AUDIT
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditors' Report on Internal Accounting Controls Based Solely on a Study and Evaluation Made as a Part of an Audit of the Component Unit Financial Statements

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

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

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

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

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

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

****

Lack of Sufficient Current Policies and Procedures

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

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

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

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

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

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

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 6, 1989

STATE OF MAINE
DEPARTMENT OF AUDIT
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Internal Controls (Accounting and Administrative) - Based on a Study and Evaluation Made as a Part of an Audit of the Component Unit Financial Statements and the Additional Tests Required by the Single Audit Act

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

We have audited the component unit financial statements of the State of Maine oversight unit for the year ended June 30, 1988, and have issued our qualified report thereon dated July 6, 1989. As part of our audit, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, the standards for financial and compliance audits contained in Government Auditing Standards issued by the U.S. General Accounting Office, the Single Audit Act of 1984, and the provisions of OMB Circular A-128, Audits of State and Local Governments. For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs in the following categories:

Accounting Controls

Revenue
Purchasing and receiving
Expenditures
Payroll
Inventory control
General ledger

Administrative Controls

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

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

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

Because of inherent limitations in any system of internal accounting and administrative controls used in administering federal financial assistance programs, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the systems to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study included all of the applicable control categories listed above. During the year ended June 30, 1988, the State of Maine expended 90% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

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

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

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

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

The following State of Maine agencies, which administer the listed federal financial assistance programs, did not have adequate controls established to ensure that subrecipient audits are performed and properly monitored in accordance with OMB Circular A-128 or A-110.

State Agency	Program	Federal Catalog No.
Executive Department - Community Services	Temporary Emergency Food Assistance Program	10.568
	Low Income Home Energy Assistance Block Grant	13.789
	Weatherization Assistance Program	81.042
Department of Human Services	Special Supplemental Food Program - Women, Infants, Children	10.557
	Child Care Food Program	10.558
	Nutrition Services	13.635
	Grants for Supportive Services and Senior Citizens	13.663
	Social Services Block Grant	13.667
	Preventive Health and Health Services Block Grant	13.991
	Alcohol and Drug Abuse and Mental Health Block Grant	13.992
	Maternal and Child Health Service Block Grant	13.994
	Senior Community Services Employment Program	17.235
	Rehabilitation Services Basic Support	84.126
Department of Labor	Job Training Partnership Act	17.250
Department of Mental Health and Mental Retardation	Social Services Block Grant	13.667
	Alcohol and Drug Abuse and Mental Health Services Block Grant	13.992

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our audit of the 1988 component unit financial statements and (2) our audit and review of the state's compliance with laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures for each major federal financial assistance program and nonmajor federal financial assistance program. This report does not affect our reports on the component unit financial statements and on the state's compliance with laws and regulations dated July 6, 1989.

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

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 6, 1989

STATE OF MAINE
DEPARTMENT OF AUDIT
STATE HOUSE STATION 66
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STATE AUDITOR

Independent Auditor's Report on Compliance at the Component Unit Financial Statement Level

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

We have audited the component unit financial statement of the State of Maine oversight unit for the year ended June 30, 1988, and have issued our qualified report thereon dated July 6, 1989. Our audit was made in accordance with generally accepted auditing standards and the standards for financial and compliance audits contained in Government Auditing Standards, issued by the U.S. General Accounting Office and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the State of Maine is responsible for the State's compliance with laws and regulations. In connection with our audit referred to above, we selected and tested transactions and records to determine the State's compliance with laws and regulations noncompliance with which could have a material effect on the component unit financial statements of the State.

The results of our tests indicate that for the transactions tested the State of Maine complied with those provisions of laws and regulations noncompliance with which could have a material effect on the component unit financial statements. Nothing came to our attention that caused us to believe that for the items not tested the State of Maine was not in compliance with laws and regulations noncompliance with which could have a material effect on the State of Maine's component unit financial statements.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 6, 1989

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Compliance at the Federal Financial Assitance Program Level (Major and Nonmajor Programs)

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

We have audited the component unit financial statements of the State of Maine for the year ended June 30, 1988, and have issued our qualified report thereon dated July 6, 1989. Our audit was made in accordance with generally accepted auditing standards; the standards for financial and compliance audits contained in the Government Auditing Standards, issued by the U.S. General Accounting Office; the Single Audit Act of 1984; and the provisions of OMB Circular A-128, Audits of State and Local Governments and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The management of the State of Maine is responsible for the state's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records from each major federal financial assistance program and certain nonmajor federal financial assistance programs. The purpose of our testing of transactions and records from those federal financial assistance programs was to obtain reasonable assurance that the State of Maine had, in all material respects, administered major programs, and executed the tested nonmajor program transactions, in compliance with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

Our testing of transactions and records selected from major federal financial assistance programs disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they relate are identified in the accompanying schedule of compliance findings and questioned costs.

In our opinion, which is based, insofar as it relates to the Department of Educational and Cultural Services, Stafford Loan Program, on the report of other auditors, subject to the effect of the ultimate resolution of those instances of noncompliance referred to in the preceding paragraph, for the year ended June 30, 1988, the State of Maine administered each of its major federal financial assistance programs in compliance, in all material respects, with laws and regulations, including those pertaining to financial reports and claims for advances and reimbursements, noncompliance with which we believe could have a material effect on the allowability of program expenditures.

The results of our testing of transactions and records selected from nonmajor federal financial assistance programs indicate that for the transactions and records tested the State of Maine complied with the laws and regulations referred to in the second paragraph of this report, except as noted in the accompanying schedule of compliance findings and questioned costs. Our testing was more limited than would be necessary to express an opinion on whether the State of Maine administered those programs in compliance in all material respects with those laws and regulations noncompliance with which we believe could have a material effect on the allowability of program expenditures; however, with respect to the transactions and records that were not tested by us, nothing came to our attention to indicate that the State of Maine had not complied with laws and regulations other than those laws and regulations for which we noted violations in our testing referred to above.

Rodney L. Scribner CPA

Rodney L. Scribner CPA
State Auditor

July 6, 1989

Schedule of Compliance Findings and Questioned Costs

For the Year Ended June 30, 1988

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Administration		
Bureau of Public Improvements Various Federal Programs (1) Required clauses not contained in procurement records	Bureau of Public Improvements contract procurement policies do not comply with Federal statutes and executive orders and their implementing regulations. The Bureau of Public Improvements is responsible for reviewing plans, inspecting construction, and approving the expenditure of funds involving State appropriations for all public improvements (5 MRSA, Ch. 153). Therefore, its policies should meet all relevant procurement standards. Procurement standards for use by grantees in establishing procedures for the procurement of supplies, equipment, construction, and other services with federal grant funds are delineated in Attachment "O" of OMB Circular A-102 (revised 8/24/77) and the recent revision dated March 31, 1988, and the Federal Agency Implementation of Common Rule for Uniform Administative Requirements for Grants and Cooperative Agreements with State and Local Governments, Subpart C, Section §-.36 (Procurement), paragraph (i), (1) through (13). The bureau's contract documents do not include six of the thirteen procurement provisions referred to as (i), (1) through (13) in the preceding paragraph. Questioned Costs: None	Recommendation: We recommend that the Bureau of Public Improvements comply with all of the procurement standards to conform to federal law and the standards identified in Section §-.36 (Procurement). Auditee Response: We agree with your findings and recommendations regarding contract procurement policies. We will take the appropriate steps to implement corrective action to ensure the Bureau is in compliance with all relevant procurement standards.
Bureau of Purchases Various Federal Programs (1) Required clauses not contained in procurement records	The Office of Management and Budget Circular A-102, "Grants and Cooperative Agreements with State and Local Governments", and section §-36 of the Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments requires that grantee contracts include certain provisions when procuring property and services under a grant. These provisions include: (1) Administrative, contractual, or legal remedies in instances where contractors violate or breach contract terms, and provide for such sanctions and penalties as may be appropriate, (contracts other than small purchases); (2) Termination for cause and for convenience by the grantee or subgrantee including the manner by which it will be effected and the basis for settlement, (all contracts in excess of $10,000), etc. Questioned Costs: None	Recommendation: We recommend that all grantees contracts contain provisions to comply with the uniform administrative requirements for grants and cooperative agreements with state and local governments when procuring property and services. Auditee Response: We are in the process of revising our purchasing procedure as a result of interfacing with the new MFASIS System. Through this revision, we intend to address the concerns you pointed out regarding "procedures to ensure that appropriate clauses are included on procurement activities involving the expenditure of Federal Funds". These changes will be incorporated in all revised forms and procedure. We will be submitting these changes to our Attorney for review and will forward same information to you for your review.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Defense and Veterans' Services		
Disaster Assistance Program CFDA #83.516 (1) Excess federal cash on hand	Federal regulations promulgated in 44 CFR §114 (F)(2) state, in part, that "States as well as applicants shall adopt procedures to minimize the time elapsing between the transfer of funds, from the United States Treasury to the state or grantee and their subsequent disbursement by the grantee for authorized program purposes." The Disaster Assistance Program had excess federal cash on hand during fiscal year 1988. The average cash balance amounted to $239,637.77 while average daily disbursements were $16,192.03. This resulted in the Disaster Assistance Program having approximately 14.8 days of cash on hand to meet program needs. An advance of $287,201.98 was received in the prior fiscal year which should have been returned to the grantor agency. The Department of Defense and Veterans' Services was waiting for instructions from FEMA on how to return the funds. The instructions were not received by the department until May 1988 at which time the reimbursement of $287,201.98 was made. Questioned Costs: None	Recommendation: We recommend that the Department of Defense and Veterans' Services review their federal cash management procedures to minimize the time which elapses between the transfer from the United State Treasury to disbursement for authorized program purposes. Auditee Response: Actually the funds had been requested through normal, standard procedures, based on estimates provided this Agency by the IFG (Department of Human Services) claims administrator, which turned out to be substantially overstated.
(2) Federal financial reports not completed Prior year finding	The Federal Emergency Management Agency (FEMA) requires its grantees to prepare and submit Financial Status Reports (SF 269) within established time frames as promulgated in Attachment H of OMB Circular A-102. These reports are usually prepared on a quarterly basis. Our examination disclosed that neither of the required quarterly reports were prepared during fiscal year 1988. As a result of communications with the regional office of the oversight agency, administrative personnel were apparently under the impression that they were not required to submit the required financial reports. Questioned costs: None	Recommendation: We again recommend that program personnel of the Department of Defense and Veterans' Services prepare and submit the required financial reports to the grantor agency (FEMA). Auditee Response: This issue is currently being addressed by program personnel. Although it is no excuse for not completing same, apparently federal program personnel were not too concerned about receiving them, so our program personnel did not submit them.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Economic and Community Development		
Community Development Block Grant CFDA #14.228 (1) Administrative expenses exceeded allowable maximum	Public Law 97-35, Section 304(c) places a limitation on the amount of administrative expense which can be charged to a grant. Our examination determined that administrative costs charged to the 1987 grant exceeded the allowable maximum. Questioned Costs: $332.93	Recommendation: We recommend that administrative costs be monitored to ensure that cumulative charges do not exceed the maximum expense allowable. Auditee Response: DECD has developed financial procedures to ensure that cumulative charges do not exceed the administrative allowance for each grant year award. Questioned costs of $332.93 will be corrected and applied to available administrative funds of following grant.
(2) Schedule of Federal Financial Assistance incorrect	During the fiscal year, operation of the CDBG program was transferred from the State Planning Office to the Department of Economic and Community Development. Expenditures reported on the Schedule of Federal Financial Assistance (FFA) are a consolidation of the activity of each administering agency. Neither agency was able to provide evidence to support their compilation nor could any reconciliation to the State Controller's records be produced. A transfer of an expenditure between agencies during the termination period was not recorded as a expense on either agency's records. The transfer amounted to $25,000.00. OMB Circular A-102, Attachment G, requires that grantees maintain financial management systems which provide complete and current disclosure of the financial results of each grant program; records that adequately identify the source and application of grant funds; accounting records that are supported by source documentation. Questioned Cost: $25,000.00	Recommendation: We recommend that reconciliation between agency records and the State Controller's records be prepared on a regular basis. We also recommend that documentation in support of amounts being reported on the Schedule of Federal Financial Assistance be retained and made available for audit. Auditee Response: A journal entry by SPO was made to credit SPO allotment for $25,000, All Other. In error, cash was also credited to SPO which in effect negated the cash disbursement and reduced the record of total cash disbursed to grantees. This happened during the Sept/Oct transition period when DECD became a department and at a time when correct cash balances were not reflected on the controller's analysis sheets for the Federal Block Grant Accounts. DECD has implemented a financial management system to track payments and expenses in order to make timely reconciliation to the State Controller's records.

Program Department of Educational and Cultural Services	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Food Distribution Program CFDA #10.550 (1) Written agreements missing	7 CFR Section 250.6 (b) requires distributing agencies to have written agreements with subdistributors, recipient organizations, warehousemen, and carriers. We were unable to locate a written agreement for one of 25 agencies examined which received donated food commodities. Also there was no written agreement between the department and the trucking company used to distribute food commodities. Questioned Costs: None	Recommendation: We recommend that written agreements be on file. Auditee Response: The Division of Food Distribution is considering restricting the distribution of foods to schools and summer food service operations. The reduction in the number of Recipient Agency workload would permit increased accuracy in maintaining records. There is a written contract in effect on July 1, 1989 for the receipt, storage and distribution of United States Department of Agriculture (U.S.D.A.) commodity foods.
(2) Control over processor performance reports is inadequate	Of twenty-five processor performance reports examined four reports were submitted late and eight reports were not date stamped when received. We could not determine when two of the eight reports were received. 7 CFR Section 250.15 (m) stipulates that processor performance reports shall be received no later than the final day of the month following the reporting period. Questioned Costs: None	Recommendation: We recommend that the department establish procedures to insure timely submission of processor performance reports. Auditee Response: We concur. The division has procured an electric dater. All incoming correspondence is dated when received. Because the majority of processors are out-of-state firms, when a performance report is not received by the due date, it requires considerable time to request and receive a duplicate copy.
(3) Shipping documentation was not on file	It was noted that shipping tickets were not on file for deliveries to three agencies. 7 CFR Section 250.6 (c) requires complete and accurate records to be maintained with respect to the receipt, disposal and inventory of donated commodities. Questioned Costs: None	Recommendation: We recommend that the department file and maintain required documentation of donated commodity transactions. Auditee Response: We concur. Because of a shortage of personnel, funding and adequate office space, the division is considering restricting the distribution of foods to schools and summer food service operations. The reduction in the workload would permit increased accuracy in maintaining records.

Program

Department of Educational and Cultural Services

Educationally Deprived Children - LEA

CFDA #84.010

Inadequate financial and cash management monitoring practices employed by the State Chapter I office

Findings/Amount of Questioned Costs

The State Chapter I office is not adequately monitoring the financial operations and cash needs of subrecipient local educational agencies (LEA). Of 25 projects reviewed:

a. Seventeen projects had submitted requests to carry unexpended cash balances forward to the next year. Of these seventeen projects, seven reported cash on hand in excess of 10% of the expenditures for the fiscal year;

b. Ten carryover request forms were submitted late;

c. Annual financial reports were not submitted for three projects;

d. One subrecipient, whose annual financial report indicated unspent cash on hand, did not submit a request to carry those funds over to the next year and has not returned any monies to the state.

OMB Circular A-102, Attachment G requires that grantee financial management systems provide for effective control over and accountability for all funds and that advances to subrecipients shall be made as close as possible to the time the secondary recipient disburses those funds.

Additionally, 34 CFR 200.43 requires state educational agencies to determine LEA's which receive funds in excess of amounts needed and reassess funding allocations accordingly.

Questioned Costs: None

Recommendation/Auditee Response

Recommendation:
We recommend that the State Chapter 1 program office develop and implement procedures to insure that financial reports are received in a timely manner That payments to subrecipients be made as close as possible to the date funds are to be disbursed and that unapproved expenditures by LEA's of carryover funds be permitted.

Auditee Response:

a. We concur. A review of all fund request applications will be conducted considering both new year needs as well as old year carryover amounts.

b. We concur. The Chapter I staff has been instructed to carefully review all financial reports to determine if unexpended funds exist from the previous year. If the LEA does not submit a carryover request and spends the funds without approval, such funds will be recovered by the state.

c. We concur. A verification checksheet will be developed for use by consultants and financial staff.

d. We concur. We have instructed the LEA's to submit various required reports before Chapter I projects will be approved.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Educational and Cultural Services Handicapped - State Grants CFDA #84.027 (1) Grant was overexpended and incorrectly reported	The Maine Department of Educational and Cultural Services is not in compliance with part of OMB Circular A-87, Attachment A. An overexpenditure of funds available under grant No. E-027A80020 was reported to the U.S. Department of Education on the Federal Cash Transaction Report (PMS 272) as expenditures under grant No. D-00870020. Under OMB Circular A-87, Attachment A, Paragraph 2(b), "any cost allocable to a particular grant or cost objective under the principles provided for in this Circular may not be shifted to other Federal grant programs...." The costs charged to the incorrect grant are also questioned due to their not being allocable to those grants as described under OMB Circular A-87, Paragraph 2(a) which states that "A cost is allocable to a particular cost objective to the extent of benefits received by such objective." Questioned Costs: $11,973.89	Recommendation: We recommend that the department adjust the Federal Cash Transaction Report to reflect expenditures under the appropriate grant. We also recommend that procedures be implemented which will prevent both the overexpenditure and incorrect reporting of grants in the future. Auditee Response: We concur. When a grant is not received on time, the old year grant is used to continue operations. When the new grant is received, these expenditures are transferred over from the old grant. This was not done for the program in question. We have developed procedures to prevent this from happening in the future.
(2) No control of capital assets purchased by subrecipients is maintained Prior Year Finding	The Division of Special Education does not maintain inventory records of capital equipment purchased with federal funds at the subrecipient level. The division relies on audits of subrecipients to identify any deficiencies in the property management system, and to provide assurance that the provisions of OMB Circular A-102, Attachment N, are being implemented. Questioned Costs: None	Recommendation: We recommend that the Division of Special Education establish and maintain inventory records of capital assets purchased with federal funds by subrecipients and perform a periodic inventory of those assets. Auditee Response: We concur. The division is implementing a system comparable to that utilized by the Division of Compensatory Education.

Program	Findings/Amounts of Questioned Costs	Recommendation/Auditee Response
Department of Educational and Cultural Services		
Handicapped - State Grants CFDA # 84.027 (3) Distribution requirements to LEA's not met	34 CFR Section 300.706 (b) requires a minimum of 75% of funds received for special education programs be distributed to local education agencies (LEA). Program expenditures to LEA's were $46,565.00 less than the minimum distribution requirement. Questioned Costs: $46,565.00	Recommendation: We recommend that procedures be established to insure adherence to mandated fund distribution requirements. Auditee Response: The allocation of local entitlement will be adjusted to assure not less than 75% is distributed to school units.
(4) Administrative costs exceeded allowable limits Prior Year Finding	34 CFR Section 300.620 imposes restrictions relative to the amount of administrative costs chargeable to the grant program. For the federal fiscal year ended September 30, 1987, administrative costs exceeded the allowable maximum by $354,211.63. However, due to state and federal fiscal year differences, $65,325.38 was previously questioned in the June 30, 1987 audit report. The remainder is questioned herein. Questioned Costs: $288,886.25	Recommendation: We recommend that controls be instituted to both monitor administrative costs and insure costs are properly classified. Auditee Response: Corrective action has been taken to address expenditures under administrative costs. As a result of appropriations enacted by the 114th Legislature, the support for attorney generals will not be charged to the program. A cost allocation plan for division personnel and services will distribute costs between administration and support services to assure no more that 5% is expended for administration.
(5) Cash disbursed to subrecipients is not based on needs; no attempt is made to minimize federal cash on hand; subrecipient fiscal monitoring is inadequate	Payments to subrecipients are made for a predetermined amount which may not represent actual cash needs. Subrecipients' cash on hand is not adequately monitored.	Recommendation: We recommend that an estimated cash flow statement for expenditures be submitted as part of the subrecipients' applications. More frequent reporting of expenditures is also recommended, as well as a provision to adjust cash payment amounts if surplus cash on hand is noted. Auditee Response: a. We concur. The problem has now been corrected. b. We concur. The problem has not been corrected. c. The division is working to implement a corrective action plan which will require sending a communication to LEA's, prior to final payment, to determine cash needs.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Educational and Cultural Services Handicapped - State Grant CFDA #84.027 (5) (Cont'd.)	A review of twenty-five Local Educational Agencies (LEA) files disclosed the following instances of noncompliance with regulations governing use and management of federal cash as established by OMB Circular A-102, Attachment G and 34 CFR §74.61 and 74.92: • Two subrecipient requests to carry-over unexpended funds from FY'88 to FY'89 due August 15, 1988 were not submitted. • One subrecipient did not submit a required annual financial report. • Eight subrecipients had carry-over amounts in excess of 15% of total expenditures. Questioned Costs: None	
(6) Subrecipient agreements do not contain Equal Employment Opportunity (EEO) provisions	OMB Circular A-102, Attachment O states that contracts awarded by grantees, their contractors and subgrantees, having a value of $10,000.00 or more shall contain a provision requiring compliance with Equal Employment Opportunity (EEO) Regulations. Special Education Division agreements do not contain required EEO provisions. Questioned Costs: None	Recommendation: We recommend that the Special Education Division revise subgrant documents to include required Equal Employment Opportunity provisions. Auditee Response: The division maintains the position that appropriate assurances have been completed by sub-recipients. However, application materials developed and revised this year will include the required written clarification.
Stafford Loan Program CFDA #84.032 (1) Lender review was not completed within specified time limits	34 CFR §682.410 requires that guarantee agencies conduct biennial on-site program reviews of at least each of the ten largest lenders whose loans are being guaranteed. Our examination disclosed that one of these reviews was not completed within the two year period. Questioned Costs: None	Recommendation: We recommend that procedures be instituted that will insure that required reviews are completed within specified time limits. Auditee Response: We concur. The hard copy of all forms (i.e., repayment note, deferment form, and forbearance form) is at a loan servicer in California. It was necessary to have these forms shipped to Bangor in order to allow for a proper program review, and there was insufficient time.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Educational and Cultural Services		
Vocational Education - Basic Grants CFDA #84.048 (1) Fiscal monitoring of subrecipient cash on hand is inadequate	OMB Circular A-102, Attachment G, requires advances from a primary recipient to subrecipients to be as close as possible to the time of making disbursements. Our examination noted six instances where, at year end, unexpended funds in the possession of subrecipients exceeded 20% of their grant award. Questioned Costs: None	Recommendation: We recommend that the Vocational Education Division institute procedures that monitor and effectively manage cash on hand at the subrecipient level. Auditee Response: We concur. As of July 1, 1989, the bureau grant manager will review the budget page and verify that the payment schedule acurately reflects what the recipient needs for cash on hand.
Improving Schools Program - State Block Grants CFDA #84.151 (1) Payroll charges are not being allocated	Payrolls for an accountant position were charged exclusively to the Improving Schools Program while the work performed benefited more than one program. OMB Circular A-87, Attachment A(C)2a states that program charges must be based upon the benefits received by that program. In addition, Attachment A(E)1 defines direct costs as those costs that are specifically identifiable with a particular cost objective. Questioned Costs: $23,900.00	Recommendation: We recommend that an allocation plan be developed and implemented that will distribute costs in relation to benefits received. Auditee Response: We concur. Approval to charge 100% of employee's payroll was approved by the Chapter 2 Office in Washington. The accountant position in question was removed from the Chapter 2 grant for fiscal year 1990 and will be charged to the general fund.
Various Federal Programs (1) Payroll costs are not being distributed among grant programs	A cost allocation plan is required to support the distribution of any joint costs related to the grant program. (OMB Circular A-87 Attachment A (J)(1)). Our examination disclosed personnel costs were charged to various federal programs for employees who did not exclusively work for those programs CFDA # — Program — Amount 84.027 Handicapped - State Grant — $45,500 84.024 Handicapped-Early Childhood Education and 84.173 Handicapped-Preschool Incentive Grants — $32,200 Total questioned Costs — $77,700	Recommendation: We recommend that a cost allocation plan be developed that will charge each federal program according to benefits received. Auditee Response: Handicapped State Grant: We concur. The Division of Special Education will develop a cost allocation plan in addition to that detailed in the program plan provided by the Office of Special Education and Rehabilitative Services, U.S. Department of Education. Handicapped-Early Childhood Education and Handicapped Pre-school Incentive: Appropriate action has been implemented.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Educational and Cultural Services		
Various Federal Programs (2) Annual performance reports filed late	Annual performance reports were not submitted by their respective due dates for the following programs: CFDA # 84.002 Adult Education 84.009 Education of Handicapped Children in State Operated or Supported Schools 84.027 Handicapped - State Grants 84.029 Handicapped Education - Special Education Personnel Development 84.155 Removal of Architectural Barriers to the Handicapped 84.164 State Grants for Strengthening the Skills of Teachers 84.173 Handicapped - Preschool Grants 84.146 Transition Program for Refugee Children OMB Circular A-102, Attachment H and I require performance reports to be filed no later than ninety (90) days after the end of the reporting period. Questioned Costs: None	Recommendation: We recommend that required reports be prepared and submitted in a timely manner. Auditee Response: We concur. Performance reports will be prepared and filed in a timely manner.
(3) Legal fees incurred by the department have not been distributed equitably Prior Year Finding	Legal fees assessed by the Department of the Attorney General are being recorded as charges to federal programs and are not based upon actual benefits received or any cost allocation plan. OMB Circular A-87 states that for a cost to be allowable under a grant program the cost must be necessary, reasonable and allocable thereto, to the extent of benefits received. CFDA # 10.560 State Administrative Expense for Child Nutrition $ 7,742.00 15.904 Historic Preservation Grants-in-Aid 3,580.00 84.002 Adult Education - State Administered Program 2,130.00 84.004 Civil Rights Technical Assistance and Training 3,893.00 84.012 Educationally Deprived Children - State Administration 10,608.00 84.027 Handicapped - State Grants 53,657.01 84.032 Higher Education Act Insured Loans 3,522.99	Recommendation: We recommend that an allocation plan be implemented to equitably distribute legal costs. Auditee Response: The Department of Attorney General has appropriated general fund dollars to cover the costs of the two assistant attorney's general, effective in fiscal year 1990.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Educational and Cultural Services Various Federal Programs (3) (Cont'd.)	84.048 Vocational Education - Basic Grants to States $ 7,155.00 84.164 State Grants for Strengthening the Skills of Teachers 1,474.84 Total questioned Costs $93,762.84	
(4) Cash transactions report not filed in a timely manner	OMB Circular A-102, Attachment H, Section 3(b)(4) stipulates that the SF-272 is to be filed within fifteen (15) days of the end of a quarter. The Federal Cash Transactions Reports (SF-272) were not filed in a timely manner. Questioned Costs: None	Recommendation: We recommend that procedures be developed that will enable reports to be prepared and submitted on a timely basis. Auditee Response: OMB Circular A-102, Attachment H, Section 3 (B)(4) requires the report to be filed within 15 working days at the end of each quarter. However, the department does not receive the report from the federal government to file until 45 days after the end of the quarter. The division has requested a written waiver from the U.S. Department of Education for a later filing date.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Executive Department		
Division of Community Services Temporary Emergency Food Assistance CFDA #10.568 (1) Duplicate payment	A duplicate payment of $532.17 was made to a storage facility. The state has taken corrective action by an amount equivalent to the overpayment in a recent payment to the same storage facility. Questioned Costs: None	Recommendation: We recommend that care be taken in the processing of expenditure transactions. Auditee Response: More care will be taken in the processing of expenditure transactions.
(2) Financial report inaccurate	The Financial Status Report (SFR 269) for the quarter ending 6/30/88 contained 4 variances between reported and actual expenditures. As a result, net expenditures for the quarter were understated. The largest variance, of $1,090.97, was corrected on the SFR 269 for the subsequent period. Questioned Costs: None	Recommendation: To ensure that accurate financial information is reported to the federal funding agency, we recommend that care be used in accumulating information for financial reports. Auditee Response: The preparer of the report will provide a reconciliation of reported expenditures and general ledger amounts to be signed off by the business manager which will serve as a trail for any necessary adjusting entries.
Community Services Block Grant CFDA #13.665 (1) Distribution methods of awards to subrecipients Prior year finding	The distribution of Community Services Block Grant (CSBG) funds to subrecipients is based on the percentage of prior contract award amounts for each subrecipient in relation to the total amount of CSBG funds awarded to subrecipients. Program rules developed by the division provide distribution guidelines which are based on established poverty levels. Information on poverty levels has not been updated since the 1980 census. Due to this lack of current census information, the current distribution methodology is not in compliance with either 5 MRSA §. 3522 which requires a distribution according to rules promulgated by the division or with established program rules. Questioned Costs: None	Recommendation: We recommend that the agency consider the revision of CSBG rules to facilitate an alternative method of allocation. Auditee Response: Updated poverty level information is unavailable until 1990 census data is issued. The division will calculate the allocation of the funds according to Section 1-10 of the program rules.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Executive Department Division of Community Services Weatherization Assistance Program for Low-Income Persons CFDA #81.042 (1) No evidence to indicate compliance on behalf of program service providers with minimum requirements	10 CFR §440.16 requires that priority be given to identifying and providing weatherization assistance to elderly and handicapped low-income persons. No evidence was found that program service providers (CAP agencies) complied with state and federal rules and requirements for assuring that priority is given to eligible low income households with a member who is elderly, handicapped or under 24 months of age. In addition no evidence was found that the state agency has established procedures to verify compliance with these rules. Questioned Costs: None	Recommendation: We recommend that the Division of Community Services verify that its subrecipients (CAP agencies) are complying with state law/rules (and thus federally mandated program regulations) concerning the prioritizing of client services to the designated target groups. Auditee Response: The division had recognized and corrected the deficiency.
(2) Limitation on expenditures for weatherization materials	The Division of Community Services has instituted a program that limits weatherization expenditures in the category of general heat waste (stated by Weatherization Program Final Rules to be the most cost effective weatherization measure) to $50.00. 10 CFR §440.21 requires the most cost effective measure to be used before any lower rated procedure or device. No evidence was found to support the reasonableness of this limitation. Questioned Costs: None	Recommendation: We recommend that the "Core" program's $50.00 materials limit be reevaluated for conformity with federal standards and that the program/rules be revised to accommodate changing standards. Auditee Response: The "CORE" program is based on various nationally recognized studies of the cost effectiveness of weatherization measures, and is acknowledged by our regional Department of Energy support office.
(3) Unallowable payroll charges	Payroll costs of $504.98 directly allocable to the Low Income Home Energy Assistance Program (LIHEAP) were charged to the Weatherization Assistance Program. Under the provisions of OMB Circular A-87, Attachment A, Paragraph (C)(2)(a), "A cost is allocable to a particular cost objective to the extent of benefits received by such objective." Questioned Costs: $504.98	Recommendation: We recommend that these payroll costs be properly allocated to the related program. Auditee Response: Journal entries to appropriately charge program were made.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Executive Department		
Division of Community Services Weatherization Assistance for Low-Income Persons CFDA #81.042 (4) Travel expenses incorrectly charged	A voucher included $13.20 in travel related expenses which were incorrectly charged to the Weatherization Assistance Program. According to OMB Circular A-87, Attachment A, Paragraph (C)(2)(a), "A cost is allocable to a particular cost objective to the extent of benefits received by such objective." Questioned Costs: $13.20	Recommendation: We recommend that only allowable costs incurred on behalf of activities directly related to the objectives of this grant program be recognized and charged. Auditee Response: Journal entries to appropriately charge program were made and corresponding federal reporting documents revised.
(5) Monitoring of subrecipients	10 CFR §440.12 (6)(b) requires grantees to submit a report on monitoring activities on Form SF EIA 459E (Federal Assistance Management Summary Report). Some data reported on the March 31, 1988 report was incorrect and inconsistently compiled as follows: • Inspections were sometimes reported based on the date of visit and in other cases the date of the report. • Reported monitoring activities included 4 visits and 27 inspections of Health and Human Services funded units. • Minor discrepencies were noted in the number of units inspected. (In one instance, 8 units were reported, when 10 units were inspected; in the second instance, 9 units were reported, when 8 were inspected.) Questioned Costs: None	Recommendation: We recommend that DCS personnel review the accuracy of information compiled and reported for the year ended March 31, 1988. Auditee Response: A tracking system for actual monitoring activities has been devised and implemented which will form the foundation of the reporting requirements to the funding source for the current year.
Petroleum Violation Escrow (PVE)/Exxon and Stripper Well Funds (1) Subrecipient expenditure classification	One of the subrecipient Community Action Program agencies submitted billings that included a combined cost component (materials related costs charged as materials). The combined cost component resulted from use of the materials/support costs proportions reported by a single subcontractor for his entire business operations, for a previous period, to costs reported by all subcontractors of the Community Action Program (CAP) agency. Questioned Costs: None	Recommendation: We recommend that reported Community Action Program agencies' expenditures reflect the actual nature of the expenditure, rather than an assumed cost component mix. Auditee Response: As of April 1, 1989, Division of Community Services has implemented a revised system for calculating indirect costs of materials, previously referred to as "combined costs." This system defines allowable cost categories, based on Department of Energy guidance, and requires proper documentation be maintained at the Community Action Program agencies. The division will review the documentation during fiscal monitoring visits.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Executive Department Division of Community Services Petroleum Violation Escrow (PVE)/Exxon and Stripper Well Funds (2) Expenditures in excess of budgeted amount	Division of Community Services contract provisions require subgrantees to obtain approval for budget line item variances over 10%. At least 25% of the subgrantees tested were reimbursed for expenditures in excess of 10% without prior approval. Questioned Costs: None	Recommendation: The Division of Community Services should either revise the contract provisions or implement procedures to ensure that it is enforced. Auditee Response: A new budgeting procedure has been developed and is being implemented to ensure compliance with this rule.
(3) STA-CAP charges incorrectly charged to federal funds	PL 1986, c. 818, §4, states that an allowance for administrative purposes is permitted only in the event of a federal court order or a change in federal regulations. STA-CAP (state cost allocation plan) charges of $773.29 were incorrectly charged to the Exxon Oil Overcharge Fund. An oversight on the part of agency administrative personnel resulted in noncompliance with state law and with a June 9, 1986 clarifying order issued by the U.S. District Court for the District of Columbia. Questioned Costs: None	Recommendation; We recommend that administrative expenses not be charged to the fund. An adjusting journal entry has been made to reverse the $773.29 STA-CAP charge to the Exxon Oil Overcharge Fund. Auditee Response: Journal entries to appropriately charge program were made and corresponding federal reporting documents revised.
Weatherization Assistance Program for Low-Income Persons CFDA #81.042 Petroleum Violation Excrow (PVE)/Exxon and Stripper Well Funds (1) Project scope not in agreement with State Plan	A total of 3,377 Department of Energy and Petroleum Violation Escrow units were to be completed in the grant year ended March 31, 1988, according to the approved State Plan. Per the final (closeout) EIA-459E forms for each program, a total of only 1,706 were completed. DOE did not approve a project scope revision. 10 CFR 600.114(c)(1) requires prior written approval of the funding source whenever revision of the scope of a project is anticipated. In addition, OMB Circular A-102, Attachment I (5)(a) requires a disclosure of problems, delays or adverse conditions which will materially affect the ability to attain program objectives. Questioned Costs: None	Recommendation: We recommend that the Division of Community Services base its completed units on reasonable subgrantee projections. Any project scope revisions, along with adequate explanations, should be submitted to the funding source for their prior written approval. Auditee Response: The division's method for projecting unit production is based on sound criteria. Monthly reports of production activity, along with a narrative to explain variances from projected activity level were submitted to the funding source. Revisions to the State Plan will be made to reflect variances from the projected activity level.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response

Executive Department

Division of Community Services

Temporary Emergency Food Assistance (Administrative Costs)
CFDA #10.568

Low-Income Home Energy Assistance
CFDA #13.789

(1) Incorrect charge to Low-Income Home Energy Assistance Program

Travel expenses in the amount of $554.45 directly related to the Temporary Emergency Food Assistance Program (TEFAP) were incorrectly charged to the Low-Income Home Energy Assistance Program .

Questioned Costs: $554.45

Recommendation;
To properly allocate program costs, we recommend that a journal entry be made to transfer this charge to the pertinent cost objective.

Auditee Response:
Journal entries to appropriately charge program were made and corresponding federal reporting documents revised.

Temporary Emergency Food Assistance (Administrative Costs)
CFDA #10.568

Weatherization Assistance Program for Low-Income Persons
CFDA #81.042

(1) Financial reports

Prior Year Finding

OMB Circular A-102 requires grantees to submit quarterly financial information reports on Form 269 (Financial Status Report). Quarterly reports are due within 30 days of the quarter end with final reports due 90 days after program end date. Likewise, 10 CFR §600.116 (referencing §600.115) requires the same of grantees of the Weatherization Assistance Program.

SFR 269s were filed late as follows:

	Due Date	Date Submitted
TEFAP	10/30/87	11/4/87
	12/30/87	12/31/87 (Revised 1/29/88
	1/30/88	2/9/88
WAP	7/30/87	8/24/87
	10/30/87	11/16/87
	1/30/88	2/3/88
	4/30/88	5/16/88

Questioned Costs: None

Recommendation:
We recommend that Division of Community Services fiscal staff implement procedures to provide required reports in a timely manner.

Auditee Response:
An automated system for generating Financial Status Reports was developed and implemented which has significantly decreased preparation time for the reports. Additionally, program assistants have been assigned follow-up responsibility to ensure timely reporting.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Executive Department		

Executive Department

Division of Community Services

Low-Income Home Energy Assistance CFDA #13.789

Temporary Emergency Food Assistance CFDA #10.568

Weatherization Assistance Program for Low-Income Persons CFDA #81.042

(1) Cash management

OMB Circular A-102 and 10 CFR §600.109(6)(s) require grantees' financial systems to include procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and their disbursement for grant or subgrant programs. The following programs had excessive cash on hand:

Program	Period	Average Daily Disbursements	Average Daily Balance	Number Days Cash on Hand
13.789	12/87	$ 18,499	$3,051,193	165
	1/88	506,928	3,839,665	8
	2/88	10,977	1,074,066	98
	3/88	6,288	1,000,364	159
10.568	7/87	1,083	23,043	21
	8/87	316	26,967	85
	9/87	1,093	8,769	8
	4/88	85	31,378	369
	5/88	889	35,944	40
	6/88	1,719	22,436	13
81.042	9/87	12,895	363,057	28
	10/87	3,251	410,227	126
	4/88	9,453	753,725	79
	5/88	17,676	764,379	43

Questioned Costs: None

Recommendation:
We recommend that DCS fiscal personnel determine the cause of the excessive cash balances; review cash on hand before requesting federal funds; and adjust drawdowns whenever a subgrantee's weatherization cash advance is being reduced.

Auditee Response:
A complete review of the cash management system will be undertaken to ensure compliance with federal regulations.

Temporary Emergency Food Assistance (Administrative Costs) CFDA #10.568

Community Services Block Grant CFDA #13.792

Low-Income Home Energy Assistance CFDA #13.789

Weatherization Assistance Program for Low-Income Persons CFDA #81.042

(1) Incorrect allocation of time worked

Five of ten employees, whose records were examined, either did not record or incorrectly recorded on their time sheets the proper distribution of their time devoted to the federal programs on which they were working.

OMB Circular A-87, Attachment B, Paragraph B(10), Subparagraph (b) states, "Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls documented and provided in accordance with generally accepted practice of the State...Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort."

Questioned Costs: None

Recommendation:
We recommend that all Community Services employees properly record on their time records actual hours worked in each program area in order that payroll costs can be appropriately distributed.

Auditee Response:
Supervisors with responsibility for signing time sheets have been given further clarification on their preparation. Written guidance is being prepared by the fiscal staff to strengthen the process of charging dollars to division programs.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Executive Department Division of Community Services Low Income Home Energy Assistance CFDA #13.789 Temporary Emergency Food Assistance (Administrative Costs) CFDA #10.568 Weatherization Assistance Program for Low-Income Persons CFDA #81.042 Budget Payment Assistance Program (BPAP) Emergency Crisis Intervention Program (ECIP) (1) Inadequate monitoring	Program monitoring did not comply with relevant federal regulations, the State Plan and/or program rules. Problems were noted in the number of visits conducted (BPAP and WAP), the scope of the visits (LIHEAP, TEFAP, BPAP), documentation of compliance items reviewed (LIHEAP, BPAP, TEFAP) and client file review (WAP). Monitoring reports were not timely (HEAP, BPAP, WAP). Reports were inconclusive and follow-up was not always performed. Items of apparent non-compliance (HEAP, HEAP/ECIP) were recorded and did not appear to have been explained or addressed. Certain specific requirements (monitoring of fuel vendors for LIHEAP and power companies for BPAP) were apparently not met. Fiscal monitoring requirements were not met. No visits were made for BPAP, WAP and TEFAP and only one visit was made for HEAP. OMB Circular A-102, 10 CFR §440 and State plans require monitoring to be done. OMB Circular A-128, Section 9(b) requires the recipient (DCS) to determine whether the subrecipient spent federal assistance funds provided in accordance with applicable laws and regulations. Audits of subrecipients for the period have not yet been performed. There has been almost no verification of subrecipient charges to the Division of Community Services, either by the agency or by independent auditors. There is limited assurance that $28 million in federal funds has been legally and appropriately expended. Questioned Costs: None	Recommendation: We recommend that the Division of Community Services hire, train and/or assign staff to meet the monitoring requirements of subrecipients. We also recommend that the new programs operations manager review all monitoring requirements and ensure that current work plans address these requirements. Work done should be documented, clarified and performed. Auditee Response: The division has hired two Field Examiners to perform monitoring functions. A new monitoring instrument, reviewed by division management, has been designed to address compliance on all programs, as well as to identify needs for training and technical assistance. In addition, the Maine Uniform Accounting and Administrative Procedures Act (MAAP) team will determine compliance through annual audits. In addition, an independent CPA firm has conducted compliance audits for the years prior to MAAP's functioning. Final reports on these audits are being reviewed by the division, and all issues of noncompliance will be addressed.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Executive Department		
Division of Community Services Temporary Emergency Food Assistance (Administrative Costs) CFDA #10.568 Low-Income Home Energy Assistance CFDA #13.789 Community Services Block Grant CFDA #13.792 Weatherization Assistance Program for Low-Income Persons CFDA #81.042 (1) Allocation of non-payroll costs	Accordingly to Attachment A, Paragraph (C)(2)(a) of OMB Circular A-87, "A cost is allocable to a particular cost objective to the extent of benefits received by such objective." Our review of the methods followed in allocating the divisions' non-payroll costs revealed the following deficiencies: 1) The division's cost allocation plan does not reflect current practices. 2) The allocation of travel and vehicle operation expenses has no verifiable basis. 3) The basis for allocating the cost of consumable materials and supplies, telephone charges, and fringe benefits appears to be reasonable but is producing contradictory information due to variances between computerized bi-weekly and monthly allocation reports. Questioned Costs: None	Recommendation: We recommend that the Division of Community Services: Revise the cost allocation plan to be in conformity with current practices/procedures. Allocate travel and vehicle operation costs on the basis of adjusted payroll costs or provide guidance as to the proper allocation of costs for specific individuals. Determine the cause of the computer errors regarding variance between the weekly and monthly allocation reports (in relation to non-payroll costs), correct it and test the corrected computer program against manual calculations. Auditee Response: The division's cost allocation plan is the basis for current procedures. The plan is due for review and will be updated to incorporate changes which have occurred. Fiscal staff will be trained on the revised plan to ensure fiscal procedures are in conformace with the cost allocation plan.
(2) Grant overcharges due to incorrect allocation of personal services costs	According to OMB Circular A-87, Attachment A, Paragraph (C)(2)(a), "A cost is allocable to a particular cost objective to the extent of benefits received by such objective." An audit test comparing the division's combined monthly salary allocation reports (May and June, 1988) with the bi-weekly salary allocation reports revealed agreement with respect to total payroll charges but not for the allocation of those charges. As a result of an apparent problem in the division's computer system, four federal programs incurred unallowable personal services costs. Temporary Emergency Food Addistance CFDA #10.568 — $ 15.31 Low-Income Home Energy Assistance CFDA #13.789 — 61.77 Community Services Block Grant CFDA #13.792 — 984.31 Weatherization Assistance for Low-Income Persons CFDA #81.042 — 13.76 Total questioned costs: $1,075.15	Recommendation: We recommend that the incorrectly allocated expenditures be transferred to the appropriate programs/cost objectives. We also recommend that both financial and computer staff of the division determine the cause of the condition, correct it and test the corrected computer program against manual calculations. Auditee Response: The division is working on determining the cause of the errors in allocation. Journal entries will be based on an alternative summary form with necessary adjusting entries made until the problem is corrected.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Executive Department Division of Community Services Office of Energy Resources Petroleum Violation Escrow (PVE)/Exxon and Stripper Well Funds (1) Cash management	Public Law, Chapter 818 governs the acceptance and use of Petroleum Violation Escrow (Exxon) funds. Chapter 818 includes provisions that (a) funds must be used in accordance with rules of the federal grant (in this case Weatherization Assistance Program) for which the funds are used and (b) that interest accruing on these funds shall be deposited to the PVE Exxon Fund (administered by the Office of Energy Resources) to be used for the same purposes. WAP, subject to OMB Circular A-102, requires a system of cash management minimizing cash on hand. DCS requested funds from the PVE Exxon Fund before they were needed. Consequently, the associated interest income was credited to the state's General Fund rather than to the PVE Exxon Fund. The OER requested and received a return of the interest earned from April - December 1988 ($64,516). However, interest earned from January - June 1988 ($18,447) was not requested nor returned to the PVE Exxon Fund. Questioned Costs: None	Recommendation: We recommend that the Division of Community Services develop procedures to minimize cash on hand and address the current balance of the Exxon funded WAP account. We also recommend that the Division of Community Services and Office of Energy Resources request the return of the $18,447 in interest earnings from the General Fund to the PVE Exxon Fund. Auditee Response: The division's cash management policy will be reviewed to ensure compliance with the federal regulations governing this area. Additionally, a letter will be forwarded to the Office of Energy Resources requesting the return of interest from the general fund.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Executive Department		
Office of Energy Resources Petroleum Violation Escrow/ Exxon and Stripper Well Funds (1) Required reports not submitted in a timely manner	Federal Financial Status Reports (FS 269) are required to be submitted on a quarterly basis and are due no later than thirty days after the end of the quarter. A final report is due ninety days after the end of the grant period and is to be marked "Final". Our examination disclosed that six of the twelve reports required to be submitted during fiscal year 1988 were not completed and filed within the prescribed time frame. Additionally, none of the reports submitted were marked as "Final". Questioned Costs: None	Recommendation: We recommend that procedures be implemented to ensure that required reports are prepared and submitted in accordance with federal reporting requirements. Auditee Response: Quarterly reports to the Department of Energy are supposed to be submitted within 30 days of the close of the previous quarter. The Office of Energy Resources endeavors to comply with this requirement. Occasionally, due to late receipt of analysis sheets from the Bureau of Accounts and Control or to illnesses, there have been delays in the submission of these reports. In every instance we have notified the Department of Energy in advance that the reports would be delayed and why. I don't believe that we can improve in this regard.
(2) No procedures to prevent cash transfers in excess of budgeted amounts	Office of Energy Resources (OER) transferred $13,650 more to the State Planning Office than the federally approved State Energy Conservation Program's (CFDA #81.041) budget allowed. Actual expenditures were $14,857.48 in excess of the approved federal budget level. In addition, there appears to be no established procedures to prevent the expenditure of PVE funds from exceeding applicable funding limits. Questioned Costs: $14,857.48	Recommendation: We recommend that the Office of Energy Resources develop and implement monitoring procedures to prevent program expenditures from exceeding approved budget levels. Auditee Response: The State Planning Office was allocated $50,000 in Petroleum Violation Escrow funds in order to participate in the New England Governors' Conference (NEGC) study of New England Electric Power Needs. The money was to be used evenly over three years. The NEGC billed the third payment six weeks early. The Department of Energy approved of the transfer because it was within the plan, if not the period. This office should have revised its State Energy Conservation Program plan or held the payment for one month. We will do so in the future.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Executive Department</u> Office of Energy Resources Petroleum Violation Escrow/ Exxon and Stripper Well Funds (3) Administrative expenses charged to Petroleum Violation Escrow (PVE) funded programs	On June 9, 1986 the U.S. District Court for the District of Columbia issued a clarifying order which denied the state's request to use a portion of the Exxon oil overcharge funds for administrative expenses. A review of the program's accounting records revealed that administrative expenses (STA-CAP) were being charged to several PVE funded programs. Questioned Costs: $5,088.94	Recommendation: We recommend that procedures be established to preclude the charging of administrative expenses (STA-CAP) to this fund. Auditee Response: The STA-CAP charge to Petroleum Violation Escrow (PVE) programs was considered a program service cost and was included in Office of Energy Resources (OER) budget submissions to the Department of Energy. The U.S. Department of Energy accepted OER's budget submission for all three programs (Institutional Conservation, Energy Extension Service, and State Energy Conservation). The OER will exclude STA-CAP charges in its future grant submissions. We will immediately advise the appropriate state agencies (those that have been applying STA-CAP charges to PVE funds) that federal rules prohibit this practice.
(4) Excess cash balances	During fiscal year 1988, the Office of Energy Resources (OER) designed and conducted several oil conservation programs with Exxon and "Stripper Well" funds received through oil overcharge court settlements. The high efficiency lighting rebates (Exxon Fund) and weatherization rebates (Stripper Well Fund) conservation demonstration program accounts had excessive cash balances. These accounts are part of the State Energy Conservation Program (CFDA #81.041), of which Petroleum Violation Escrow (PVE) funds were allocated. The OER's procedures to minimize balances of chase on hand appear not to have been implemented (on behalf of their own programs) and verification of other public agencies cash needs does not appear to be a part of their cash management system. OMB Circular No. A-102, Paragraph 2)e), states, in part: "Grantee financial management systems shall provide for: a. Procedures to minimize the time elapsing between the tansfer of funds from the U.S. Treasury and the disbursement by the grantee...Advances made by primary recipient organizations...to secondary recipients shall conform substantially to the same standards of time..." Questioned Costs: None	Recommendation: We recommend that procedures be implemented to minimize the time elapsing between the receipt and disbursement of federal funds and that cash requests be predicated on estimated needs. We further recommend that cash management procedures be established to monitor those funds which are transferred to the other public agencies who participate in the oil conservation program Auditee Response: Our agency, which has a new business manager, will make a greater effort to operate its programs by drawing down the source accounts only on a cash-needed basis, and we will advise our successor agencies of the necessity to do so.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Health		
Special Supplemental Food Program for Women, Infants, and Children (WIC Program) CFDA #10.557 (1) High risk vendor not monitored	7 CFR Section 246.12 (i) (1), states, in part, that "the State agency shall design a system to identify high risk vendors and to insure on-site monitoring for further investigation and sanctioning as appropriate." Our random sample of 25 high risk vendors revealed 2 instances in which the vendor did not receive additional monitoring. In one instance an administrative decision was made not to monitor the vendor while in the other instance it was overlooked by program personnel. As a result, the WIC Program was not in compliance with federal regulations established to ensure that vendors do not charge an excess amount for commodities purchased by program participants. Questioned Costs: None	Recommendation: To achieve compliance with the federal regulations as stated, we recommend that all high risk vendors be properly identified and receive an annual monitoring visit as required by federal regulation. Auditee Response: During the months of February, March and April of 1988, a store redeemed a total of sixty-two (62) drafts for being too high. As a result, we agree with the finding that this store should have been designated as a high risk vendor. Although by definition, the other vendor would be considered a high risk, our review intentionally did not classify it as high risk. Our decision was made based upon past experience with the vendor and the types of drafts being redeemed (infant formula drafts). We felt that the vendor was not truly high risk even though the high risk criteria was met.
Bureau of Social Services		
Child Care Food Program CFDA #10.558 (1) Incorrect allocation of employee compensation costs	Attachment A, Paragraph C2, of OMB Circular A-87 states, in part, that "a cost is allocable to a particular cost objective to the extent of benefits received by such objective." A nutrition consultant position, supported entirely by Child Care Food Program funds, did not devote time and effort specifically to the benefit of the program. An administrative decision was made to utilize Child Care Food Program funding to support the position which was to be placed organizationally within the Child Nutrition Unit of the Bureau of Health. We were not able to determine to what extent the position did not provide direct services to the program; therefore, we are questioning all salary and fringe benefits paid for the position in fiscal year 1988. Questioned Costs: $30,675.00	Recommendation: We recommend that the salary and fringe benefits charged to the Child Care Food Program be based on time and effort devoted specifically to the program. Auditee Response: The CCFP Nutrition Consultant position was developed to help meet the nutrition related health needs of children served by the program. The main activity of the incumbent has involved the development phase of the "Day Care Menu Surveillance System". This system has finally been developed and the first sets of data are being evaluated and will be shared with CCFP management and participating day care centers in the early summer. During the "down times" encountered in the development phase of the Surveillance System the Nutrition Consultant assisted in other child nutrition program activities of the PHNU. This provided her invaluable knowledge and experience in child nutrition issues in Maine so that she can now better address the dietary needs of children served by the CCFP. Therefore, we take exception to the audit conclusions and believe the department is in full compliance with the program and therefore justified in our funding this essential position.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services		

Bureau of Income Maintenance

State Administrative Matching Grants for Food Stamp Program
CFDA #10.561

(1) Untimely claims against households

7 CFR §272.10 (c) provides for the tracking, aging, and collection of recipient claims and preparation of Form FNS-209, (Status of Claims Against Households). Claims are established against any recipient household that has received more in benefits than which it is entitled. An audit test to determine whether 25 newly established claims were being promptly reported revealed two instances in which the claims were not reported in a timely fashion and three other instances in which the claim records were not dated.

Undated claims against households do not allow a determination to be made as to whether claims were promptly reported to the grantor (recipient) agency.

Questioned Costs: None

Recommendation:
We recommend that all claims against households be promptly reported to the Food Stamp Issuance Unit and that the date which establishes a claim against a household be included on the collection claim form as required.

Auditee Response:
Federal rules at 7 CFR 18 set forth the State's responsibilities regarding the establishment of claims and collection action. The rules do not specify any time frames, and, in fact, do not specify that claims determinations be promptly established.

Bureau of Income Maintenance/
Bureau of Medical Services

Medical Assistance Program
CFDA #13.714

(1) Medicaid provider audit cost settlements

A review of cost settlement work sheets revealed that significant overpayments have been made to medical assistance providers participating in the Medicaid prospective payment plan.

Type of Facility	Overpayments Sampled Number	Overpayments Sampled Dollars	Significant Over-payments	Significant Total of Overpayments
Home Health Care	7	$ 362,277	3	$ 156,355
Hospitals -				
Tefra I	26	2,237,219	7	1,486,485
Tefra II	16	933,221	2	574,391
Nursing Homes	64	650,787	12	355,709
Total	113	$3,983,504	24	$2,582,940

Recommendation:
We recommend that the Department of Human Services develop techniques to prevent significant overpayments.

Auditee Response:
In summary, the Department has taken steps to eliminate overpayments to hospitals. The department believes it understands the key causes of overpayments to home health agencies and nursing homes; until such time as the employment situation in the health care industry stabilizes, and administrators can no longer find savings in these institutions the department likely will continue to experience some level of overpayment.

The Division of Audit continues to reduce the prospective and interim rate when it determines the rate will result in substantial overpayments for fixed costs and wages and salaries to the facility.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Income Maintenance/ Bureau of Medical Services Medical Assistance Program CFDA #13.714	42 CFR §447.200 requires that the State plan contain procedures to insure that there are not any significant overpayments. Although the State plan does contain such procedures, it appears that they are not effective in preventing significant overpayments. Questioned Costs: None	
(2) Third Party Liabilities	The Third Party Liability (TPL) Unit is responsible for investigating Medicaid claims to ensure that the Medicaid Program is the payer of last resort. They attempt to identify any legally liable third party from which reimbursement can be obtained for medical claims paid on behalf of eligible recipients by the Medicaid Program. During our review of the Third Party Liability Unit we noted the following conditions: (1) We tested 28 TPL cases of which eight were settled for less than the amount paid on behalf of the recipient by the Medicaid Program. In each case the recipient had recovered, via an insurance settlement, an amount in excess of the legal liability owed to the State of Maine. (2) The responsibility for negotiating TPL claims rests with reimbursement investigators. We were unable to detect any written evidence of supervisory review over settlements negotiated by the reimbursement investigators. 42 CFR §433.139 Subparagraphs (d) (1) and (2) require that the agency seek reimbursement to the limit of legal liability. In addition 42 CFR §433.146 requires recipients to assign to the state their individual rights to court ordered medical payments. Questioned Costs: None	Recommendation: We recommend that the Third Party Liability Unit comply with federal regulations (45 CFR §433.139 Subparagraphs (d) (1) and (2)) in their efforts to collect from recipients. We also recommend that all claims negotiated by the reimbursement investigators be reviewed by supervisory personnel. Auditee Response: Documentation Effective June 1, 1989, TPL has implemented a standard form to summarize negotiated cases. Amount of settlement, lien, and recovery will be identified. If compromised, there will be an explanation. If reason was related to cost effectiveness, this will be further explained. Right of Agency to Compromise 42 CFR 433.139 (d) (1), (2), (3) requires agency to recover to limit of legal liability, but also allows compromise if further effort would not be cost effective. Supervisory Review Reimbursement Investigator position is classified by the Bureau of Human Resources at a range where the qualifications allow the person to make negotiating decisions and that task is a part of the job analysis. Negotiated cases are reviewed by the supervisor on a random select basis and as frequently as warranted by the ability of the investigator. There are 400 cases in various stages of negotiations at any given time which will increase with new programs being added. In addition there are 800 to 1,000 cases in various stages of recovery requiring supervisory attention. The unit supervisor and the Attorney General's office staff are available for consultation at all times.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Income Maintenance/ Bureau of Medical Services Medical Assistance Program CFDA #13.714 (3) Durable Medical Equipment Prior year finding	In accordance with Medicaid procedures, the Bureau of Medical Services furnishes durable medical equipment to qualified recipients. The equipment purchased is not being inventoried nor is it being recovered for reuse when no longer needed by the individual for whom it was originally acquired. 45 CFR is specific regarding management, use, and disposition of equipment purchased with federal funds. Subpart G, §95.707 (a) requires equipment that is (totally) claimed in the period acquired, and is accepted for federal financial participation as a direct cost under a single program or program activity, to be subject to property rules in Subpart O of 45 CFR §74. Questioned Costs: None	Recommendation: We recommend that the Bureau of Medical Services comply with 45 CFR by developing and maintaining an inventory system for durable medical equipment. The system should properly safeguard assets and identify the federal share of the cost of the acquired equipment. Auditee Response: We have researched this issue and have decided, with our HCFA representative's approval, that the most cost effective way to resolve this matter is to revise our MMAM relative to the ownership of this DME. Therefore, we will be amending our MMAM to state that DME purchased as a covered service under Medicaid will belong to the client. This same policy is followed by all other New England states.
Bureau of Social Services Foster Care - Title IV-E CFDA #13.658 (1) Overpayments to program beneficiaries	We sampled 25 of 515 foster care children's case records which revealed two overpayments (totaling $6.87) made on behalf of two program participants. It appears that the clerk(s) responsible did not compare the preliminary roster payment amount to the applicable preestablished care standards/payment rates. Questioned Costs: $6.87	Recommendation: To improve internal control over the processing of foster care payments to program participants, we recommend that procedures be established to limit the roster payment amounts made on behalf of the eligible foster care children to the established state foster care need standards. Auditee Response: The auditee did not disagree with our audit findng.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Social Services Foster Care - Title VI-E CFDA #13.658 Child Support Enforcement CFDA #13.783 (1) Grant overcharges/ Undercharges	A review of the Foster Care Program's quarterly statements of expenditures revealed the following deficiencies: 1) The computation of the federal share of state and local administration for the quarter ending November 30, 1987 was not done correctly which resulted in an overcharge of $883.23. In addition a $28.00 decrease to the federal share of state and local administration for the quarter ending December 31, 1987 resulted from a incorrectly revised cost allocation schedule. 2) The Foster Care Program underreported expenditures for the federal share of state and local administration for the quarter ending September 30, 1987 by $8,820.00. In addition, a review of the Child Support Enforcement Program's Statement of Expenditures for the quarter ending September 30, 1987 revealed an overcharge of $532.00 in expenditures eligible for federal financial participation. Questioned Costs: $883.23 (Foster Care), $532.00 (Child Support Enforcement)	Recommendation: To properly reflect program expenditures on the federal reports, we recommend that the department exercise more care in preparing federal financial reports. We also recommend that the necessary adjustments be made to subsequent financial reports. Auditee Response: All errors in this finding were corrected on the department's quarterly report for March 1989.
Bureau of Income Maintenance Family Support Payments to States - Assistance Payments (AFDC Maintenance Assistance - State Aid) CFDA #13.780 (1) AFDC disallowances	The Code of Federal Regulations establishes a payment error rate for all state agencies that process beneficiary claims on behalf of the AFDC Program. The State of Maine has exceeded the federal tolerance error rate for 1981, 1983, 1984, 1985 and 1986. As a result, the federal government has assessed the State of Maine disallowances (in the aggregate) of $3,260,823.00. Pending the result of court and administrative proceedings the disallowances may result in a contingent liability to the State of Maine. Questioned Costs: $3,260,823.00	Recommendation: So that further disallowances can be avoided, we recommend that the department continue its effort to achieve an error rate in accordance with the Code of Federal Regulations Part 45, Section 205.44. Auditee Response: It is true, that an excessive error rate over the federal tolerance has created $3.2 million in sanctions. The federal tolerance has been only 3% since FT 84. Present legislation before Congress is recommending that the national average be used as a federal tolerance. If this is enacted and it is retroactive, Maine may indeed owe far less than the $3.2 million. Maine is one of 49 states facing this problem. We have established a panel to review Corrective Actions and will continue our efforts to reduce the error rate.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Social Services Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA #13.992 (1) Program income from training fees	The Office of Alcoholism and Drug Abuse Prevention generates program income from training fees earned through seminars presented by their staff. When these fees are collected, they are credited to a General Fund appropriation account (1325.5) and annually journaled to the Alcohol and Drug Abuse Mental Health Services Block Grant account (9325.5). We also noted that accounting personnel deliver the checks for training fees earned to the department's cashier, however, they do not obtain from the cashier a prenumbered receipt. Questioned Costs: None	Recommendation: We recommend that income generated from training fees earned through seminars presented by the Office of Alcoholism and Drug Abuse Prevention be credited directly to the applicable block grant account. We also recommend that prenumbered receipts be used. Auditee Response: The Audit Department's recommendation will be implemented immediately.
(2) Exceeding Administrative charge requirements	During the course of our examination of the Alcohol and Drug Abuse and Mental Health Services Block Grant (ADAMHS) we noted that the administrative charges exceeded the 10% ceiling requirement for the 1988 state fiscal year by $180,314.00. Administrative costs charged to the block grant are incurred both by the State of Maine Department of Human Services and Department of Mental Health and Mental Retardation. Title 42, Section 3004-3 of the United States Code Services states, in part, "Of the amount paid to any state not more than 10 percent may be used for administering the funds made available." Questioned Costs: $180,314.00	Recommendation: We recommend that administrative costs be adequately defined and properly classified. In addition control should be established and followed to ensure that these costs do not exceed the maximum allowable percentage for administrative costs. We further recommend that the Department of Human Services and the Department of Mental Health and Mental Retardation coordinate their efforts to achieve this goal. Auditee Response: The State Agency has always taken the position that administrative charges consist of administrative support services provided by central services of the Department and services allocated to our Department by way of the Consolidated Statewide Cost Allocation. Although administrative charges are not well defined as they apply to this Block Grant, we recognize that other interpretations of administrative costs could well include services of an indirect nature at the program level that are not provided directly to clients. If this definition is applied, administrative charges to the Block Grant would exceed 10%. We have taken steps, through Legislative action, to reduce administrative charges to the Block Grant for this and future years.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services		
Bureau of Health/Division of Maternal and Child Health Maternal and Child Health Services Block Grant CFDA #13.994 (1) Employee compensation costs not directly related to grant objective(s)	A review of personnel records of employees whose salaries are paid from the Maternal and Child Health Services Block Grant revealed that the primary purpose of eight positions were not directly related to the objectives of this grant and that 100% of their time and efforts were not dedicated specifically to the administration of this grant program. A corresponding FJA form (Administrative Report of Work Content) for an additional position (Line No: 32-1905/Health Administration/Typist II) paid for out of MCHS block grant funds could not be located on file at the department's Division of Personnel. Under the provisions of OMB Circular A-87, Attachment A, Paragraph C 2, Subparagraphs (a) and (b), "A cost is allocable to a particular cost objective to the extent of benefits received by such objective. Any cost allocable to a particular grant or cost objective under the principles provided for in this Circular may not be shifted to other Federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons." Questioned Costs: None	Recommendation: We recommend that a job audit be performed with regard to the eight positions so that related employee compensation costs may be allocated to the appropriate cost centers. We further recommend that the missing FJA form (Administrative Report of Work Content) be located or that a new form be compiled. Auditee Response: We concur generally within this finding with the following exceptions: a) the Public Health Dental Hygienist (P.H. Ed. II) serves (full time) an appropriate Maternal and Child Health (MCH) population through her work with schools and clinics; b) although none of the other positions serves the MCH Block 100%, each dedicates some portion of time (either directly or indirectly) to the MCH population and/or the objectives of the grant. This matter has been discussed with the Department of Human Services' Bureau of Administration and various alternates are being considered. Bureau of Health staff are currently evaluating these positions to determine the appropriatives of the cost center. Line #23-1905, Clerk Typist II works full time under the Division of Maternal and Child Health, Women's and Children's Preventive Health Services. We will submit an FJA form to the DHS Division of Personnel.
(2) Fees for clinical services not strictly assessed Prior year finding	Well Child clinics are funded, in part, by the Maternal and Child Health Services Block Grant. At these clinics, certain medical services are provided free of charge to eligible families. A fee schedule is used to set fees to be assessed for those people whose income is determined to be over the maximum gross annual income levels allowed in the Division Maternal and Child Health's prescribed income guidelines. Based on inquiry and observation, we determined that fees for clinical services were not being strictly assessed and that amounts collected were being recorded without noting the names of those individuals assessed. An examination of the program receipts also revealed that these collections were not being immediately deposited into the State Treasury.	Recommendation: To better control the assessing, accounting, and processing of fees collected, we recommend that fees for clinical services be assessed in accordance with the Division of Public Health Nursing's Well Child Clinic Fee Policy or that the policy be amended to coincide with current practice. If fees are to be collected, the accounting records should reflect the names of the individuals who were assessed. We also recommend that all fees collected be deposited immediately into the State Treasury. Auditee Response: Our proposal for meeting their recommendations are as follows: a. Money will be deposited on a weekly basis no matter what the amount. b. Sliding fee schedule will be updated and nurses oriented to it. c. Receipt will be made for each fee received noting the name of person paying fee.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Health/Division of Maternal and Child Health	Title 5 §131 MRSA, states, in part, "Every department and agency of the State... collecting or receiving public money... shall pay the same immediately into the State Treasury..." Due to contradictory language contained in the Maine Department of Human Services Division of Public Health Nursing's Well Child Clinic Fee Policy, clinical staff have treated payments for clinical services as "donations" as opposed to program income. Questioned Costs: None	
(3) Required financial reports on behalf of one subrecipient not submitted	A sample of 10 of 29 subrecipient grant file folders disclosed that one subrecipient did not submit the quarterly and final financial reports as required in the Division of Maternal and Child Health's "Grant Policy Manual". Subgrantee reporting requirements promulgated in the grantor agency's "Grant Policy Manual" [Paragraph 6, Section II, Subsection A] state that "quarterly income and expenditure reports are due forty-five days following the completion of the first three quarters." Paragraph C of the same section also states that "a final... income and expenditure report is due in the division of Maternal and Child Health's office forty-five days following the completion of the grant period." Questioned Costs: None	Recommendation: To achieve compliance with the agency's subgrantee reporting requirements, we recommend that the Division of Maternal and Child Health obtain the quarterly and final income and expenditure reports from the provider organization. In the future, the division should make a concerted effort to obtain these reports within the required 45 day time frame. Auditee Response: There is a well established procedure by which reports are logged and reviewed by program managers. In case of outstanding reports, managers contact the delinquent agency and if reports are not received, invoices are not paid. Sometimes the initial contact is made by telephone so there may not have been written documentation of that particular instance. We agree that thorough monitoring is essential. In the meantime, we will conduct an internal review of our logs and will prepare standard reminder letters, copies of which will become part of the grantee's file.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Health/Division of Maternal and Child Health (4) Subrecipient on-site visits	A test was made to determine whether the recipient agency conducted any subrecipient on-site visits of child development clinics. Of the four subrecipients tested, documentation could be provided to support only one visit. Monitoring procedures should be established to provide assurance that services being purchased are quality programs being delivered in a competent and reasonable manner. Documentation is missing to provide assurance that grant objectives are being met at the subrecipient level. Questioned Costs: None	Recommendation: We recommend that all subrecipient on-site visits be documented in a report format. We further propose that recommendations be made as part of these reports to suggest a course of action to correct any deficiencies detected and that appropriate follow-up procedures be implemented to determine what corrective action is subsequently taken. Auditee Response: We welcome and concur with your recommendation that on site visits be documented in writing depicting the dates of the visit and any observations noted by the reviewer. We will implement this recommendation immediately.
Bureau of Rehabilitation Rehabilitation Services-Basic Support CFDA #84.126 (1) Incorrect allocation of indirect costs Prior year finding	A review of indirect costs charged to the Rehabilitation Services - Basic Support Program revealed the following deficiencies: 1) Indirect costs allocable to other grants or cost centers were being allocated to this grant resulting in questioned costs totaling $26,408.14. 2) The recalculated indirect costs based upon prior year findings have not been shifted to the other pertinent federally-sponsored programs nor have they been reflected in the program's subsequent Financial Status Reports. 3) Application of the incorrect standard indirect rate in the first quarter of state fiscal year 1988. 4) The calculations to allocate indirect costs were being performed by someone other than the program's designated accountant.	Recommendation: We recommend the following: 1) That the necessary corrections be made to shift those indirect costs which are allocable to the other related programs or cost centers and to charge only the indirect costs which are allocable to this grant. 2) That the recalculated indirect costs allocable to this program be reflected in subsequent Financial Status Reports. 3) That indirect costs be computed and charged to this grant on a continuous basis and that the correct standard indirect cost rates be used in the computation. 4) That indirect costs be calculated by the program's designated accountant and be reviewed by a supervisor.

Program	Findings/Amount of Questioned Costs	Recommendation/Agency Response
Department of Human Services Bureau of Rehabilitation (1) Incorrect allocation of indirect costs (cont'd)	Provisions of OMB Circular A-87, Attachment A, Paragraph C 2, states,"a cost is allocable to a particular grant or cost objective to the extent of benefits received by such objective". It also states that "any cost allocable to a particular grant or cost objective under the principles provided in this Circular may not be shifted to other Federal grant programs..." Questioned Costs: $26,408.14	Auditee Response: 1) Indirect costs will be charged to the proper Rehabilitation programs for fiscal year 1988 and future years. 2) Indirect costs will be computed and charged on a regular and continuous basis using correct rates. 3) Indirect costs will be calculated by the program's regular accountant (insofar as this is possible) and reviewed by the Director of Financial Services.
(2) Lack of written procedures with regard to the provision of services and the processing of referrals and applications for those services	The Rehabilitation Services - Basic Support program's current policy manual does not contain written standards or policies for noting the conditions, criteria, and procedures under which the mandatory sixteen types of Vocational Rehabilitation Services are provided. It also does not establish standards and procedures governing the processing of referrals and applications for rehabilitation services. Section 361.42 (b) of 34 CFR states, in part, that "the State plan must also assure that the State unit establishes and maintains written policies covering the...conditions, criteria, and procedures under which each service is provided." In addition Section 361.30 of 34 CFR mandates that "the State plan must assure that the State unit establishes and maintains written standards and procedures to ensure expeditious and equitable handling of referrals and applications for Vocational Rehabilitation Services." Questioned Costs: None	Recommendation: We recommend that the Bureau of Rehabilitation establish and maintain written policies with regard to the conditions, criteria, and procedures relating to the provisions of Vocational Rehabilitation Services as stated in Section 6.1(b) of the State plan. We further recommend that the agency establish written standards and procedures for the processing of referrals and applications, as required. Auditee Response: This issue has been raised previously by the Rehabilitation Services Administration (RSA) in Program Administrative Reviews. Our response has been that we believe that the VR Services Policy Manual and the eligibility determination process under the Management Action Program do meet this requirement. Section 7 of the VR manual does identify the types of services, the purpose of services and any limitations the state has imposed upon the provision of specific services. The policy states that VR services will be provided as appropriate to the needs of each individual. Through the eligibility determination process, the evidence of a disability and any secondary disabilities are documented. The counselor must then document the functional limitations that result from the disability and that are preventing the individual from securing suitable employment. The functional limitations that are creating the barrier to employment determine the nature and scope of services. Only services which can be linked directly to the functional limitations in the eligibility certification can be provided and only to the extent necessary to overcome the barrier to employment. We believe to further define the nature and scope of services would violate the individuality aspect of the Rehabilitation Act. RSA has accepted this response.

Program	Findings/Amount of Questioned Costs	Recommendation/Agency Response
Department of Human Services		
Bureau of Rehabilitation Rehabilitation Services Basic Support CFDA #84.126 (3) Lack of required State plan assurance regarding set-aside funds	A review of methods and procedures used by Rehabilitation Services - Basic Support in administering Small Business Services revealed that the State plan does not assure that the state unit maintains a description of the methods used in setting aside funds, and the purpose for which funds are set aside. Section 361.50 (c) of 34 CFR states, in part, that "if the State chooses to set-aside funds from the proceeds of the operation of business enterprises, the State plan must also assure that the State unit maintains a description of the methods used in setting aside funds, and the purpose for which funds are set-aside. Questioned Costs: None	Recommendation: To achieve compliance with program regulations, we recommend that the required assurances be made in the State plan with regard to set-aside funds generated from the Small Business Enterprise program. Auditee Response: Under Section 6.2(a) (1) of that plan we certified our compliance with Section 361.1 and 361.50 of 34 CFR. In our current State Plan submission for fiscal year '89, '90 and '91, effective October 1, 1988 under Section 6.2 (a)(2) we certify that we provide management and supervision of only the operation of the Randolf-Sheppard Vending Facility Program. Section 361.50 (c) of 34 CFR refers to the operation of business enterprises other than the Randolf-Sheppard program. We do comply with the Randolf-Sheppard program regulations and certify our provision of services under that program in Section 6.2(a)(2) of the current State plan submission.
(4) Overstatement of state's portion of program outlays	Outlays or expenditures represent charges made to a grant project or program. A review of the Rehabilitation Services - Basic Support Program's federal financial reports revealed an overstatement of $22,379.00 for the fiscal quarter ended March 3, 1988. As a result, the amount of state matching funds was overstated. Funds advanced to the program by the grantor agency are adjusted according to expenditures made from non-federal sources which are used to calculate the required maintenance of effort level. For a given fiscal year, this level is based on the average of the total non-federal expenditures for the three preceding fiscal years. The overstatement of program outlays distort the maintenance of effort level calculation. Questioned Costs: None	Recommendation: To present accurate information with regard to expenditures from non-federal sources, we recommend that the necessary adjustment to the total and net program outlays as reported to the federal grantor agency be prepared and submitted on a subsequent federal report. Auditee Response: The overstatement of $22,379 was corrected on the 269 report dated 4/28/89 for the March quarter of 1989.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services		
Bureau of Rehabilitation Rehabilitation Services Basic Support CFDA #84.126 (5) Lack of required documentation in applicant/ recipient case record	Section 361.39 of 34 CFR Subparagraph (1) lists the documentation requirements related to the case records of program participants placed in post employment services. A scientific sample of 25 clients (out of a population of 1,354) who were assigned the status code "10" ("eligible") during the audit period revealed a lack of required documentation on behalf of one program recipient outlining the basis on which a post employment plan was developed. Questioned Costs: None	Recommendation: We recommend that all required case record documentation be maintained for each program applicant/recipient. Auditee Response: The auditee disagreed with our audit finding.
(6) A subgrantee's grant monitoring reports not submitted	In state fiscal year 1988, the Bureau of Rehabilitation awarded thirteen subgrants from program funds. A sample review of five grant file folders revealed that three out of four quarterly financial reports and eleven out of twelve monthly cash balance reports were not submitted on the part of one subgrantee. Questioned Costs: None	Recommendation: We recommend that the bureau obtain the grant monitoring reports in question and that a concerted effort be made to obtain these reports in a timely fashion. Auditee Response: A letter has been sent to the subgrantee requesting missing reports. The facility specialist has also increased his scope of monitoring facility reports by logging in each report as they are filed and by reviewing each grant monthly to ensure reports have been received.
(7) Establishment project dificiences	Section 7 of the Bureau of Rehabilitation's "Establishment Grant Monitoring System" manual states, in part, that "unforseen circumstances sometimes make shifting of funds between grant categories very important. The project manager may agree to such changes if the request is in writing. Retroactive approval for shifting of funds will not be given. A budget change of this type should be justified in writing and include a summary of the transaction..."	Recommendation: To provide financial accountability and to ensure that the Establishment Projects funded are meeting their intended goals, we recommend that the Bureau of Rehabilitation obtain the required approval and statements on behalf of the subgrant. We also recommend that the bureau consistently monitor their subgrantees to ensure compliance with establishment budgeting and finance procedures and that all required documentation in this regard be retained for auditing purposes.

Program	Findings/Amount of Questioned Costs	Recommendation/Anditee Response

Department of Human Services

Bureau of Rehabilitation
Rehabilitation Services

Basic Support
CFDA #84.126

(7) Establishment project deficiencies (cont'd.)

A review of the state agency's only Establishment Project (for building acquisition and renovation costs) funded during the audit period revealed the following deficiencies:

1) The subgrantee's actual renovation costs exceeded the budgeted amount by $3,209.00 and the required authorization to exceed the budget was not obtained from the grantor.

2) The subgrantee did not submit a revised budget sheet detailing expenses as requested by the grantor.

3) Established grant policy requires that persons participating in a program funded by a grant must be clients of the Bureau of Rehabilitation. The subgrantee did not submit a statement indicating that participants in the program will be clients of the bureau.

Questioned Costs: $3,209.00

Auditee Response:

1. The subgrantee had exceeded the renovation budget line by $3,209 and under spent the equipment line by the same amount, there was no change in the total amount of the grant award.

   While the changes were not approved by the State Agency as required, the request would have been approved. Construction costs especially when renovating an older building, often change. The subgrantee has sent a letter requesting the change and it has been approved.

2. A revised budget has been requested.

3. The award letter which is incorporated in to the contract states that all participants must be clients or applicants of the Bureau. It is felt that this satisfies the need for a statement from the subgrantee.

Bureau of Rehabilitation/
Bureau of Social Services

Rehabilitation Services -
Basic Support
CFDA #84.126

Alcohol and Drug Abuse
and Mental Health
Services
Block Grant
CFDA #13.992

(1) Excess of federal cash on hand

Prior year finding

Paragraph 2(e) of Attachment G of OMB Circular A-102 requires that grantees have "procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the disbursement by the grantee."

A review of the federal cash management procedures for major federal programs revealed the following two programs with excess cash on hand:

	CFDA No.	Average Daily Balance - Three Month Period	Average Daily Requirements Three Month Period
Vocational Rehabilitation - Basic Support 110	84.126	$600,550.00	$20,450.00
Alcohol and Drug Abuse and Mental Health Services	13.992	553,930.00	10,690.00

Inadequate forecasting to determine the amount of cash required to meet immediate program needs resulted in an excessive amount of federal cash being maintained by the programs noted.

Questioned Costs: None

Recommendation:
To achieve compliance with federal cash management requirements, we recommend that cash management procedures for the two major federal programs be reevaluated and revised so that funds obtained from the U.S. Treasury be limited to meet only the immediate cash needs of these programs.

Auditee Response:
The Basic Support Program gives the appearance of excess cash because the entire cash drawdown for the period in question was placed in the accounting activity codes for the Basic Support 110 Program when, in fact, this drawdown should have been allocated to other programs supported by these same funds. It should be mentioned that the regular accountant for the Vocational Rehabilitation programs was on leave of absence during this period and, admittedly, some accounting procedures did not conform to standard practices.

With respect to the Alcohol & Drug Abuse overdraft, these funds are utilized by both Human Services and the Department of Mental Health & Retardation. We have coordinated drawdown activity with the Bureau of Mental Health over the past year and feel that the excess cash problem has been resolved.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Health/Bureau of Social Services (WIC Program) CFDA #10.557 Child Care Food Program CFDA #10.558 Social Services Block Grant CFDA #13.667 ADAMHS Block Grant CFDA #13.992 MCHS Block Grant CFDA #13.994 (1) Lack of an established system to ensure that appropriate corrective action is taken within six months after the receipt of subrecipient audit reports	The Single Audit Act of 1984 requires that the recipient agency that receives and provides $25,000 or more of federal financial assistance to a subrecipient "shall ensure that appropriate corrective action is taken within 6 months after receipt of the audit report in instances of noncompliance with Federal laws and regulations". The department did not have a uniform system established to initiate corrective action for instances of noncompliance with federal program requirements. Questioned Costs: None	Recommendations: We recommend that procedures be established to facilitate the implementation of a system which will ensure that subrecipients receive an audit in compliance with the Single Audit Act of 1984. We also recommend that all instances of noncompliance be resolved within a six month period. Auditee Response: We agree with the cited condition as it relates to organizations qualifying under Circular A-128 and we plan on notifying our management of the need to implement procedures to assure that resolution actions take place within six months of audit report issuance. We do not agree with the cited condition as it relates to organizations qualifying under Circular A-110. Once Circular A-133 or MAAP II becomes legislated, audit resolutions within six months will be a state requirement.
(2) Unaudited federal funds Prior year finding	Attachment F, Section (h) of OMB Circular A-110 requires that an audit be performed "usually annually, but not less frequently than every two years." A review of the subrecipient audit status records at the Department of Human servcies - Office of Audits revealed that $5,679,223.00 of federal funds passed through to 14 subrecipients are unaudited as of January 1989. The following is a tabulation by federal program of the approximate dollars unaudited : Special Supplemental Food Program For Women, Infants, and Children C.F.D.A. #10.557 — $2,448,935.00 Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Citizens C.F.D.A. #13.633 — 654,298.00 Special Programs for the Aging - Title III, Part B - Nutrition Services C.F.D.A. #13.635 — 1,011,377.00 Social Services Block Grant C.F.D.A. #13.667 — 1,301,182.00	Recommendation: We again recommend that audits of subrecipients who receive more than $25,000.00 in federal financial assistance be completed within the federally required time limit. Auditee Response: We agree there are 14 subrecipients who have not received an audit from DHS for subrecipient calendar year 1986. However we disagree with the amounts claimed. In particular, the WIC program dollars are overstated for the value of coupons budgeted in the agreements. Our assertion indicates eighty percent of $2,448,935 or $1,959,148 represents a State Single Audit finding overstatement as these food coupons are not part of our audit scope. We additionally believe that with the use of the personal computers in our planning process we will alleviate doing organizations with less that $25,000 and do more timely auditing of organizations receiving more than $25,000.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Health/Bureau of Social Services (2) Unaudited federal funds (cont'd.)	Preventive Health and Health Services Block Grant C.F.D.A. #13.991 — $ 12,780.00 Alcohol and Drug Abuse and Mental Health Services Block Grant C.F.D.A. #13.992 — 61,975.00 Senior Community Services Employment Program C.F.D.A. #17.235 — 58,995.00 Rehabilitation Services Basic Support C.F.D.A. #84.126 — 129,681.00 Total — $5,679,223.00 It was also noted that five contracts awarded to subrecipients of the Child Care Food Program (CFDA #10.558) were unaudited for the 1986 grant year. A dollar amount could not be determined since these contracts are open-ended, i. e. subrecipients are reimbursed for expenses incurred for serving meals and final award amounts are not determined until an audit is performed. Questioned Costs: None	
(3) Lack of an established system to assure that subrecipient audits meet the requirements of Circulars A-128 and A-110	Department of Human Services does not have an established system in place at the recipient level to assure that audits of the subrecipients meet the requirements of Circulars A-128 and A-110. Questioned Costs: None	Recommendation: We recommend that the department establish a system to assure that audits of the subrecipients meet the requirements of OMB Circulars A-128 and A-110.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Health/Bureau of Social Services (3) Lack of an established system to ensure that sub--recipient audits meet the requirements of Circulars A-128 and A-110 (cont'd.)		Auditee Response: We agree with the cited condition as it relates to organizations qualifying under Circular A-128 and we plan on implementing procedures to assure that audits of those subrecipients meet the requirements of Circular A-128. We do not agree with the cited condition as it relates to organizations qualifying under Circular A-110. Currently Circular A-110 which was enacted in 1976, or eight years before passage of Circular A-128 (Federal single audit act), requires an audit of any qualifying organization regardless of level of federal funding. We do not agree with this concept and feel it unreasonable to require an A-110 audit without due consideration to funding levels. Fortunately, both the federal government thru draft Circular A-133 (due for implementation 1/1/89) and the State of Maine thru draft MAAPII (due for implementation 7/1/89) address the dollar threshold issue in relation to audit requirements. However both documents are in draft form and until either documents clear the draft stage and becomes legislation we do not plan on implementing. Additionally, if Circular A-133 becomes legislated we will expand our audit coverage to include organizations receiving federal funds which are noncontract in nature.
(4) Noncompliance with sub-recipient audit resolution requirements	An audit test of the timelines of the subrecipient audit resolution process was developed by reviewing all of the 1986 grant year final audit reports which were completed six months prior to the date of our review. As a result of the 14 reports tested, we noted the following deficiencies as described under the designated programs.	Recommendation: We recommend that a concerted effort be made to recoup the grant overpayments to the subrecipients in question. We further recommend that the instances of noncompliance with program requirements disclosed by the audit reports tested, be appropriately resolved.
WIC Program CFDA #10.557	A subrecipient audit report dated July 27, 1987 disclosed $86.00 in questioned costs. Another audit report dated February 10, 1988 disclosed total questioned costs of $1,401.86. As of January 30, 1989, the state administrative agency could not substantiate whether any corrective action had been initiated in response to these disclosures. Questioned Costs: $1,487.86	Auditee Response: Regarding all questioned costs resulting from audits of grants or contracts, this department will develop, by December 1, 1989, a procedure to collect monies due the State agency pursuant to resolution of appeals by provider agencies.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services		
Social Services Block Grant CFDA #13.667	Grant overpayments totalling $38,913.00 determined as a result of 4 audits (covering the four year period 10/1/80 through 9/30/85) of the Regional Transportation Program were not returned to the department as of the date of our review. Of 5 social service subrecipient audit reports tested, 4 reports developed questioned costs totalling $46,898.00. Based upon an examination of audit finding records, it appears that none of the above total was ever appropriately resolved as of the date of our review. Questioned Costs: $46,898.00	
Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA #13.992	Grant overpayments totalling $8,524.00 determined as a result of an audit of Drug Rehabilitation, Inc. (covering the period 7/1/85 through 6/30/86) were not returned to the department as of January 30, 1989. All 5 of the audit reports tested resulted in questioned costs totalling $13,036.00. As of the date of our review, the status of these questioned costs could not be adequately determined. Questioned Costs: $13,036.00	
Maternal and Child Health Services Block Grant CFDA #13.994	All 3 audit reports tested resulted in questioned costs totalling $10,450.00. As of January 1989, the status of these questioned costs could also not be adequately determined. Inadequate control over the subrecipient audit resolution process could result in a loss of funds of the Department of Human Services. The lack of an established system to ensure timely resolution of questioned costs and audit findings disclosed on behalf of the audits of the department's subrecipients resulted in noncompliance with audit resolution standards promulgated in OMB Circular A-128. Questioned Costs: $10,450.00	

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Human Services Bureau of Income Maintenance, Bureau of Medical Services State administrative matching grants for food stamps CFDA #10.561 Medical Assistance Program CFDA #13.714 Assistance Payments - Maintenance Assistance (AFDC Maintenance Assistance - State Aid) CFDA #13.780 (1) Incorrect allocation of employee compensation costs Prior year finding	According to Attachment A, Paragraph (C)(2)(a), of OMB Circular A-87 "a cost is allocable to the particular cost objective to the extent of benefits received by such objective." A review of the status and disposition of deficiencies disclosed in the prior year grant audit report revealed that no responsive action had been initiated with regard to 12 Bureau of Income Maintenance employees whose wages were being directly charged to the incorrect appropriation/account activity codes. As an example, the salary and wages of several employees described as "AFDC/FS WORKERS" per the department's personnel roster are being charged to what is deemed a Medical Assistance Program (CFDA #13.714) appropriation/account activity code, and vice versa. As a result of our current review, we identified an additional 7 individuals whose wages were also being directly charged to incorrect cost objectives/centers. These allocations of employee compensation costs resulted in apparent overcharges to the pertinent federal programs. A singular (approximate) questioned cost amount was developed on behalf of these programs by compiling these individuals actual salaries for the period 1/1/88 through 6/30/88. Questioned Costs: $210,218.50	Recommendation: We recommend that the department charge the correct account activity codes to allocate personal services costs on behalf of these individuals to the respective federal programs. Auditee Response: Corrective action has been taken. It is our intention to review activity codes periodically to insure that proper programs are charged.
Bureau of Social Services/ Bureau of Health Social Services Block Grant CFDA #13.667 Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA #13.992 Maternal and Child Health Services Block Grant CFDA #13.994	The Department of Human Services Bureau of Social Services' "Purchase of Service Policy Manual" and the Division of Maternal and Child Health's "Grant Policy Manual" both state that any uncontested amount due the department from a provider organization as a result of audit "shall be paid within 30 days." A sample review of the disposition of subrecipient audit findings revealed that there are no established procedures inplace to follow-up on amounts which are not paid within the required 30 day period. Questioned Costs: None	Recommendation: To establish control over uncontested audit settlement amounts due to the department and to collect these monies in a more timely fashion, we again recommend that the Department of Human Services establish follow-up collection procedures for audit cost settlement due to the department. Auditee Response: Follow-up collection procedures are currently in place in the Bureau of Social Services and the Bureau of Health although we would admit that the enforcement effort needs to be strengthened.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
Department of Transportation		
Highway Planning and Construction CFDA #20.205 Educational expenses have been charged to project costs	Federal Highway Administration Regulation 23 CFR 260.407 prohibits certain educational expenses from being eligible for federal financial participation. Salary costs for one individual attending a seminar was charged to a federally subsidized project. Questioned Costs: $97.60	Recommendation: We recommend that the project charged be credited for the unallowable costs and that corrective measures, initiated to preclude a recurrance, be continued. Auditee Response: We concur. The charge of $97.60 is inappropriate and has been changed by journal to a nonparticipating cost.

STATUS OF SIGNIFICANT OR MATERIAL FINDINGS AND RECOMMENDATIONS

FOR THE YEARS ENDED PRIOR TO JUNE 30, 1988

Agency/Program	Prior Year Significant or Material Findings	Recommendation/Status
Department of Administration		
Bureau of Data Processing (1) Understatement of revenues	A review of accounts receivable records for computer services provided to user agencies revealed that unbilled receivables for the month of June 1987 were not accrued. The total amount due to the bureau for services provided in June of 1987 was $751,056.98. The billings for the receivable amounts which comprise this total did not transpire until the subsequent month - after the expiration of the 1986-87 fiscal year. This practice resulted in an understatement of revenues and an understatement of assets (due from other funds) for the 1986-87 fiscal year. Generally accepted governmental accounting principles regarding proprietary funds assert that revenue should be recognized on the accrual basis and that revenues should be recognized in the accounting period in which they are earned and become measurable.	Prior Year Recommendation: We recommend that unbilled receivables be accrued and thus recognized as revenue in the fiscal year in which they are earned. Because rate-setting procedures depend on an accurate accounting of revenue and expenses at selected times, we further recommend that the accrual of unbilled receivables be performed on a monthly basis to properly reflect the financial position of the centralized computer operations as well as to provide more accurate reporting of profit and loss by cost center. Status: The Bureau of Data Processing accrued unbilled receivables as recommended.
(2) Inventory valuation	An examination of agency equipment records revealed a lack of sufficient detail information to support and substantiate depreciation schedules used in the valuation of assets. Inadequate maintenance of these records in prior periods resulted in unreliable asset and depreciation information for financial reporting purposes.	Prior Year Recommendation: We recommended that the bureau perform a complete physical inventory of capital equipment items and that the related records be maintained on a current basis. We further recommend that the bureau assign values to those items found which are not currently catalogued on the inventory listing; review past financial records to determine total depreciation charged which was not applicable to current inventory items and compare this amount to the original valuation of inventory to which it applies to determine if equipment has been depreciated beyond its original value; and finally, document procedures followed to bring inventory and depreciation records up-to-date. Status: No corrective action has been taken.

Agency/Program	Prior Year Significant or Material Findings	Recommendation/Status
Department of Educational and Cultural Services		
Maine Guaranteed Student Loan Program CFDA #84.032 (1) Administrative cost disallowances, returned to the federal grantor agency, are allowable charges under the Maine Guaranteed Student Loan Program	As a result of a guaranty agency review of the Maine Department of Educational and Cultural Services (DECS) by the U.S. Department of Education, Region 1, Office of Student Financial Assistance, questioned costs of ($1,436,789.76) for administrative cost allowances was repaid to the federal government. In reviewing the federal review report during our audit of fiscal year ended June 30, 1986, we determined that all but a small portion of the questioned amounts paid represented legitimate expenses of the state and the repayment should not have been made. Department personnel researched the questioned amount after receiving the 1986 audit report and discovered an additional reimbursement of ($258,604.00) to the federal government.	Prior Year Recommendation: We recommended that the repaid costs be recovered from the U.S. Department of Education. Status: The Department of Educational and Cultural Services has taken legal action to recover these funds.
(2) Accounting system is inadequate, and does not provide accurate reports of activity	A basic requirement of the four agreements between the U.S. Department of Education and the Department of Educational and Cultural Services (DECS) concerning the Maine Guaranteed Student Loan Program is that the department maintain administrative and fiscal procedures as are necessary to insure proper and efficient administration of the program. During the audit of fiscal year ended June, 1986, findings were made concerning the inadequate accounting system for the Maine Guaranteed Student Loan Program (MGSLP). DECS has engaged the firm of Touche Ross to assist, in developing an improved accounting system for the MGSLP, but as of the audit of the fiscal year ended June 30, 1987, no changes in the accounting system have been made.	Prior Year Recommendation: We recommended that the review of the accounting system and of internal controls be completed and necessary changes be implemented. Status: No changes, to date, have been made in the accounting system.
Food Distribution Program CFDA #10.550	Federal Food Distribution Program commodities are accounted for by unit of measurement primarily to control inventory. It is the belief of personnel of the Department of Educational and Cultural Services that federal donated commodities remain the property of the federal government until such time as they are delivered to the recipient agencies, and that title to the goods never vested with the State of Maine. As a consequence, no recognition of the Food Distribution program is reflected in the state's financial statements. However, 7 CFR states that title to the donated foods passes to distributing agencies upon their acceptance of the foods at time and place of delivery (Chapter II, Section 250.5(b)(6)(f).	Prior Year Recommendation: We recommended that monetary values be assigned to commodities and these transactions be accounted for by these values as well as by quantity. Status: No corrective action has been taken.

Agency/Program	Prior Year Significant or Material Findings	Recommendation/Status
Department of Educational and Cultural Services		
Food Distribution Program (Cont'd.)	Effective control over and accountability for all assets is required by OMB Circular 102, Attachment G, Section 2(c).	
(1) Educational loans receivable	Loans are available through the department to students participating in post graduate education in the field of medicine and to students meeting the criteria of the Blaine House Scholars Program. These loans must be repaid either by cash repayment of by return service in the state. Laws establishing these two loan programs permit repayment over a number of years once the repayment phase is entered. Repayment is not required until the program of education is complete. In our prior year audit we noted that loans made to Post Graduate Health Professions Program recipients still in school and some loans made to Blaine House Scholars were not established as loans receivable nor otherwise recorded on the records of the State Controller. State assets were therefore understated by the amounts not recorded ($7,282,626). We also noted that the related reserve for uncollectible accounts was established at 100% of the recorded receivables balance. Per discussion with department personnel this was done so that the dedicated revenue balance would represent only the cash available for expenditure. A combination of new personnel and new programs was the reason other receivables were not recorded.	Prior Year Recommendation: Amounts to be repaid to the state represent an assets and should be recorded. Preferred accounting practices require those assets recorded in advance of the appropriate timing for revenue recognition to be offset by a credit to deferred revenue. We therefore recommended that the department record all amounts due the state on the records of the State Controller along with appropriate credit entries either to revenue for those amounts measurable and available or, to deferred revenue for those amounts not yet available for revenue recognition. We also recommended that the department annually age the loans receivable so that an adjustment may be made that will ensure that a sufficient reserve for uncollectible accounts is established. Status: No corrective action has been taken.
(2) Errors in distribution of state subsidies to local educational agencies	Maine's School Finance Act of 1985 provides for state subsidies to local educational agencies (LEA's). We examined distributions which had been made to 85 LEA's and noted variances which totaled $93,123.00. Incorrect allocation computations were primarily the result of errors in consolidation of supporting data. Each LEA receives a copy of their allocation and agency personnel rely in part on the LEA's review to detect errors. The agency has since strengthened their internal supervisory review process to prevent similar errors in the future.	Prior Year Recommendation: We recommended that supervisory personnel periodically spot-check and verify the transferral and accumulation of data. Status: Although the review process was strengthened, similar errors were noted during the current audit period.

Agency/Program	Prior Year Significant or Material Findings	Recommendation/Status
Department of Finance		
Bureau of Taxation (1) Control over and recognition of tax revenues resulting from audit assessments	Amounts due as a result of sales and/or use tax assessments made by the bureau's audit division are not recorded as receivables/revenue on the records of the State Controller. Also, amounts paid prior to final reconsideration of the amount assessed are credited to accounts receivable but have not been established as accounts receivable. As a result of these payments General Fund receivables, revenues and fund balance were understated by $995,878.00 at June 30, 1987. In addition, substantial time may elapse from initial assessment to final reconsideration. Assessments are controlled during this time period through the use of 3" x 5" index cards. This weak control could result in assessment records being lost or improperly altered. Bureau personnel indicated that assessments have not been booked due to the substantial number of adjustments that take place prior to final reconsideration. They also indicated that additional staff would be made available to reduce the backlog of assessments under reconsideration.	Prior Year Recommendation: We recommended that assessments be established as receivables once the bureau has completed its final reconsideration. Partial payments received prior to final reconsideration and credited to receivables should be established as receivables/revenue. We also recommended that assessments be numbered and that a detail ledger control of such assessments be maintained. If assessments are abated, evidence of proper authorization of the abatement should be retained and noted in the ledger. Status: In December 1988, the agency began to record partial payments as a revenue by setting the amount up as an assessment. They are also keeping a detail ledger of audit assessments on computer which serves as a back-up to the 3"x5" cards.
Bureau of Accounts and Control (1) Incorrect use of prepaid expense	At June 30, 1987 recorded assets were overstated and expenditures understated by $2,599,096, due to incorrect use of the prepaid expense account. In the General Fund a $2,560,920 debit to prepaid expense (rather than to expenditures) was made as a balancing entry to the account recorded as "Due to" other agencies for services received. In the General and Special Revenue Funds, we noted other debits to prepaid expense of $206,130. Those entries had been made to avoid deficits which would have been created by recording expenditures to accounts in which sufficient funds were not available. Administrative personnel of the bureau indicated that their current coding procedures were a long standing practice, but agreed in principle that proper coding would be to record expenditures rather than prepaid expense in the above situations.	Prior Year Recommendation: To present an accurate picture of financial position and to record expenditures in the period in which the obligations were incurred, we recommended that use of the prepaid account be limited to those situations where the obligation or expenditure is for goods or services to benefit a future period. We also recommended that the system be more closely monitored to avoid the overexpenditure of available funds. Status: No corrective action has been taken.

Agency/Program	Prior Year Significant or Material Findings	Recommendation/Status
Department of Finance		
Bureau of Accounts and Control (2) Funds entrusted to the state not recorded on the Controller's official records	The State of Maine is accountable for amounts received from participants in a Deferred Compensation Plan as well as from representative payee and guardianship relationships and for patient/inmate funds at state institutions. At June 30, 1987 such Deferred Compensation assets were approximately $34.9 million and other assets approximately $1.7 million. Responsibility for those funds was not reflected on the official accounting records of the state. Past practice has been that Deferred Compensation Plan assets are reflected in the State Controller's Annual Financial Report but not otherwise reflected in state accounting records. Other referenced funds have not been centrally recorded.	Prior Year Recommendation: So that state accounting records would present a more accurate record of agency activity and financial liabilities, we recommended that all funds or assets in the custody of the state or any of its individual agencies be recorded on the official accounting records of the state. Status: No corrective action has been taken.
Department of Mental Health and Mental Retardation (1) Errors in rate structure resulting in underrecovery of Medicaid reimbursement to General Fund	For the period July 1, 1983 - June 30, 1987, Department of Mental Health and Mental Retardation (MHMR) patient care and treatment billing rates, as established by the Maine Department of Human Services, were understated, resulting in underrecovery of Medicaid reimbursement revenue to the General Fund. Daily reimbursement rates were understated due, in part, to the effects of incorrectly including in the rate structure a penalty that had been assessed in 1982, and, in part, to improperly incorporating census changes and certified bed changes that affected the occupancy rate and therefore the reimbursement rate. With the aid of an outside consultant, MHMR personnel detected these errors and an additional reimbursement of $1,698,854 for this period was received in June of 1988, via Health and Human Services audit revision settlements. This reimbursement pertained to Augusta and Bangor Mental Health Institutes. Lesser amounts may be obtainable for other state mental health agencies.	Prior Year Recommendation: We recommended that agency personnel continue their efforts to obtain all available reimbursements at the highest possible reimbursement rate. Status: The department has hired a consulting firm to review the reimbursement rate.

Agency/Program	Prior Year Significant or Material Findings	Recommendation/Status
Department of Mental Health and Mental Retardation		
Augusta Mental Health Institute (1) Billings for patient care and treatment not up to date	During our review of accounts receivable records for Augusta Mental Health Institute, we noted that, as of May 1988, billings for patient care and treatment were 23 months behind. Medicare billings for the period July 1986 - May 1988 were being generated and mailed while billings to other payers were almost all current. We also noted that posting of receipts were approximately 2 months behind. In addition, we noted that pharmaceutical services rendered were not billed. Billing delays were primarily the result of converting from a manual to a computer billing system, which was neither fully functional nor efficient. Bills could not be generated without extensive manual review and corrections. The billing section is understaffed for the demands of current and retro billings and the manual rework required of the computer system output. General fund revenue was understated as Medicare reimbursements were recorded at time of receipt, not as services rendered are billed. Agency estimates of such reimbursement revenue for the 23 month period ranged from $1.2 million to $2 million. There was also a possibility of lost General Fund revenue due to the following: loss of interest income; loss of payments due to insurers' limited payments having been made to other providers who are more timely in their submission of bills; not having billed for all reimbursable services provided; lack of time to pursue delinquent accounts; and the lesser likelihood of receiving payment on old bills. Receivable records also do not present a true picture of financial position due to the delays in posting transactions.	Prior Year Recommendation: To permit timely and efficient processing of complete and accurate bills, as well as posting of payments, we recommended that a workable billing system be installed/implemented. We also recommended that additional personnel be brought in to catch up on billings. Status: The agency was still behind in its billing for patient care on June 30, 1988 and 1989 by 18 months and 15 months respectively. Pharmaceutical services rendered are still not being billed.

Agency/Program	Prior Year Significant or Material Findings	Recommendation/Status
Department of Professional and Financial Regulation		
Bureau of Insurance (1) Late billing of assessments	Title 24-A, Section 237, Maine Revised Statutes Annotated of 1964, as amended, promulgates that "the expense of maintaining the Bureau of Insurance shall be assessed annually by the Superintendent of Insurance against all insurers licensed to do business in this State...." Other provisions in the applicable law state, in part, that "on or before April 20th of each year, the superintendent shall notify each insurer of the assessment due...and that "payment shall be made on or before June 1st." A review of assessments levied on insurers in the 1986-87 fiscal year revealed that the notifications of total assessment due of $752,748.00 were not forwarded to the respective insurers as of April 20th. This was apparently the result of ineffective scheduling of staff time on the part of bureau administrative personnel. Our review also disclosed that these assessments due were not established as taxes receivable as of the prescribed billing date and were not recognized on the records of the State Controller until the subsequent accounting period. This was apparently due, in part, to the untimely preparation of the assessment notifications. As a result, revenues and taxes receivable for the 1986-87 fiscal year were understated and the respective accounts for the 1987-88 fiscal year were overstated.	Prior Year Recommendation: We recommended that assessments be billed on or before April 20th of each year and the assessments be recorded and recognized as taxes receivable/revenue at the date of billing in order to present fairly the financial position and results of the financial operations of the bureau. Status: No corrective action has been taken.
Public Utilities Commission (1) 1987 assessment recorded in 1988 fiscal year	Fiscal year 1987 recorded revenues and receivables were understated and 1988 fiscal year revenues overstated by $2,218,999.00 as an entry was not made in fiscal 1987 to record the May assessment made on each utility operating in the state. 35-A M.R.S.A. Section 116 requires the annual assessment to be levied prior to May 1st (at which time the revenue should be recognized) and utilities to pay the assessment on or before July 1st of each year. Assessment billings were mailed to the utilities within the required time frame, however the journal entry to record the billing was not prepared until July 23, 1987.	Prior Year Recommendation: We recommended that the assessment journal be prepared and recorded on a timely basis. Status: No corrective action has been taken.

Agency/Program	Prior Year Significant or Material Findings	Recommendation/Status

Department of Transportation

(1) Fixed asset acquisitions funded through bond appropriations, federal funding or general funds are not recorded on the appropriate enterprise fund records

It has been determined that acquisitions of capital assets using bond appropriations, federal funds or general funds have been capitalized in the General Fixed Assets Account Group. Fixed assets thus recorded have not been transferred from the General Fixed Assets Account Group to the appropriate fixed asset accounts within the various enterprise funds. Consequently, the fixed asset accounts of the enterprise funds are understated, as follows:

Augusta State Airport:	
Land	$ 70,220.22
Buildings	85,215.07
Structures and Improvements	5,173,346.11
	5,328,781.40
Marine Ports:	
Equipment	19,500,000.00
Island Ferry Service:	
Land	86,000.00
Buildings	72,825.57
Structures and Improvements	280,635.40
Equipment	46,738.72
	486,199.69
Total	$25,314,981.09

Included in the Augusta State Airport total is $5,271,000.00 which was reported as Construction in Process at June 30, 1984 and incorrectly journal transferred to the General Fixed Asset Account Group.

Accumulated depreciation and depreciation expense, as recorded, are also understated due to the lack of inclusion of the incorrectly recorded fixed assets in the depreciation calculations, as follows:

Augusta State Airport	$ 14,131.56
Marine Ports	2,295,000.00
Island Ferry Service	280,885.52
Total	$2,590,017.08

Prior Year Recommendaiton:
We recommended that appropriate corrections to the Continuing Property Records, Fixed Asset Accounts, Reserve for Depreciation and associated expense accounts be made. We also recommended that Continuing Property Records be examined and adjusted, as necessary, on an annual basis to insure that enterprise fund capital acquisitions are properly recorded.

Status:
The Department of Transportation prepared correcting journal entries during fiscal year 1989.

Summary of the Reports of Other Auditors

The report of other auditors of the Department of Educational and Cultural Services regarding the Stafford Loan Program disclosed instances of noncompliance. Following is a summary of the instances of noncompliance contained in their report for the period October 1, 1986 through September 30, 1988.

(1) During the course of our procedures, we were unable to test compliance with the following regulations regarding the conditions of reinsurance coverage and the repayment by lenders of interest benefits and special allowance where a loan did not meet the conditions of reinsurance coverage.

As specified by 34 CFR Sec. 682.406(a)(1), Education makes a reinsurance payment on a loan to a guarantee agency only if, among other requirements, the lender exercised due diligence in making, disbursing and servicing the loan as prescribed by rules of the agency. This regulation is included in USA Funds' Policies and Procedures for Loan Programs manual provided to lenders; however, it has not been the policy of the management of USA Funds, as servicing agent for MDECS, to include documentation in paid claim files to document lenders' compliance with this requirement.

As specified by 34 CFR Sec. 682.406(a)(2), Education makes a reinsurance payment on a loan to a guarantee agency only if, among other requirements, the loan check was cashed within 120 days after disbursement or the loan procedures disbursed by electronic funds transfer in accordance with Sec. 682.207(b)(1)(ii)(B) have been released from the restricted account maintained by the school on or before that date. It has not been the policy of the management of USA Funds, as servicing agent for MDECS, to document procedures for ensuring compliance with this requirement.

As specified by 34 CFR Sec. 682.413(a), Education requires a lender to repay interest benefits and special allowance on a loan guaranteed by a guarantee agency for any period beginning on the date of a failure by the lender, with respect to the loan, to comply with any of the conditions or reinsurance set forth in Sec. 682.406(a)(1) through (a)(5) and (a)(9). This regulation is included in USA Funds' Policies and Procedures for Loan Programs manual provided to lenders; however, it has not been the policy of the management of USA Funds, as servicing agent for MDECS, to document procedures for ensuring lenders' compliance with this requirement.

(2) Noncompliance with the sections of Guide referred to in the first paragraph of this letter which was observed by us is as follows:

Interest Portion on Claim Payments to Lenders

Finding: The interest portion on two claim payments tested in the sample selected from all claim payments by USA Funds for submission to education was not computed in accordance with the guarantee agency's policies. Neither of the two claim payments related to loans guaranteed by MDECS.

USA Funds' Reply: USA Funds conducted a test of lender calculated interest-paid-through dates, finding the lender's calculated dates to be accurate within an acceptable statistical precision. To continue to monitor the accuracy of lender calculations, USA Funds has recently designed and implemented an on-going sampling technique on interest-paid-through dates as reported by lenders and servicers.

Claim Payments to Lenders

Finding: Five claim payments to lenders tested in the sample selected from all claim payments by USA Funds for submission to Education were made in excess of 90 days of the date the lender filed the claim with USA Funds as required by 34 CFR Sec. 682.406(a)(7). None of the five claim payments related to loans guaranteed by MDECS. An additional two claim payments to lenders in the above sample were made in excess of 90 days of the date the lender filed the claim with USA Funds due to an error in the computer software design. Neither of the two claim payments related to loans guaranteed by MDECS.

USA Funds' Reply: USA Funds temporarily changed the prioritization of claim processing from a system based on claim receipt date to one based on the date of delinquency in order to reduce the overall amount of delinquent interest paid to lenders. The change was only temporary and USA Funds has since reverted to using the date of claim receipt.

The software was designed to purchase the default claim on the Friday of the week following the 90 day limit. This allowed the actual claim purchase date to exceed 90 days. The program logic has been corrected, with the claim purchased on the Friday preceding the 90th day.

The report of other auditors of the Department of Administration - Bureau of Purchases disclosed instances of noncompliance. Following is a summary of the instances of noncompliance contained in their report.

A biennial review of the Maine State Agency for Surplus Property was conducted on April 11, 1988, by members of the Regional Personal Property Services Staff of the Federal Supply Bureau, General Services Administration (GSA).

The following conditions were considered as noncompliance with the State Plan of operation and the Federal Surplus Property Program as outlined in the Code of Federal Regulations and the GSA Property Management Regulations:

CONDITION	AGENCY RESPONSE
1. Distribution of a letter dated February, 1988, and other memos that refer to selling Federal Surplus Property, (which is prohibited by law), should be referenced as "donation program," utilizing "service fees or charges" for cost incurred in the transfer of Federal Surplus Property.	The documents containing such words as "sales slips," "purchases," or any other words suggesting the Maine's SASP is selling Federal Surplus Property, are being deleted.
2. Requirements outstanding from prior reviews, audits, or compliance cases indicated that eligibility files did not contain documentation necessary in determining donee eligibility.	The files are being purged, updated, and searched for incomplete or inaccurate information.
3. The SASP maintain an accountability system for all property obtained through the use of the SF-123, maintain inventory record card file, compliance file, overage/shortage reports, and maintain a screeners authorized signature file.	Regarding Stock Balance and Inventory Control arrangements are being made for the purchase of a computer, which will contain the information required.
4. The SASP maintains a record of all authorized screeners, but this record does not contain authorized signatures. Items picked up at the site by donees do not contain a signature of receipt on the distribution document.	The staff of the Maine SASP has been reminded of this infrequent oversight, and the problem has been rectified.
5. The SASP should assess all service fees/charges using State Plan of Operation as a guide.	When the State Plan of Operations is fully updated, these errors will no longer occur.
6. The SASP Contact those donees that are delinquent in remitting the service fees/charges. Formulate some system for prompt payments.	Letters and phone calls have resulted in nearly 1/3 of the delinquent accounts being paid. The others will be resolved through litigation as a last resort. However, we hope to avoid this, when possible, by setting up a payment schedule.
Pending donation, the SASP provide the necessary security for items being stored.	An improved yard, with security fencing, is being designed, and a target date of early fall is assured.