

# MAINE STATE LEGISLATURE

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STATE DEPARTMENT OF AUDIT  
Augusta, Maine 04333-0066

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**STATE OF MAINE  
SINGLE AUDIT  
REPORT  
FOR THE YEAR ENDED  
JUNE 30, 1989**



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STATE OF MAINE  
SINGLE AUDIT REPORT  
FOR THE YEAR ENDED  
JUNE 30, 1989

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STATE OF MAINE  
DEPARTMENT OF AUDIT  
STATE HOUSE STATION 66  
AUGUSTA, MAINE 04333  
Area Code 207  
Tel. 289-2201

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

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, 1989.

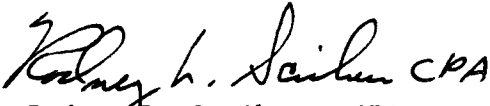
This report complies with the state's audit requirements contained in Title 5 MRSA, Chapter 11 and the federal audit requirements of the Single Audit Act of 1984, and the associated Circular A-128, issued by the U.S. Office of Management and Budget.

We note for your attention the following areas that we believe to be of particular significance.

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We would like to express our appreciation to the federal cognizant audit agency, the U.S. Department of Health & 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 1989 single audit report.

 CPA  
Rodney L. Scribner, CPA  
State Auditor

September 28, 1990

# COMPONENT UNIT FINANCIAL STATEMENTS





STATE OF MAINE  
DEPARTMENT OF AUDIT  
STATE HOUSE STATION 66  
AUGUSTA, MAINE 04333  
Area Code 207  
Tel. 289-2201

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying component unit financial statements of the State of Maine oversight unit, as of and for the year ended June 30, 1989, as listed in the table of contents. These component unit financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

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

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

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

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

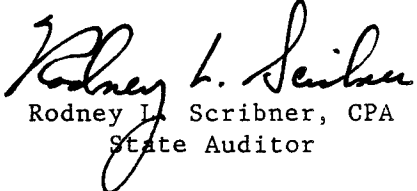
The state records certain revenues related to block grant awards as they are encumbered that, in our opinion, should be recorded when the expenditure is made, to conform with generally accepted accounting principles. If those revenues had been recorded in conformity with generally accepted accounting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



Revenues, expenses and inventory accounts of the Internal Service Fund are overstated as a result of overhead burden rates being applied to work performed on projects within the fund. In our opinion, generally accepted accounting principles do not provide for intrafund profits. The effects of the preceding practices on Internal Services Fund inventories and retained earnings, as of June 30, 1989, and sales and service revenues and operating expenses, for the year ended June 30, 1989, are not reasonably determinable.

In our opinion, except for the effects on the component unit financial statements of not recording certain transactions in accordance with generally accepted accounting principles as described in the third preceding paragraph; and except for the effects on the component unit financial statements of recording certain revenues as discussed in the second preceding paragraph; and except for the effects of the matters discussed in the first preceding paragraph, the component unit financial statements referred to above present fairly the financial position of the State of Maine, oversight unit, at June 30, 1989 and the results of its operations and the changes in financial position of its proprietary and similar trust fund types for the year then ended, in conformity with generally accepted accounting principles. For the reason discussed in the fourth paragraph, we do not express an opinion on the General Fixed Assets Account Group.

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

 CPA  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990

State of Maine  
Combined Balance Sheet - All Fund Types and Account Groups  
(Dollars in Thousands)  
June 30, 1989

	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	(Memorandum Only)
<b>Assets and Other Debits</b>										
Equity in treasurer's cash pool (note 1E)	\$249,316	\$117,598	\$4,755	\$ 6,899	\$ 9,028	\$11,721	\$ 58,721	\$	\$	\$ 458,038
Cash with fiscal agent			590							590
Cash other	134	63			286	5	8,808			9,296
Deposits with U.S. Treasury (note 4)							193,431			193,431
Investments (note 4)				74,863	1		1,601,825			1,676,689
Receivables (net of allowances for uncollectibles) (note 1E)										
Taxes	49,267	7,280								56,547
Accounts	12,107	6,464			2,402	111	69,813			90,897
Notes					1,300					1,300
Loans	3	2			3,008					3,013
Accrued interest				243			11,115			11,358
Due from other funds	1,964	6,550			1,169	6,260				15,943
Due from other governments (note 6)	9	74,124								74,133
Working capital advances to other funds	4,851	13,182								18,033
Inventories (note 1E)					7,077	7,013				14,090
Other assets	79	1,472			551	277	590			2,969
Land, buildings and equipment (note 8)					42,875	65,933	391	261,706		370,905
Accumulated depreciation (note 8)					( 8,815)	( 36,110)				( 44,925)
Amount available in debt service funds									4,755	4,755
Amount to be provided for retirement of general long-term debt									412,301	412,301
<b>Total Assets and Other Debits</b>	<b>\$317,730</b>	<b>\$226,735</b>	<b>\$5,345</b>	<b>\$82,005</b>	<b>\$58,882</b>	<b>\$55,210</b>	<b>\$1,944,694</b>	<b>\$261,706</b>	<b>\$417,056</b>	<b>\$3,369,363</b>
<b>Liabilities, Fund Equity and Other Credits</b>										
<b>Liabilities:</b>										
Accounts payable	\$ 35,794	\$ 64,738	\$	\$ 1,372	\$ 7,092	\$ 3,913	\$ 89,280	\$	\$	\$ 202,189
Accrued payroll	12,210	5,830			522	678	119			19,359
Lease purchase payable						11,410				11,410
Worker's compensation benefits payable	4,432	2,726			1,315	2,048	72		51,093	61,686
Compensated absences payable					413	495	82		18,863	19,853
Other liabilities	1,326	70			1,313	3,742	70,201			76,652
Due to other funds	11,556	3,432			514	370	71			15,943
Due to other governments		5,862								5,862

(Continued)

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

	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	(Memorandum Only)
Liabilities (Cont'd.):										
Due to program participants and providers	\$	\$	\$	\$	\$	\$	\$ 35,270	\$	\$	\$ 35,270
Deferred revenue	20,158				368					20,526
Working capital advances payable		675			3,985	13,373				18,033
Matured bonds payable			270							270
Matured interest payable			320							320
Bonds payable (note 14)									347,100	347,100
Total Liabilities	85,476	83,333	590	1,372	15,522	36,029	196,095	-	417,056	834,473
Fund Equity and Other Credits:										
Contributed capital					65,306	4,782				70,088
Investment in general fixed assets (note 8)								261,706		261,706
Retained earnings (deficit) (note 2)					( 21,946)	14,399				( 7,547)
Fund Balances: (note 1E)										
Reserved for encumbrances	21,957	24,937		20,475						67,369
Reserved for retirement contributions							1,519,897			1,519,897
Reserved for working capital advances	4,851	13,182								18,033
Reserved for group life insurance							7,824			7,824
Reserved for Rainy Day Fund	25,000									25,000
Reserved for other purposes		6,051					221,878			227,929
Unreserved:										
Designated for subsequent year expenditures	61,768	93,515		60,158						215,441
Designated for debt service			4,755							4,755
Designated for other purposes	19,428									19,428
Undesignated	99,250	5,717								104,967
Total Fund Equity and Other Credits	232,254	143,402	4,755	80,633	43,360	19,181	1,749,599	261,706	-	2,534,890
Total Liabilities, Fund Equity and Other Credits	\$317,730	\$226,735	\$5,345	\$82,005	\$58,882	\$55,210	\$1,944,694	\$261,706	\$417,056	\$3,369,363

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

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, 1989

	Governmental Fund Types				Fiduciary Fund Type Expendable Trust	Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects		
Revenues:						
Taxes, licenses and fees	\$1,256,706	\$ 291,188	\$	\$	\$ 95,369	\$1,643,263
Fines, forfeits and penalties	19,145	3,582				22,727
Income from investments	23,681	6,142	5,261	469	4,042	39,595
Intergovernmental revenue	1,315	665,871				667,186
Revenue from private sources	1,405	33,338				34,743
Service charges for current services	30,190	35,147				65,337
Other revenues	4,560	12,984			4,573	22,117
Total Revenues	<u>1,337,002</u>	<u>1,048,252</u>	<u>5,261</u>	<u>469</u>	<u>103,984</u>	<u>2,494,968</u>
Expenditures:						
General government	147,181	122,625		9,078		278,884
Economic development	28,277	39,491				67,768
Education and culture	714,899	71,006		15,598		801,503
Human services	429,879	478,908		6,367	66,516	981,670
Manpower	5,135	30,052				35,187
Natural resources	22,761	31,319		11,630		65,710
Public protection	15,458	32,444				47,902
Transportation	7,392	210,125		12,008		229,525
Debt service			64,570			64,570
Total Expenditures	<u>1,370,982</u>	<u>1,015,970</u>	<u>64,570</u>	<u>54,681</u>	<u>66,516</u>	<u>2,572,719</u>
Excess of Revenues over (under) Expenditures	( <u>33,980</u> )	<u>32,282</u>	( <u>59,309</u> )	( <u>54,212</u> )	<u>37,468</u>	( <u>77,751</u> )
Other Financing Sources (Uses):						
Operating transfers (net)	17,063	( 10,944 )	60,115			66,234
Bond proceeds				79,780		79,780
Other	( <u>19,047</u> )	( <u>1,002</u> )			334	( <u>19,715</u> )
Total Other Financing Sources (Uses)	( <u>1,984</u> )	( <u>11,946</u> )	<u>60,115</u>	<u>79,780</u>	<u>334</u>	<u>126,299</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	( <u>35,964</u> )	<u>20,336</u>	<u>806</u>	<u>25,568</u>	<u>37,802</u>	<u>48,548</u>
Fund Balances - July 1 (as adjusted) (note 19)	<u>268,218</u>	<u>123,066</u>	<u>3,949</u>	<u>55,065</u>	<u>182,251</u>	<u>632,549</u>
Fund Balances - June 30	\$ <u>232,254</u>	\$ <u>143,402</u>	\$ <u>4,755</u>	\$ <u>80,633</u>	\$ <u>220,053</u>	\$ <u>681,097</u>

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

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, 1989

	General Fund			Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
<b>Revenues:</b>									
Taxes, licenses and fees	\$1,241,750	\$1,295,867	\$ 54,117	\$ 291,811	\$284,954	(\$ 6,857)	\$1,533,561	\$1,580,821	\$ 47,260
Fines, forfeits and penalties	16,176	19,145	2,969	3,743	3,582	( 161)	19,919	22,727	2,808
Income from investments	23,400	23,681	281	2,210	6,142	3,932	25,610	29,823	4,213
Intergovernmental revenue	2,525	1,315	( 1,210)	669,988	613,424	( 56,564)	672,513	614,739	( 57,774)
Revenue from private sources	2,448	1,405	( 1,043)	45,347	33,338	( 12,009)	47,795	34,743	( 13,052)
Service charges for current services	30,132	30,190	58	33,204	35,147	1,943	63,336	65,337	2,001
Other revenues	4,253	4,560	307	15,480	12,984	( 2,496)	19,733	17,544	( 2,189)
<b>Total Revenues</b>	<b>1,320,684</b>	<b>1,376,163</b>	<b>55,479</b>	<b>1,061,783</b>	<b>989,571</b>	<b>( 72,212)</b>	<b>2,382,467</b>	<b>2,365,734</b>	<b>( 16,733)</b>
<b>Expenditures:</b>									
General government	209,676	147,181	62,495	140,506	116,965	23,541	350,182	264,146	86,036
Economic development	33,999	28,277	5,722	60,468	39,491	20,977	94,467	67,768	26,699
Education and culture	718,749	714,899	3,850	89,671	71,006	18,665	808,420	785,905	22,515
Human services	420,336	398,575	21,761	487,921	426,191	61,730	908,257	824,766	83,491
Manpower	6,085	5,135	950	52,398	30,052	22,346	58,483	35,187	23,296
Natural resources	25,369	22,761	2,608	47,911	31,319	16,592	73,280	54,080	19,200
Public protection	16,225	15,458	767	37,081	32,444	4,637	53,306	47,902	5,404
Transportation	19,350	7,392	11,958	276,111	210,125	65,986	295,461	217,517	77,944
<b>Total Expenditures</b>	<b>1,449,789</b>	<b>1,339,678</b>	<b>110,111</b>	<b>1,192,067</b>	<b>957,593</b>	<b>234,474</b>	<b>2,641,856</b>	<b>2,297,271</b>	<b>344,585</b>
<b>Excess of Revenues over (under) Expenditures</b>	<b>( 129,105)</b>	<b>36,485</b>	<b>165,590</b>	<b>( 130,284)</b>	<b>31,978</b>	<b>162,262</b>	<b>( 259,389)</b>	<b>68,463</b>	<b>327,852</b>
<b>Other Financing Sources (Uses):</b>									
Operating transfers (net)	60,776	17,063	( 43,713)	5,350	( 5,087)	( 10,437)	66,126	11,976	( 54,150)
Other		( 41,088)	( 41,088)	9,500	( 1,002)	( 10,502)	9,500	( 42,090)	( 51,590)
<b>Total Other Financing Sources (Uses)</b>	<b>60,776</b>	<b>( 24,025)</b>	<b>( 84,801)</b>	<b>14,850</b>	<b>( 6,089)</b>	<b>( 20,939)</b>	<b>75,626</b>	<b>( 30,114)</b>	<b>( 105,740)</b>
<b>Excess of Revenues and Other Sources over (under) Expenditures and Other Uses</b>	<b>( 68,329)</b>	<b>12,460</b>	<b>80,789</b>	<b>( 115,434)</b>	<b>25,889</b>	<b>141,323</b>	<b>( 183,763)</b>	<b>38,349</b>	<b>222,112</b>
<b>Fund Balances - July 1 (as adjusted)</b>	<b>70,233</b>	<b>281,302</b>	<b>211,069</b>	<b>( 154,959)</b>	<b>130,246</b>	<b>285,205</b>	<b>( 84,726)</b>	<b>411,548</b>	<b>496,274</b>
<b>Fund Balances - June 30 (note 3)</b>	<b>\$ 1,904</b>	<b>\$ 293,762</b>	<b>\$291,858</b>	<b>(\$ 270,393)</b>	<b>\$156,135</b>	<b>\$426,528</b>	<b>(\$ 268,489)</b>	<b>\$ 449,897</b>	<b>\$718,386</b>

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

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, 1989

	Proprietary Fund Types		Fiduciary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	
Operating Revenues:					
Sales and services	\$173,955	\$50,101	\$ 25	\$	\$ 224,081
Fees and licenses	13,111				13,111
Income from investments (net of amortization of premiums)			33	126,142	126,175
Contributions -					
Employer				165,073	165,073
Employee				61,582	61,582
Participating districts				33,134	33,134
Other operating revenues	<u>109</u>				<u>109</u>
Total Operating Revenues	<u>187,175</u>	<u>50,101</u>	<u>58</u>	<u>385,931</u>	<u>623,265</u>
Operating Expenses:					
Cost of sales and services	103,573	20,258			123,831
Personal services	10,550	15,967		2,082	28,599
General operating expenses	9,260	9,773		4,932	23,965
Depreciation	686	5,520		96	6,302
Refunds				10,205	10,205
Health insurance premiums				5,063	5,063
Claim and benefit payments		<u>182</u>		<u>157,826</u>	<u>158,008</u>
Total Operating Expenses	<u>124,069</u>	<u>51,700</u>	<u>-</u>	<u>180,204</u>	<u>355,973</u>
Operating Income (Loss)	<u>63,106</u>	<u>( 1,599)</u>	<u>58</u>	<u>205,727</u>	<u>267,292</u>
Nonoperating Revenues (Expenses):					
Interest revenue	958	977			1,935
Interest expense		( 560)			( 560)
Other nonoperating revenues (expenses)	<u>345</u>	<u>2,313</u>		<u>620</u>	<u>3,278</u>
Total Nonoperating Revenues (Expenses)	<u>1,303</u>	<u>2,730</u>	<u>-</u>	<u>620</u>	<u>4,653</u>
Income before Operating Transfers	64,409	1,131	58	206,347	271,945
Operating Transfers In (Out)	<u>( 66,234)</u>				<u>( 66,234)</u>
Net Income (Loss)	<u>( 1,825)</u>	<u>1,131</u>	<u>58</u>	<u>206,347</u>	<u>205,711</u>
Retained Earnings/Fund Balances - July 1 (as adjusted)	<u>( 20,121)</u>	<u>13,268</u>	<u>9,591</u>	<u>1,313,550</u>	<u>1,316,288</u>
Retained Earnings/Fund Balances - June 30 (note 2)	<u>(\$ 21,946)</u>	<u>\$14,399</u>	<u>\$9,649</u>	<u>\$1,519,897</u>	<u>\$1,521,999</u>

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

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, 1989

	Proprietary Fund Type		Fiduciary Fund Types		Total (Memorandum Only)
	Enterprise	Internal Services	Nonexpendable Trust	Pension Trust	
Sources of Working Capital:					
Operations -					
Net income	(\$1,825)	\$1,131	\$58	\$206,347	\$205,711
Items not requiring (providing) working capital:					
Depreciation	<u>686</u>	<u>5,520</u>	<u>—</u>	<u>96</u>	<u>6,302</u>
Working Capital Provided by Operations	( 1,139)	6,651	58	206,443	212,013
Contributed capital	<u>398</u>	( 130)	<u>—</u>	<u>—</u>	<u>268</u>
Proceeds from sale of property, plant and equipment	( 11)	2,937	<u>—</u>	<u>16,939</u>	<u>2,926</u>
Other	<u>160</u>	( 402)	<u>—</u>	<u>—</u>	<u>16,697</u>
Total Sources of Working Capital	( <u>592</u> )	<u>9,056</u>	<u>58</u>	<u>223,382</u>	<u>231,904</u>
Uses of Working Capital:					
Acquisition of property, plant, and equipment	<u>736</u>	<u>3,346</u>	<u>—</u>	<u>113</u>	<u>4,195</u>
Net Increase (Decrease) in Working Capital	(\$1,328)	\$5,710	\$58	\$223,269	\$227,709
Elements of Net Increase (Decrease) in Working Capital:					
Cash	(\$3,302)	\$2,057	\$25	(\$ 28,160)	(\$ 29,380)
Receivable (net of allowances)	<u>2,748</u>	<u>20</u>	<u>—</u>	<u>64,926</u>	<u>67,694</u>
Investments	( 1)	<u>—</u>	33	<u>268,420</u>	<u>268,452</u>
Inventories	( 818)	1,263	<u>—</u>	<u>—</u>	<u>445</u>
Other assets	<u>288</u>	<u>871</u>	<u>—</u>	<u>148</u>	<u>1,307</u>
Accounts payable	( 441)	1,518	<u>—</u>	( 81,483)	( 80,406)
Due to other funds	<u>299</u>	<u>46</u>	<u>—</u>	( 57)	<u>288</u>
Working capital advances payable	<u>—</u>	( 10)	<u>—</u>	<u>—</u>	( 10)
Other current liabilities	( <u>101</u> )	( <u>55</u> )	<u>—</u>	( <u>525</u> )	( <u>681</u> )
Net Increase (Decrease) in Working Capital	(\$1,328)	\$5,710	\$58	\$223,269	\$227,709

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

**STATE OF MAINE**  
**NOTES TO THE FINANCIAL STATEMENTS**

**June 30, 1989**

**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 component unit financial statements:

- o Board of Overseers of the Bar
- o Finance Authority of Maine
- o Maine Council on Vocational Education
- o Maine Health/Higher Education Facilities Authority
- o Maine High Risk Insurance Organization
- o Maine Insurance Guaranty Association
- o Maine Low-Level Radioactive Waste Authority
- o Maine Maritime Academy
- o Maine Municipal Bond Bank
- o Maine School Building Authority
- o Maine State Housing Authority
- o Maine Turnpike Authority
- o Maine Veterans Home
- o Maine Vocational Technical Institute System
- o University of Maine System



## 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 funds 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). The legislature allocates this fund 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 Services 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, and other governmental units 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 are 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, 1989, 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 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, commercial paper, 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, 1989. At June 30, 1989, reserves for the accounts were approximately \$9.5 million, \$7.0 million, and \$1.4 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.

Bureau of Alcoholic Beverages Enterprise Fund inventory is stated at current replacement cost. Other Proprietary Fund inventories 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 not capitalized. 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 \$14.0 million as of June 30, 1989.

E. Other Accounting Policies

Property Tax Revenue

Property taxes are recognized as revenue in the year for which they are levied. Property taxes levied during the current fiscal year for the subsequent period are recorded as a deferred revenue during the current period.

Vacation and Sick Leave

It is the state's policy to permit employees to accumulate a limited amount of earned but unused vacation benefits, which will be paid to employees upon separation from state service. In Governmental Fund Types and Fiduciary Fund Types, the cost of vacation benefits is recognized when payments are made to employees. A long-term liability of approximately \$19 million of accrued vacation benefits at June 30, 1989 has been recorded in the General Long-Term Debt Group of Accounts, representing the state's commitment to fund such costs from future operations. Proprietary Fund Types accrue vacation benefits in the period they are earned. 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 \$21.9 million at June 30, 1989. These deficits are covered by 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 in Exhibit 2, for the fiscal year ended June 30, 1989 are:

	(Dollars in Thousands)	
	General Fund	Special Revenue Fund
Fund Balance (Exhibit 3)	\$293,762	\$156,135
Accounts payable	( 25,708)	
Accrued payroll	( 12,210)	( 5,830)
Workers' compensation benefits payable	( 4,432)	( 2,726)
Due to other governments		( 5,661)
Deferred revenue	( 20,158)	
Taxes receivable		1,484
Due from other funds	<u>1,000</u>	
Fund Balance (Exhibit 2)	<u>\$232,254</u>	<u>\$143,402</u>

#### 4. Deposits and Investments

The following information is provided as required by the Governmental Accounting Standards 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, or in repurchase agreements secured by obligations of the United States which mature within the succeeding 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 Maine State Retirement System and Group Life Insurance Program have invested in common stocks, bonds, fixed income and convertible securities, mortgages and real estate.

The state maintains a pooled cash and investment account that is available for use by all funds except those restricted by statutes or other legal reasons. Each fund's equity in the pooled cash and investment account is presented as "Equity in treasurer's cash pool" on the balance sheet. Interest income is allocated to the various funds based on their average equity balances.

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 institutions' trust departments or agents in the state's name (Category 2); and those deposits which are not collateralized (Category 3), at June 30, 1989. At year end, the carrying amount of the state's deposits was \$280,015,000, and the bank balance was \$309,511,000. The difference was primarily due to timing of investment transactions.

(Dollars in Thousands)

	Category <u>1</u>	Category <u>2</u>	Category <u>3</u>	Bank <u>Balance</u>	Carrying <u>Amount</u>
Demand & time deposits	\$ 2,410	\$10,538	\$73,636	\$ 86,584	\$116,080
Maine Employment Security Commission deposits with U.S. Government	<u>193,431</u>	<u>-</u>	<u>-</u>	<u>193,431</u>	<u>193,431</u>
Total	<u>\$195,841</u>	<u>\$10,538</u>	<u>\$73,636</u>	<u>\$280,015</u>	<u>\$309,511</u>

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 participate.



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 Value
	Category 1	Category 2	Category 3	Total	
Repurchase agreements	\$	\$ 30,205	\$ 1,915	\$ 32,120	\$ 32,148
U.S. Government securities		171,459		171,459	172,609
Corporate bonds & notes		2,089		2,089	1,976
Corporate stocks		2,935		2,935	3,094
Money market holdings		1,099		1,099	1,099
Commercial paper		<u>216,698</u>		<u>216,698</u>	<u>217,757</u>
Subtotal		424,485	1,915	426,400	428,683
Add amounts for Maine State Retirement System:					
U.S. Government securities			289,054	289,054	321,282
Corporate bonds & notes			209,302	209,302	209,461
Corporate stocks			<u>361,751</u>	<u>361,751</u>	<u>404,664</u>
	\$ -	<u>\$424,485</u>	<u>\$862,022</u>	1,286,507	1,364,090
Add amounts not categorized because securities are not used as evidence of investments:					
Investment pools in which the Maine State Retirement System participates:					
Commingled funds				639,516	730,439
Real estate				23,935	24,831
Mortgages				62	62
Investment pools in which the deferred compensation plan participates				45,735	45,735
Other investments				<u>22,892</u>	<u>22,892</u>
Total Investments				<u>\$2,018,647</u>	<u>\$2,188,049</u>

STATE DEPARTMENT OF AUDIT

**5. Property Taxes**

Property taxes are assessed by the State Tax Assessor on properties located in the unorganized territories of Maine and on telecommunication personal properties located in Maine. Such taxes are levied by August 1 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 fiscal year for which they are levied.

**6. Due from Other Governments - Grants Receivable**

Due from other governments is comprised of federal grants receivable, which represent Medicaid claims of \$51.4 million. It also includes categorical grants comprised primarily of health and welfare and transportation programs, \$11.6 million; federal block grant awards encumbered, \$6.7 million; and Community Development Block Grant funds, \$3.8 million for an interim financing plan operated by the Department of Economic and Community Development.

**7. Joint Venture**

The State of Maine has entered into a lottery compact with the State of Vermont and the State of New Hampshire subject to the following terms and conditions including but not limited to the following: Tri-State Lottery and Daily Numbers tickets are sold in each of the party states and processed in 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 of 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, 1989, 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	\$93,231
Total liabilities	93,231
Retained earnings	-
Total revenues	87,560
Total expenditures	54,922
Allocation of funds to member states	32,248

Included in liabilities is approximately \$92.0 million for prizes payable; these have been provided for primarily through the purchase of annuity contracts.

#### 8. Fixed Assets

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

(Dollars in Thousands)

	(Unaudited). General Fixed Asset Account Group	Enterprise Funds	Internal Service Funds
Land	\$ 30,219	\$ 571	\$ 243
Building and improvements	140,373	9,684	3,940
Equipment and fixtures	<u>91,114</u>	<u>32,620</u>	<u>61,750</u>
	261,706	42,785	65,933
Less accumulated depreciation	<u>          </u>	<u>8,815</u>	<u>36,110</u>
	<u>\$261,705</u>	<u>\$34,060</u>	<u>\$29,823</u>

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

<u>Assets</u>	<u>Life (Years)</u>
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 airplane 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 are reduced if retirement occurs 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 if retirement is 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. For the fiscal year ended June 30, 1989 the percentage was 19.68%

The number of participating employers, active members, and retirees and beneficiaries drawing benefits at June 30, 1989 was as follows:

	<u>MSRS</u>	<u>JRS</u>	<u>LRS</u>	<u>Total</u>
Employers: state and districts	\$ 274	1	1	\$ 276
Active Members: state	15,620	49	87	15,756
teachers	21,296	-	-	21,296
Local participating districts	8,998	-	-	8,998
Retirees/beneficiaries				
with benefits	22,806	9	5	22,820

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, and 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, 1989. Significant actuarial assumptions used in the valuation include a rate of return on the investment of 9.0% for 1989-1990, 8.5% for 1990-1991, and 8.0% for year 1991 and beyond; and projected salary increases of 6.0% to 10% per year, depending upon age, and cost of living increases of 4.0% annually.

At June 30, 1989, the unfunded pension benefit obligation in millions of dollars was:

Pension benefit obligation:

Retirees, beneficiaries, and terminated vested employees	\$1,364
Current employees:	
Accumulated employee contributions	532
Employer - financed vested	422
Employer - financed nonvested	<u>723</u>
Total pension benefit obligation	3,041
(Does not include obligations or liabilities for health insurance)	
Net assets available for benefits at cost (market value is \$1,063)	( <u>952</u> )
Unfunded pension benefit obligations	<u>\$2,089</u>

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. The most recent actuarial valuation was performed as of June 30, 1989. Employer contributions, as a percentage of active member payroll, amounted to 8.18% attributed to normal cost and 11.50% attributed to an annual amortization payment for a total of 19.68%. Employee contributions amounted to 6.5% of total earnings. The annual active member covered payroll for the year ending June 30, 1989 amounted to \$829,535,238.

**D. Trend Information**

Ten-year historical trend supplementary information, required by Governmental Accounting and Financial Standards, 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 certain former employees and beneficiaries of employees of the Judicial and Public Safety Departments which are funded by legislative appropriations. These plans existed 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.

**11. Other Employee Benefits**

Postretirement Health Care Benefits:

In addition to providing pension benefits, the State of Maine provides certain health care benefits for most retired state employees and 15% of the cost for certain retired teachers. Coverage for non-medicare eligible retirees includes basic hospitalization, supplemental major medical, care of mental health conditions, alcoholism, substances abuse, and prescription drug costs. Retirees eligible for Medicare are covered under Companion Plan I, the insurance policy designed to supplement Medicare. The benefits to nonmedicare eligible retirees are provided through insurance companies. Expenditures for postretirement health care benefits are recognized as premiums are paid, using funds generated from current contributions. For the fiscal year ended June 30, 1989, there were 8,863 retired state employees and 8,757 retired teachers. During the year, health care expenditures for retirees were \$5.2 million.

#### 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, as active employees, participated in the group life insurance program. For employees who participated for 10 continuous years prior to retirement, 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. The State of Maine recognizes the cost of providing these benefits as claims are paid to beneficiaries. Costs also include an administrative fee to the Retirement System and a retention fee to a life insurance company. Retired employees' life insurance claims totaled approximately \$1.6 million for the fiscal year ended June 30, 1989.

#### 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 unforeseeable 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 solely the property and rights of the state, 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 only 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, 1989, these commitments totaled approximately \$393.2 million payable over 20 years.

### 13. Lease Commitments

The state has commitments from one to twenty years for various leases of office and storage space. The state expects that these leases will be renewed or replaced by similar leases. In general, these leases contain nonassignable and escalation clauses in addition to predetermined rent increases. Lease commitments for the next five years under noncancelable leases are:

(Dollars in Thousands)

<u>Fiscal Year Ending</u> <u>June 30</u>	<u>Minimum</u> <u>Lease Payments</u>
1990	\$ 9,438
1991	8,628
1992	6,743
1993	5,548
1994	4,542
Thereafter	<u>15,424</u>
Total Minimum Lease Payments	<u>\$50,323</u>

Rental expense for the year ended June 30, 1989 was approximately \$9.4 million.

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

(Dollars in Thousands)

<u>Year Ending</u> <u>June 30</u>	<u>Minimum</u> <u>Lease Payments</u>
1990	\$ 4,273
1991	5,201
1992	4,452
1993	3,859
1994	<u>1,495</u>
Total	<u>\$19,280</u>



#### 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, 1989 are:

(Dollars in Thousands)

<u>Bond Type (Rate Range)</u>	<u>Outstanding</u> <u>July 1</u>			<u>Outstanding</u> <u>June 30</u>
	<u>1988</u>	<u>Additions</u>	<u>Reductions</u>	<u>1989</u>
General Purpose (4.0% to 11.2%)	\$201,160	\$51,780	\$31,295	\$221,645
Highways & Bridges (1.5% to 11.3%)	88,170	20,000	9,320	98,850
College, University and Veterans Home Facilities (3.0% to 11.3%)	18,945	-	1,340	17,605
Bond Anticipation Notes (4.3% to 4.7%)	<u>1,000</u>	<u>9,000</u>	<u>1,000</u>	<u>9,000</u>
Totals	<u>\$309,275</u>	<u>\$80,780</u>	<u>\$42,955</u>	<u>\$347,100</u>

Bond anticipation notes are issued by the state until voter-authorized bond proceeds are available.

The requirements to amortize all bonds and notes outstanding as of June 30, 1989 are:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
1990	\$ 58,325	\$ 22,893
1991	46,055	18,787
1992-1996	170,615	50,108
1997-2001	58,650	13,467
2002-2006	13,365	1,414
2007-2011	<u>90</u>	<u>5</u>
Totals	<u>\$347,100</u>	<u>\$106,674</u>

At June 30, 1989 the state has approximately \$135 million of authorized debt not issued. Use of debt is restricted by various authorizing laws.

In November 1989 approximately \$107 million in additional general long-term bonds was approved by voters in a referendum election. On May 15, 1990 the state issued \$17.5 million in general obligation bonds, payable over ten years.

## 15. Self Insurance

The State of Maine is self-insured for unemployment compensation, workers' compensation, tort liability, general liability and property insurance claims.

The state is self-insured as a direct-reimbursement employer for all unemployment compensation payments to its employees. The state recognizes the cost of unemployment compensation as claims are paid. These costs totaled approximately \$542 thousand for the fiscal year ended June 30, 1989.

The state is self-insured for losses incurred for all statutory workers' compensation and medical payments to its employees injured on the job. The state has accrued the current portion of the estimated liability for workers' compensation in the various fund types. The noncurrent portion is recorded in the proprietary funds and the General Long-Term Debt Account Group. These estimates include reported and unreported claims as of June 30, 1989. A loss reserve analysis has been prepared by an independent consulting actuarial firm, to estimate required reserve liability levels to be established in an internal service fund during the 1990 fiscal year. The reserve will be funded by an appropriation from the General Fund and interfund premiums.

The state is partially self-insured for tort liability claims including automobile, general tort, employee and transportation-related liability claims. The state has also elected partial self-insurance in both its general liability and property insurance programs. The state is self-insured up to \$300 thousand for each automobile liability occurrence with no aggregate stop loss. The state carried general liability insurance only in instances required by contracts and questionable areas where the Tort Claims Act doesn't immune or limit the state from liability. Coverage is specific to the purpose needed by each department, usually with no deductible. The state is self-insured for all other general liability claims not covered by these types of policies. Property insurance liability coverage includes retention of risk of \$1 million per occurrence up to a \$2 million aggregate, and a \$50 thousand deductible per occurrence beyond this aggregate. Claims in excess of self-insured levels are fully insured. Self-insurance is provided through the Risk Management Fund (an internal service fund). Risk Management Fund revenues are primarily contributions from other fund groups and are planned to match expenses of insurance premiums for coverage in excess of self-insured amounts, claims resulting from the self-insurance program, and operating expenses. Risk Management Fund reserves totaled \$6.6 million as of June 30, 1989.

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 which 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 number games and participates in the Tri-State Lottery which began operations during the fiscal year ended 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 Improvement Fund
- Seed Potato Board Funds
- State Osteopathic Loan Fund

Financial segment information as of and for the year ended June 30, 1989 for the State's enterprise funds is as follows:

State of Maine  
Segment Information for Enterprise Funds, Continued  
(Dollars in Thousands)

	<u>Bureau of Alcoholic Beverages</u>	<u>Maine State Lottery</u>	<u>Department of Transportation Services</u>	<u>Other Enterprise Funds</u>	<u>Total Enterprise Funds</u>
Operating revenues	\$88,208	\$96,318	\$ 1,254	\$ 1,395	\$187,175
Depreciation expense	102	45	521	18	686
Operating income (loss)	35,691	29,879	( 2,409)	( 55)	63,106
Operating transfers in (out)	( 36,942)	( 30,406)	1,700	( 586)	( 66,234)
Tax revenues					-
Net income (loss)	( 1,239)	( 285)	( 601)	300	( 1,825)
Capital contributions	-	-	256	142	398
Acquisition of property, plant and equipment (net)	76	11	389	260	736
Net working capital	2,958	( 451)	2,059	9,897	14,463
Total assets	9,643	3,240	34,134	11,865	58,882
Total equity	( 1,021)	( 336)	33,814	10,903	43,360

STATE DEPARTMENT OF AUDIT

## 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 federally 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 the year ended June 30, 1989, have not 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.

### Student Loan Guarantees

The Maine State Board of Education (MSBE), guarantees educational loans made by private lenders to certain resident students. Total outstanding guarantees issued by MSBE approximated \$313.5 million at June 30, 1989. 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

Finance Authority of Maine: The state is authorized to guarantee certain obligations of the Finance Authority of Maine (FAME), not to exceed in the aggregate at any time outstanding, the principal amount of \$91.5 million. As of June 30, 1989, amounts committed pursuant to these authorizations were approximately \$49.9 million. In addition, the state has a \$75 million reserve fund restoration commitment with FAME. As of June 30, 1989, FAME had committed to \$17.6 million in securities backed by this commitment. The state has not been required to restore the reserve fund.

### Maine School Building Authority

The state is authorized to guarantee certain obligations of the Maine School Building Authority (MSBA), not to exceed in the aggregate at any one time outstanding, the principal amount of \$4.8 million. As of June 30, 1989, the total principal amount of outstanding MSBA bonds was \$1.9 million.

#### Maine State Housing Authority

The state has a reserve fund restoration commitment with the Maine State Housing Authority (MSHA) based on total debt outstanding. The state has not been required to restore the reserve fund since the inception of the authority

#### Maine Municipal Bond Bank

The state has a reserve fund restoration commitment with the Maine Municipal Bond Bank (MMBB) based on total debt outstanding. As of June 30, 1989, the total principal amount of outstanding MMBB bonds was \$594.5 million. The state has not been required to restore the reserve fund since the inception of the bond bank.

#### Other Obligations

The state is authorized under various articles of the constitution to guarantee obligations for the following purposes: loans to students and parents of students attending institutions of higher education in the state, \$4 million; mortgage loans to members of the two tribes on the several Indian reservations, \$1 million; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including business organizations owned in whole or in part by a resident Maine veteran, \$4 million. As of June 30, 1989, there were no bonds issued pursuant to these articles.

### 19. Fund Equity Restatement

Fund Equity at June 30, 1988 has been restated as follows (expressed in thousands):

	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Internal Service</u>	<u>Trust and Agency</u>	<u>Total (Memorandum Only)</u>
Fund Equity at June 30, 1988								
as previously reported	\$268,188	\$126,101	\$3,949	\$54,959	\$48,037	\$17,975	\$1,537,144	\$2,056,353
Reclassifications							( 41,399)	( 41,399)
Prior period adjustments	<u>30</u>	<u>( 3,035)</u>	<u>    </u>	<u>106</u>	<u>( 3,250)</u>	<u>75</u>	<u>9,647</u>	<u>3,573</u>
Fund Equity as restated July 1	<u>\$268,218</u>	<u>\$123,066</u>	<u>\$3,949</u>	<u>\$55,065</u>	<u>\$44,787</u>	<u>\$18,050</u>	<u>\$1,505,392</u>	<u>\$2,018,527</u>

Material restatements are explained as follows:

#### Reclassifications

Certain agency accounts were previously reported as Expendable Trust Funds. Expendable Trust Fund balances at July 1 have been restated by \$41.3 million to reflect the reclassification of these account balances as liabilities.

#### Prior Period Adjustment

Fund Equity at June 30, 1988 has been restated due to adjustments to prior periods as follows:

- a. Expendable Trust Fund revenues were understated by \$3.1 million in Fiscal Year 1988 due to an underaccrual of investment income and understated by \$3.5 million in prior years due to an overstatement of the reserve for accounts receivable.

Enterprise fund equity was overstated by \$2.3 million on June 30, 1988 due to a misstatement of depreciation expense in prior years.

## 20. Subsequent Events

### Management of Student Loan Programs

On March 16, 1990 Chapter 698 Public Law 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 was effective immediately. 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. Approximately \$15 million in expenditures will no longer appear as part of the State of Maine's financial records.

### Certificates of Participation

On January 15, 1990, the Department of Transportation Motor Transport Service entered into an agreement with Maine National Bank to issue \$12.5 million in certificates of participation. The proceeds of such certificates are used to finance the lease/purchase of various vehicle pool and highway maintenance equipment. Repayment of the obligation to Maine National Bank will be financed from revenues generated by equipment rental charges to the Highway Fund and various other state agencies' funds. This obligation is secured by the lease/purchase equipment and is due and payable not later than February 1, 1995.

As of June 30, 1989, the state approved but had not issued additional certificates of participation aggregating \$15 million.

### General Obligation Bonds

During fiscal year 1990, the State of Maine issued \$17.5 million of general obligation bonds. The bonds carry interest rates from 6.75% to 7.125% and mature on various dates from November 15, 1992 to November 15, 2000. The bonds will be used to finance construction projects at the University of Maine, \$5 million; Public Safety Facilities, \$3 million; Pollution Abatement, \$2 million; Sewerage Treatment projects and Water Supply projects, \$3 million; various Asbestos Removal projects, \$4 million; and Vocational Technical Institute projects, \$500 thousand.

All of the bonds are full faith and credit obligations of the State of Maine.

### Vehicle Leasing

In December 1989, the Department of Transportation Motor Transport Service entered into operating lease agreements amounting to \$2.1 million with two vendors for the use of various vehicles. The lease agreements, which expire in December 1994, will be financed with revenues generated by equipment rental charges to the Highway Fund and various other state agencies.

### General Fund Revenue Estimates Reduced

The State of Maine reduced General Fund estimated revenue projections by \$210 million for the biennium ending June 30, 1991, during the second regular session of the 114th Legislature. To obtain a balanced budget departmental budgeted expenditures were reduced. Other noteworthy measures used to balance the budget included:

<u>Cost Savings/Revenue Enhancement Measures</u>	<u>Estimated Cost Savings/Revenues</u>
<u>Tax Amnesty Program</u>	
A program established for identifying and collecting unreported taxes, and accelerating collection of delinquent tax liabilities.	\$15 million
<u>Lotto*America</u>	
A multi-state lottery entered into by the State of Maine, to increase revenues beyond those currently raised by existing lottery agreements.	\$7 million
<u>Voluntary Cost Savings Program</u>	
A one-time only program designed to generate savings through reduced payroll costs in state government. Cost savings are expected through employees volunteering for reduced workweeks, job sharing, educational sabbaticals; and early retirement for certain eligible state employees.	\$15 million





# SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE





STATE OF MAINE  
DEPARTMENT OF AUDIT  
STATE HOUSE STATION 66  
AUGUSTA, MAINE 04333  
Area Code 207  
Tel. 289-2201

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT  
ON SUPPLEMENTARY INFORMATION  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

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

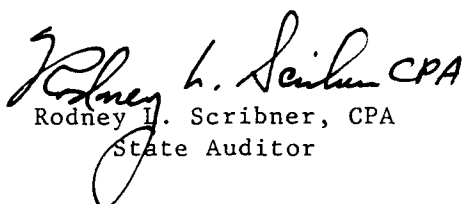
We have audited the component unit financial statements of the State of Maine, for the year ended June 30, 1989, and have issued our report thereon dated June 22, 1990. These component unit financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these component unit financial statements based on our audit.

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

The schedule of federal financial assistance does not include the federal grants, contracts and agreements of those activities and programs which are part of the reporting entity and which 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 schedule does not include federal grants, contracts and agreements as they relate to the Military Bureau.

As described in Note 2C, the accompanying schedule is 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 of the State of Maine, taken as a whole. The accompanying schedule of federal financial assistance is presented for purposes of additional analysis and is not a required part of the component unit financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly presented in all material respects in relation to the component unit financial statements taken as a whole.

  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990



STATE OF MAINE  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
JUNE 30, 1989

Schedule A

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Major Federal Programs			
<u>Department of Economic and Community Development</u>			
U.S. Dept. of Housing & Urban Development	14.228	Community Development Block Grants	\$ <u>11,696,614</u>
<u>Department of Educational and Cultural Services</u>			
U.S. Dept. of Agriculture	10.550	Food Distribution Program (Note 3A)	4,157,399
	10.555	National School Lunch Program	10,990,393
U.S. Dept. of Education	84.010	Educationally Deprived Children-LEAs	18,066,108
	84.027	Handicapped-State Grants	8,978,526
	84.032	Higher Education Act Insured Loans	5,118,565
	84.048	Vocational Education-Basic Grants to States	4,751,521
	84.011	Migrant Education	<u>3,144,115</u>
			<u>55,206,627</u>
<u>Executive Department - Division of Community Services</u>			
U.S. Dept of Health and Human Services	13.789	Low Income Home Energy Assistance	19,336,070
U.S. Dept. of Energy	81.042	Weatherization Assistance for Low-Income Persons	3,242,621
<u>Executive Department - Office of Energy Resources</u>			
U.S. Dept. of Energy	----	Petroleum Violation Escrow Funds	<u>8,048,001</u>
			<u>30,626,692</u>

STATE OF MAINE  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
JUNE 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Major Federal Programs			
<u>Department of Human Services</u>			
U.S. Dept. of Agriculture	10.551	Food Stamps (Note 3B)	47,121,150
	10.557	Special Supplemental Food Program-Women, Infants, Children	10,325,620
	10.558	Child Care Food Program	4,482,389
	10.561	State Matching Grants for Food Stamp Program	4,532,535
U.S. Dept. of Health and Human Services	13.658	Foster Care-Title IV-E	7,410,016
	13.667	Social Services Block Grant	13,178,791
	13.714	Medical Assistance Program	252,667,848
	13.780	Assistance Payments-Maintenance Assistance	57,059,706
	13.783	Child Support Enforcement	5,170,241
	13.802	Social Security - Disability Insurance	3,021,235
	13.992	Alcohol and Drug Abuse and Mental Health Block Grant	3,746,527
	13.994	Maternal and Child Health Service Block Grant	3,176,218
U.S. Dept. of Education	84.126	Rehabilitation Services-Basic Support	9,419,011
			<u>421,311,287</u>
<u>Department of Labor</u>			
U.S. Dept. of Labor	17.225	Unemployment Insurance (Note 3F)	11,391,646
	17.207	Employment Service	4,164,479
	17.250	Job Training Partnership Act	8,470,305
			<u>24,026,430</u>

STATE OF MAINE  
SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE  
JUNE 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Major Federal Programs			
<u>Department of Transportation</u>			
U.S. Dept. of Transportation	20.205	Highway Planning and Construction	<u>58,086,377</u>
Total Major Programs			<u>\$ 600,954,027</u>



State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Administration</u>			
General Services Administration	39.003	Donation of Federal Surplus Property (See Note 3E)	\$ 121,703
U.S. Environmental Protection Agency	66.702	Asbestos Hazards Abatement (Schools) Assistance	94,722
			<u>216,425</u>
<u>Department of Agriculture</u>			
U.S. Dept. of Agriculture	10.156	Federal-State Marketing Improvement Program	41,252
	10.162	Inspection Grading and Standardization	341,389
	10.950	Agriculture Statistical Reports	11,372
U.S. Environmental Protection Agency	66.700	Pesticides Enforcement Program	118,691
U.S. Dept. of Agriculture	10.025	Plant and Animal Disease and Pest Control	57,255
			<u>569,959</u>
<u>Department of the Attorney General</u>			
U.S. Dept. of Health and Human Services	13.775	State Medicaid Fraud Control Units	<u>200,975</u>
<u>Department of Conservation</u>			
U.S. Dept. of Agriculture	10.025	Plant and Animal Disease and Pest Control	6,156
	10.063	Agricultural Conservation Program	24,076
	10.064	Forestry Incentives Program	65
	10.652	Forestry Research	33,539
	10.664	Cooperative Forestry Assistance	273,462

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Conservation (cont.)</u>			
U.S. Dept. of Agriculture	10.901	Resource Conservation and Development	46,888
	-----	Northeast Forestry Alliance	4,976
U.S. Dept. of the Interior	15.808	Geological Survey-Research and Data Acquisition	62,211
	15.904	Historic Preservation Fund Grants-in-Aid	1,012
	15.916	Outdoor Recreation - Acquisition, Development & Planning	6,163
U.S. Department of Labor	17.235	Senior Community Service Employment Program	18,162
Dept. of Energy	81.065	Nuclear Waste Disposal Siting	3,113
Unknown	-----	Unknown	85,483
			<u>565,306</u>
<u>Department of Corrections</u>			
U.S. Dept. of Justice	16.540	Juvenile Justice & Delinquency Prev.-Allocation to States	278,743
	16.541	Juvenile Justice & Delinq.Prev.-Spec. Emphasis & Tech. Asst.	6,000
	16.601	Corrections - Training and Staff Development	1,125
	16.603	Corrections - Technical Assistance/Clearinghouse	36,310
U.S. Dept. of Health and Human Services	-----	Helping Incarcerated Parents Project	387
			<u>322,565</u>
<u>Department of Defense and Veterans Services</u>			
Federal Emergency Management Agency	83.503	Emergency Management Assistance	521,537
	83.403	Emergency Management Institute - Field Training	90,822
	83.505	State Disaster Preparedness Grants	23,638
	83.514	Population Protection Planning	103,881

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Defense and Veterans Services (cont.)</u>			
Federal Emergency Management Agency	83.516	Disaster Assistance	2,243,869
	83.522	Radiological Defense	70,257
	83.509	Facility Survey, Engineering and Development	34,699
U.S. Veterans Administration	64.101	Burial Expenses Allowance for Veterans	53,167
	64.203	State Cemetery Grants	35,296
			<u>3,177,166</u>
<u>Department of Economic and Community Development</u>			
U.S. Dept. of Housing and Urban Development	15.916	Outdoor Recreation-Acquisition, Development and Planning	<u>446,112</u>
<u>Department of Educational and Cultural Services</u>			
U.S. Dept. of Agriculture	10.553	School Breakfast Program	960,759
	10.556	Special Milk Program for Children	178,359
	10.559	Summer Food Service Program	275,413
	10.560	State Admin. Expenses for Child Nutrition	247,927
	10.564	Nutrition Education and Training Program	46,283
U.S. Dept. of Health and Human Services	13.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	144,189
U.S. Dept. of the Interior	15.904	Historic Preservation Fund-Grants-In-Aid	387,321
Nat'l Foundation for the Arts and Humanities	45.001	Promotion of the Arts-Design Arts	219,508
	45.003	Promotion of the Arts-Arts in Education	229,066
	45.007	Promotion of the Arts-State Programs	22,068
U.S. Dept. of Education	84.002	Adult Education-State Administered Program	700,557
	84.003	Bilingual Education	42,053
	84.004	Civil Rights Technical Assistance and Training	270,151
	84.009	Education of Handicapped Children	702,759

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Educational and Cultural Services (cont.)</u>			
U.S. Dept. of Education	84.012	Educationally Deprived Children-State Admin.	269,806
	84.013	Neglected and Delinquent Children	242,778
	84.029	Special Education Personnel Development	132,426
	84.034	Library Services	465,239
	84.035	Interlibrary Cooperation	118,901
	84.049	Vocational Education-Consumer and Homemaking Education	26,716
	84.069	Grants for State Student Incentives	261,922
	84.146	Transition Program for Refugee Children	29,642
	84.151	Improving School Programs-State Block Grant	2,519,613
	84.154	Public Library Construction	214,092
	84.164	Grants for Strengthening the Skills of Teachers	518,204
	84.173	Handicapped-Preschool Incentive Grants	2,945,889
	84.174	Vocational Education-Community Based Organizations	80,000
	84.176	Paul Douglas Teacher Scholarships	98,723
	84.184	National Program for Drug-Free Schools and Communities	52,920
	84.185	Robert C. Byrd Honors Scholarships	44,085
	84.186	Drug-Free Schools and Communities - State Grants	881,152
	84.192	Adult Education for the Homeless	9,716
	84.196	Education of Homeless Children and Youth	41,568
Veterans Administration	-----	Veterans Education - State Approving Agency	136,520
			<u>13,516,325</u>

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Environmental Protection</u>			
U.S. Environmental Protection Agency	66.001	Air Pollution Control Program Support	797,998
	66.419	Water Pollution Control-State and Interstate Program Support	575,376
	66.804	State Underground Storage Program	176,877
	66.801	Hazardous Waste Management Program	326,011
	66.802	Hazardous Substance Response Trust Fund (Superfund)	159,923
	66.805	Underground Storage Tank Trust Fund Program	206,148
	66.505	Water Pollution Control - Research, Dev'l & Demo	62,152
	66.433	State Underground Water Source Protection	46,130
	66.454	Water Quality Management Planning	192,332
	66.458	Capitalization Grants for State Revolving Funds	878,196
	66.459	Nonpoint Source Reservation	62,774
			<u>3,483,917</u>
<u>Executive Department - Division of Community Services</u>			
U.S. Dept of Agriculture	10.550	Food Distribution - TFAP (See Note 3D)	1,209,665
	10.568	Temporary Emergency Food Assistance Program - Administration	235,798
U.S. Dept of Health and Human Services	13.792	Community Services Block Grant	2,065,004
<u>Executive Department - State Planning Office</u>			
U.S. Dept. of Commerce	11.303	Economic Development - Technical Assistance	7,500
	11.305	Economic Deveopment - State & Local Economic Dev'l Planning	13,708
Nat'l Oceanic and Atmospheric Administration	11.420	Coastal Zone Management - Estuarine Research Reserves	442,740
	11.419	Coastal Zone Management - Program Administration Grants	1,577,918

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Executive Department - State Planning Office (cont.)</u>			
U.S. Dept. of the Interior	15.612	Endangered Species Conservation	6,583
	15.910	National Natural Landmarks Program	10,324
<u>Executive Department - Office of Energy Resources</u>			
U.S. Dept. of Energy	81.041	State Energy Conservation	146,200
	81.052	Energy Conservation for Institutional Buildings	39,797
	81.050	Energy Extension Services	23,797
			<u>5,779,034</u>
<u>Department of Human Services</u>			
U.S. Dept. of Agriculture	10.550	Food Distribution (See Note 3C)	602,465
U.S. Dept. of Health and Human Services	13.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	691,184
	13.130	Primary Care Services	160,833
	13.141	Alcohol & Drug Abuse Treatment & Rehabilitation Block Grant	697,337
	13.146	AIDS Drug Reimbursement	52,229
	13.262	Occupational Safety and Health Research Grants	105,424
	13.268	Childhood Immunization Grants	290,513
	13.283	Centers for Disease Control-Investigations and Tech. Assist.	390,614
	13.399	Cancer Control	45,454
	13.633	Grants for Supportive Services and Senior Citizens (III-B)	1,662,391
	13.635	Special Programs for the Aging-Nutrition Services (III-C)	2,047,445
	13.641	In-Home Services for Frail Older Individuals (III-D)	46,611
	13.643	Children's Justice Grants to States	3,062
	13.645	Child Welfare Services - State Grants	1,400,339

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Human Services (cont.)</u>			
U.S. Dept. of Health and Human Services	13.647	Social Services Research and Demonstration	117,817
	13.652	Adoption Opportunities	4,757
	13.659	Adoption Assistance	740,859
	13.668	Special Programs for the Aging-Title IV	108,600
	13.669	Child Abuse and Neglect State Grants	90,535
	13.671	Family Violence Prevention and Services	47,921
	13.672	Child Abuse Challenge Grants	151,506
	13.673	Dependent Care Planning & Development Grant	52,504
	13.674	Independent Living	111,514
	13.777	Survey and Certification of Health Care Providers	864,828
	13.787	Refugee and Entrant Assistance - State Administered Programs	592,258
	13.790	Work Incentive Demonstration Program	1,527,362
	13.977	Sexually Transmitted Diseases Control Grant	117,764
	13.987	Health Programs for Refugees	20,215
	13.988	Coop. Agreements for State Based Diabetes Control Programs	236,101
	13.991	Preventive Health and Health Services Block Grant	825,789
U.S. Dept. of Justice	16.575	Crime Victim Assistance	294,557
U.S. Dept. of Labor	17.235	Senior Community Service Employment Program	377,644
Environmental Protection Agency	66.432	State Public Water System Supervision	373,038
	66.802	Hazardous Substance Response Trust Fund (Superfund)	3,952
ACTION	72.001	Foster Grandparents Program	208,198
Nuclear Regulatory Commission	77.001	Radiation Control--Training Assistance & Advisory Counseling	7,498
U.S. Dept. of Education	84.129	Rehabilitation Training	77,859
	84.132	Centers for Independent Living (VII-B)	37,500
	84.161	Client Assistance for Handicapped Individual	155,603
	84.169	Comprehensive Living Svcs. for Independent Living (VII-A)	214,714
	84.177	Independent Living Services, Older/Blind	30

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Human Services (cont.)</u>			
U.S. Dept. of Education	84.181	Handicapped Infants and Toddlers (Early Intervention)	262,311
	84.187	Supported Employ. Svcs. for Individuals w/Severe Handicaps	399,662
U.S. Dept. of Health and Human Services	-----	New Vocational Rehabilitation Program-SSA	785,268
	-----	Improving EMS for Children	262,531
	-----	Vital Statistics Cooperative Program	187,937
			<u>17,454,533</u>
<u>Department of Inland Fisheries and Wildlife</u>			
U.S. Dept. of the Interior	15.600	Anadromous Fish Conservation	95,450
	15.605	Sport Fish Restoration (Dingell-Johnson)	1,458,977
	15.611	Wildlife Restoration (Pittman-Robertson)	1,273,593
	15.612	Endangered Species Conservation	73,898
U.S. Department of Transportation	20.005	Boating Safety Financial Assistance	203,553
			<u>3,105,471</u>
<u>Judicial Department</u>			
State Justice Institute	-----	Court Security Grant	2,208
	-----	Superior Court Law Clerk Automation Project	7,009
			<u>9,217</u>



State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Labor</u>			
U.S. Department of Labor	17.804	Local Veterans Employment Representative Program	444,766
	17.246	Employment and Training Assistance - Dislocated Workers	472,493
	17.002	Labor Force Statistics	756,239
	17.801	Disabled Veterans Outreach Program	438,944
	17.245	Trade Adjustment Assistance	997,318
	17.803	Veterans Employment Program	68,000
	-----	Me. Occupational Information Coordination Committee	111,203
	17.202	Certification of Foreign Workers for Temp. Employment	368,459
	17.500	Occupational Safety and Health	207,290
	17.600	Mine Health and Safety Grants	49,004
			<u>3,913,716</u>
<u>Maine Committee on Aging</u>			
U.S. Health & Human Svcs - Admin. on Aging	-----	Intergenerational Project	<u>15,712</u>
<u>Maine Human Rights Commission</u>			
Equal Employment Opportunity Commission	30.002	State & Local Anti-Discrimination Agency Contracts	108,546
U.S. Dept. of Housing and Urban Development	14.156	Lower Income Housing Assistance Program	9,875
	14.401	Fair Housing Assistance Program-State and Local	69,447
			<u>187,868</u>

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Marine Resources</u>			
U.S. Dept. of Commerce	11.407	Interjurisdictional Fisheries Act of 1986	181,652
	11.405	Anadromous and Great Lakes Fisheries Conservation	49,487
U.S. Dept. of the Interior	15.600	Anadromous Fish Conservation	32,943
National Marine Fisheries Service	-----	Herring Migration Project	23,662
			<u>287,744</u>
<u>Department of Mental Health and Mental Retardation</u>			
U.S. Dept. of Health and Human Services	13.125	Mental Health Planning and Demonstration Projects	170,289
	13.150	Mental Health Services for the Homeless Block Grant	250,954
	13.158	State Comprehensive Mental Health Service Planning Dev'l	35,711
	13.242	Mental Health Research Grants	671,248
	13.244	Mental Health Clinic or Service Related Training Grants	78,704
	13.630	Admin. on Dev'l Dis. - Basic Supports and Advocacy Grants	370,422
	13.631	Developmental Disabilities-Special Projects	67,159
U.S. Dept. of Education	84.024	Handicapped Early Childhood Education	149,196
U.S. Dept. of Health and Human Services	13.982	Mental Health Disaster Assistance & Emergency Mental Health	(25,774)
U.S. Dept. of Housing and Urban Development	14.178	Supportive Housing Demonstration Program	16,592
			<u>1,784,501</u>
<u>Department of Public Safety</u>			
U.S. Dept. of Transportation	20.600	State and Community Highway Safety	498,363

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Public Safety (cont.)</u>			
U.S. Department of Justice	16.550	Criminal Justice Statistics Development	181
	-----	Domestic Cannabis Eradication/Suppression Program	22,401
	16.573	Criminal Justice Block Grants	201,671
	16.579	State and Local Narcotics Control Assistance	980,864
	16.580	Narcotics Control Discretionary Grant Program	173,804
Federal Emergency Management Agency	83.410	Community Based Anti-Arson Program	11,208
U.S. Dept. of Transportation	20.218	Motor Carrier Safety Assistance Program	180,484
			<u>2,068,976</u>
<u>Public Utilities Commission</u>			
U.S. Dept. of Transportation	20.700	Pipeline Safety	<u>9,900</u>
<u>Department of State</u>			
U.S. Dept. of Transportation	20.218	Motor Carrier Safety Assistance Program	<u>55,535</u>
<u>Department of Transportation</u>			
Dept. of Agriculture	10.665	Schools and Roads - Grants to States	16,154
U.S. Department of the Interior	15.145	Indian Grants-Economic Development	38,689
U.S. Dept. of Transportation	20.500	UMTA Capital Improvement Grants	1,470,945
	20.505	UMTA Technical Studies Grants	73,752

State of Maine  
Schedule of Federal Financial Assistance  
June 30, 1989

RECIPIENT/GRANTOR	FEDERAL CATALOG NUMBER	PROGRAM TITLE	EXPENDITURES 1989
Non-Major Federal Programs			
<u>Department of Transportation (cont.)</u>			
U.S. Dept. of Transportation	20.106	Airport Improvement Program	21,502
	20.308	Local Rail Service Assistance	19,041
	20.509	Public Transportaion for Nonurbanized Areas	810,546
	20.507	UMTA Capital and Operating Assistance Formula Grants	913,288
			<u>3,363,917</u>
Total Federal Financial Assistance - Non-Major Programs			<u>60,534,877</u>
Total Federal Financial Assistance - Major Programs			<u>600,954,027</u>
Total Federal Financial Assistance			<u>\$ 661,488,904</u>

See accompanying notes to the Schedule of Federal Financial Assistance

STATE OF MAINE

NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

June 30, 1989

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, 1989. The reporting entity is defined in Note 1A of the component unit financial statements of the State of Maine.

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, nonmonetary 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.

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 were those which exceeded \$3.0 million in expenditures, distributions, or issuances for the fiscal year ended June 30, 1989.

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, 1989 was \$544,069.
- 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, 1989 was \$12,437,966.
- 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, 1989 was \$697,935.
- 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, 1989 was \$345,897.
- 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	\$ 9,230,796
Trade Readjustment Act (FUBA)	999,135
Unemployment Compensation for Federal Employees	493,163
Unemployment Compensation for Ex-service Personnel	620,410
Unemployment Compensation for Ex-postal Workers	65,384
Federal Supplemental Compensation	( 16,571)
Employment & Training Assistance/Public Services Employment	( 671)
Total	<u>\$11,391,646</u>



# REPORTS ON INTERNAL CONTROL







STATE OF MAINE  
DEPARTMENT OF AUDIT  
STATE HOUSE STATION 66  
AUGUSTA, MAINE 04333  
Area Code 207  
Tel. 289-2201

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

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

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

We have audited the component unit financial statements of the State of Maine, as of and for the year ended June 30, 1989, and have issued our report thereon dated June 22, 1990.

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

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

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

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

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

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

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

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

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

#### Lack of Sufficient Current Policies and Procedures

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

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

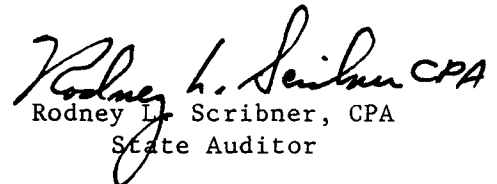
Accounting transactions are initiated by the various state agencies and processed for payment or otherwise entered into the state accounting records by the Bureau of Accounts and Control. The volume of accounting transactions is such that the bureau, with its current staffing level, appears able to perform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

The lack of sufficient current accounting policies and procedures and involvement with a significant accounting system conversion project has resulted in untimely financial information (the Annual Financial Report for 1989 was issued in June of 1990).

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

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

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

 CPA  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990



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

AGENCY/PROGRAM	CONDITION
Department of Administration - Bureau of Public Improvements  Incomplete General Fixed Assets Account Group records (1) <u>Prior Year Finding</u>	General Fixed Assets Account Group records are incomplete because various state agencies' reports of their General Fixed Assets (GFA) to the Bureau of Public Improvement (BPI) are incomplete and inaccurate.  We again recommend that BPI conform to the requirements of the State of Maine <u>Manual of Financial Procedures</u> , Section 66 to ensure that GFA inventory records are brought up to date.
Auditee Response:	We acknowledge the ongoing problems regarding the incomplete records pertaining to the General Fixed Assets Account Group. We have mailed out reminders to agencies in order to make them aware of the reporting requirements. However, we do not have the statutory authority to force agencies to respond.
Department of Audit  Interfund transfer improperly coded as revenue adjustments (2) <u>Prior Year Finding</u>	A \$5.9 million transfer of monies from the Unorganized Territory Education and Services Fund (U.T.E.S. Fund) was recorded as a reduction of revenue in the Special Revenue Fund and an increase of revenue in the General Fund (the fund originally making the disbursements).  These transactions resulted in overstating General Fund revenues; and understating General Fund operating transfers, Special Revenue Fund revenues, and Special Revenue Fund operating transfers.  In accordance with 36 MRSA Section 1605 we recommend that monies transferred from the U.T.E.S. Fund to agencies for expenditures, which are attributable to the municipal cost component, be classified in the financial statements as an operating transfer out of the Special Revenue Fund and as an operating transfer into the General Fund.
Auditee Response:	This office and the controller will make a concerted effort to correct the situation.

## AGENCY/PROGRAM

## CONDITION

Department of Educational and Cultural Services - Bureau of School Management

Education loans receivable  
(3)

Prior Year Finding

Neither loans made to Post Graduate Health Professional Program recipients still in school, nor some loans made to Blaine House Scholars are established as loans receivable on the records of the State Controller. Consequently state assets are understated by approximately \$9 million. We also noted that the related reserve for uncollectible accounts was established at 100% of the recorded receivables balance.

We recommend that the department record loans receivable and the appropriate entries to revenue on the accounting records of the State Controller. We also recommend that the department age the loans receivable annually so that adjustments will ensure sufficient reserve for uncollectible accounts.

### Auditee Response:

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

Department of Environmental Protection

Administration of bond proceeds  
(4)

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

Lack of centralized authority, independent evaluation or monitoring

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

Lack of segregation of duties

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

## AGENCY/PROGRAM

## CONDITION

Department of Environmental  
Protection

Inconsistent contractual procedures

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

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

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

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

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

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

No standard system for financial  
commitments

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



# AGENCY/PROGRAM

# CONDITION

Department of Environmental  
Protection

Incomplete and fragmented records

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

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

Excessive cash balances

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

Over issuance of bonds

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

Chapter 72 Private and Special Laws 1985 authorizes:

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

Bonds issued according to DEP requests:

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

Bonds issued according to Official Statements:

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

Bond proceeds credited to accounts:

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

# AGENCY/PROGRAM

# CONDITION

Department of Environmental  
Protection

Over issuance of bonds (cont'd.)

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

Intermingling of taxable and non-  
taxable proceeds

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

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

1. Justify the need for additional funds.
2. Determine financial feasibility and readiness or projects.
3. Request new bond issues.
4. Provide authoritative financial oversight and monitoring of bond issues and proceeds that is independent from program responsibilities:
5. Provide consistent practices for committing proceeds.
6. Provide consistent practices for use of contracts, letters of intent and encumbrances.
7. Provide consistent practices for keeping accurate complete and current records of commitments, contracts, expenditures and account balances.

# AGENCY/PROGRAM

# CONDITION

Department of Environmental Protection

Intermingling of taxable and non-taxable proceeds (cont'd.)

## Auditee Response:

8. Document all satisfactory engineering, construction or consulting services rendered, work order changes, and the completion status of projects prior to approving payments.

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

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

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

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

Bureau of Finance - Bureau of Accounts and Control

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

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

## Auditee Response:

Duly noted. Prior year transaction - no entry necessary.

Bureau of Finance - Bureau of Accounts and Control

Maine Rainy Day Fund  
(6)

Noncompliance with statutes

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

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

# AGENCY/PROGRAM

# CONDITION

Bureau of Finance - Bureau of  
Accounts and Control

Noncompliance with statutes (cont'd.)

Auditee Response:

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

Omission on the part of Accounts and Control but the balance remained at \$25,000,000.00, on June 30, 1989. Any higher balance would have lapsed. Therefore, adjustment in future period is not needed.

Bureau of Finance - Bureau of  
Accounts and Control

Wire transfers incorrectly recorded  
as accounts payable  
(7)

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

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

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

Auditee Response:

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

Bureau of Finance - Bureau of  
Accounts and Control

Inadequate accounting for interfund  
transactions  
(8)

Prior Year Finding

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

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

# AGENCY/PROGRAM

# CONDITION

Bureau of Finance - Bureau of  
Accounts and Control

Inadequate accounting for interfund  
transactions (cont'd.)

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

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

Auditee Response:

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

Bureau of Finance - Bureau of  
Accounts and Control

Incorrect use of prepaid expense  
account

(9)

Prior Year Finding

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

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

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

Auditee Response:

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

Bureau of Finance - Bureau of  
Accounts and Control

Control over blank checks and  
signature plates

(10)

Prior Year Finding

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

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

AGENCY/PROGRAM

CONDITION

Bureau of Finance - Bureau of  
Accounts and Control

Control over blank checks and  
signature plates (cont'd.)

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

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

Auditee Response:

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

Bureau of Finance - Bureau of  
Accounts and Control

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

(11)

Prior Year Finding

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

The bureau's practice has been to record the cash  
value of Deferred Compensation Plan  
assets/liabilities only in the State Controller's  
Annual Financial Report and not on the accounting  
records. Consequently, as of June 30, 1989, the  
bureau had not recorded Deferred Compensation Plan  
assets/liabilities of \$45,734,747 on the state  
accounting records.

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

Auditee Response:

We will set up new fund in FY91.

Department of Finance - Bureau of  
Taxation

Telecommunications property taxes  
not properly recorded

(12)

Prior Year Finding

A telecommunications personal property tax assessment  
of approximately \$20.2 million was incorrectly  
recorded as revenue to the General Fund in 1989  
rather than in the 1990 fiscal year. In addition,  
the assessment of approximately \$16.1 million was  
incorrectly recorded as revenue in FY 1988. It  
should have been deferred revenue in FY 1988 and  
revenue in FY 1989.

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

# AGENCY/PROGRAM

# CONDITION

Department of Finance - Bureau  
of Taxation

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

The department determined the amount of the telecommunications personal property tax assessment prior to June 30, 1989 and processed the assessment journal entry at that time. GASB p70.108 states that property taxes receivable recognized in advance of the year for which they are levied should be recorded as deferred revenue and recognized as revenue in the year for which they are levied.

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

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

## Auditee Response:

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

Department of Labor

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

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

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

## Auditee Response:

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

AGENCY/PROGRAM

CONDITION

Department of Labor

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

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

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

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

Auditee Response:

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

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

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

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



**AGENCY/PROGRAM**

**CONDITION**

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Rejected Medicaid claims not re-  
submitted  
(15)

The Department of Mental Health and Mental Retardation did not pursue collection of Augusta Mental Health Institute accounts receivable from the Medicaid program in a timely manner, resulting in the loss of almost \$.8 million of revenue. The Department of Human Services had rejected the original claims, and the Department of Mental Health and Mental Retardation did not resubmit the claims within the required time period of one year.

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

**Auditee Response:**

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

Department of Mental Health and  
Mental Retardation

Medicare revenue and accounts  
receivable  
(16)

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

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

**Auditee Response:**

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

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Bangor Mental Health Institute

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

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

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

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

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

AGENCY/PROGRAM

CONDITION

Department of Professional and  
Financial Regulation - Bureau of  
Insurance

Late billing of assessments  
(18)

Prior Year Finding

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

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

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

Auditee Response:

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

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

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

## AGENCY/PROGRAM

## CONDITION

### Maine State Retirement System - Group Life Insurance Program

Verification of premiums received  
(19)

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

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

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

### Auditee Response:

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

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

### Maine State Retirement System - Group Life Insurance Program

Internal control procedures for claim payments  
(20)

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

<u>Rate of Incidence</u>	<u>Condition</u>	<u>Amount Questioned</u>
61/84 tested	No application on file	
1/84 tested	Application not signed by employee (signed by Supervisor of Group Life Insurance Program)	
39/84 tested	Claim form on file not authorized	

AGENCY/PROGRAM

CONDITION

Maine State Retirement System - Group  
Life Insurance Program

	Rate <u>Incidence</u>	<u>Condition</u>	Amount <u>Questioned</u>
Internal control procedures for claim payments (cont'd.)	1/84 tested	Beneficiary form voided without written authorization	
	9/84 tested	Payments made to ineligible beneficiaries	\$20,951.78
		Of the total \$13,051.78 in pay- ments went to former employees of the Group Life Insurance Program.	
	3/84 tested	Eligible beneficiary overpaid	960.00
	1/84 tested	Eligible beneficiary underpaid	( 150.00)
	Total Questioned		<u>\$21,761.78</u>

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

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

AGENCY/PROGRAM

CONDITION

Maine State Retirement System - Group  
Life Insurance Program

Auditee Response:

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

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

Maine State Retirement System - Group  
Life Insurance Program

Liability for anticipated claims  
(21)

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

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

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

# AGENCY/PROGRAM

# CONDITION

Maine State Retirement System - Group  
Life Insurance Program

## Auditee Response:

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

Maine State Retirement System

Pending transactions incorrectly  
recorded  
(22)

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

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

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

## Auditee Response:

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

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

# AGENCY/PROGRAM

# CONDITION

Maine State Retirement System  
Interest on zero coupon bonds  
(23)

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

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

## Auditee Response:

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

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

Maine State Retirement System  
Documentation of internal control  
inadequate  
(24)

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

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

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

1. All components of calculations, references to authorizing statutes or rules.
2. The name of the employee completing the form.

AGENCY/PROGRAM

CONDITION

Maine State Retirement System

Documentation of internal control  
inadequate (cont'd.)

3. The date of completion and signature of the authorized official who reviewed the form.

4. A document number for the form.

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

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

Auditee Response:

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

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

Maine State Retirement System

Differences in participant data  
(25)

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

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

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

Auditee Response:

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



**AGENCY/PROGRAM**

**CONDITION**

**Maine State Retirement System**

Accrued interest and dividend income  
not recorded

(26)

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

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

**Auditee Response:**

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

**Maine State Retirement System**

Accrual of refunds  
(27)

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

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

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

**Auditee Response:**

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

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

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

AGENCY/PROGRAM

CONDITION

Maine State Retirement System

Accrual of contributions  
(28)

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

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

We recommend that the Retirement System record accrued contributions receivable.

Auditee Response:

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

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

Department of Transportation -  
Motor Transport Services

Detail records do not support  
accumulated depreciation  
(29)

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

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

Auditee Response:

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

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

Operating transfers from General  
Fund not properly classified  
(30)

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

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

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

AGENCY/PROGRAM

CONDITION

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

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

Operating transfers from General Fund not properly classified (cont'd.)

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

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

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

Auditee Response:

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

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

Office of Treasurer of State

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

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

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

AGENCY/PROGRAM

CONDITION

Office of Treasurer of State

Deposits not recorded on State  
Controller's records (cont'd.)

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

Auditee Response:

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

Office of Treasurer of State

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

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

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

Auditee Response:

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

Office of Treasurer of State

Reconciliation of bonds payable  
(33)

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

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

AGENCY/PROGRAM

CONDITION

Office of Treasurer of State

Reconciliation of bonds payable  
(cont'd.)

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

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

Auditee Response:

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

Office of Treasurer of State

Bonds issued without Financial  
Order  
(34)

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

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

Auditee Response:

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



STATE OF MAINE  
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RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

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

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

We have audited the component unit financial statements of the State of Maine, for the year ended June 30, 1989, and have issued our report thereon dated June 22, 1990. As part of our audit, we made a study and evaluation of the internal control systems, including applicable internal administrative controls, used in administering federal financial assistance programs to the extent we considered necessary to evaluate the systems as required by generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, the Single Audit Act of 1984, and the provisions of Office of Management and Budget Circular A-128, Audits of State and Local Governments. For the purpose of this report, we have classified the significant internal accounting and administrative controls used in administering federal financial assistance programs in the following categories:

Accounting Controls

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

Administrative Controls

General Requirements  
    ° Political activity  
    ° Davis-Bacon Act  
    ° Civil rights  
    ° Cash management  
    ° Relocation assistance and real property acquisition  
    ° Federal financial reports  
  
Specific Requirements  
    ° Types of services  
    ° Eligibility  
    ° Matching level of effort  
    ° Reporting  
    ° Cost allocation  
    ° Special requirements  
    ° Monitoring subrecipients

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

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

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

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

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

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

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


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

<u>State Agency</u>	<u>Program</u>	<u>Federal Catalog No.</u>
Executive Department - Community Services	Temporary Emergency Food Assistance Program	10.568
	Low Income Home Energy Assistance Block Grant	13.789
	Weatherization Assistance Program	81.042
Department of Corrections	Criminal Justice Block Grants	16.573
	Juvenile Justice and Delinquency Prevention	16.540
Department of Human Services	Special Supplemental Food Program - Women, Infants, Children	10.557
	Child Care Food Program	10.558
	Administration for Children, Youth and Families - Child Abuse and Neglect State Grants	13.669
	Social Services Block Grant	13.667
	Preventive Health and Health Services Block Grant	13.991
	Alcohol and Drug Abuse and Mental Health Block Grant	13.992
	Maternal and Child Health Service Block Grant	13.994
	Rehabilitation Services Basic Support	84.126
Department of Labor	Job Training Partnership Act	17.250
Department of Mental Health and Mental Retardation	Social Services Block Grant	13.667
	Alcohol and Drug Abuse and Mental Health Services Block Grant	13.992



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

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

  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990

# REPORTS ON COMPLIANCE





STATE OF MAINE  
DEPARTMENT OF AUDIT  
STATE HOUSE STATION 66  
AUGUSTA, MAINE 04333  
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Tel. 289-2201

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

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

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

We have audited the component unit financial statements of the State of Maine, as of and for the year ended June 30, 1989, and have issued our report thereon dated June 22, 1990.

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

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

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

AGENCY/PROGRAM	CONDITION
Department of Finance - Bureau of Accounts and Control	According to PL 1987, Chapter 892, the balance of the Tax Adjustment Reserve Fund after tax refunds should have been recognized as revenue during fiscal year 1989. However, the State Controller did not recognize \$12,930,391 of the remaining balance as revenue on the budgetary basis.
General Fund revenue understated by \$12,930,391 (budgetary basis)	

**AGENCY/PROGRAM**

**CONDITION**

**Department of Finance - Bureau of  
Accounts and Control**

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

Maine Rainy Day Fund

Noncompliance with statutes

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

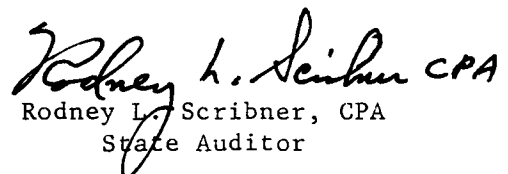
In addition, emergency legislation  
enacted by Ch. 14 P & S 1989 appropriated  
\$722,200 from the Maine Rainy Day Fund.  
The appropriation was effective April  
20, 1989; however, the bureau did not  
process the journal until June 30, 1989.

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

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

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

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

  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990



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STATE AUDITOR

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH SPECIFIC REQUIREMENTS APPLICABLE TO MAJOR  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS**

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

We have audited the State of Maine's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs, which are identified in the accompanying schedule of federal financial assistance, for the year ended June 30, 1989. The management of the State of Maine is responsible for the State's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

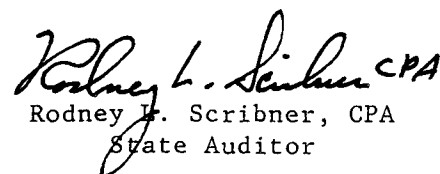
We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards, issued by the Comptroller General of the United States, and Office Management and Budget Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed that the following state agencies did not have adequate systems in place to ensure that subrecipients are audited or monitored in compliance with federal regulations. These conditions are more fully described in the accompanying schedule of findings and questioned costs. In our opinion, the state agencies must establish such a system to comply with the requirements of those major federal programs.

<u>State Agency</u>	<u>Program</u>	<u>Federal Catalog No.</u>
Executive Department - Division of Community Services	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
	Social Services Block Grant	13.667
	Alcohol and Drug Abuse and Mental Health Block Grant	13.992
	Maternal and Child Health Services Block Grant	13.994
	Rehabilitation Services Basic Support	84.126
Department of Labor	Job Training Partnership Act	17.250
Department of Mental Health and Mental Retardation	Social Services Block Grant	13.667
	Alcohol and Drug Abuse and Mental Health Services Block Grant	13.992

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying schedule of findings and questioned costs. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, except for those instances of noncompliance with the requirements applicable to those major programs referred to in the third paragraph of this report and identified in the accompanying schedule of findings and questioned costs, the State of Maine complied, in all material respects, with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; cost allocation; monitoring subrecipients; claims for advances and reimbursements; and amounts claimed or used for matching that are applicable to each of its major federal financial assistance programs for the year ended June 30, 1989.

 CPA  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990



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STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH THE GENERAL REQUIREMENTS APPLICABLE TO  
MAJOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

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

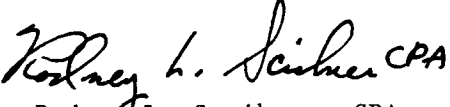
We have applied procedures to test the State of Maine's, compliance with the following requirements applicable to each of its major federal financial assistance programs, which are identified in the schedule of federal financial assistance, for the year ended June 30, 1989.

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

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's Compliance Supplement for Single Audits of State and Local Governments. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Maine's, compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the first paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the State of Maine, had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

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

  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990







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RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE  
WITH REQUIREMENTS APPLICABLE TO NONMAJOR  
FEDERAL FINANCIAL ASSISTANCE PROGRAMS

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

In connection with our audit of the 1989 component unit financial statements of the State of Maine, and with our study and evaluation of the State of Maine's internal control systems used to administer federal financial assistance programs, as required by Office of Management and Budget Circular A-128, Audits of State and Local Governments, we selected certain transactions applicable to certain nonmajor federal financial assistance programs for the year ended June 30, 1989.


As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing types of services allowed or unallowed, eligibility, and monitoring of subrecipients that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the State of Maine's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed that the following state agencies, which administer the listed nonmajor federal financial assistance programs, did not have adequate systems in place to ensure that subrecipients are audited or monitored for compliance with federal regulations.

<u>State Agency</u>	<u>Program</u>	<u>Federal Catalog No.</u>
Executive Department - Community Services	Temporary Emergency Food Assistance Program	10.568
Department of Corrections	Criminal Justice Block Grants	16.573
	Juvenile Justice and Delinquency Prevention	16.540
Department of Human Services	Administration for Children, Youth and Families - Child Abuse and Neglect State Grants	13.669
	Preventive Health and Health Services Block Grant	13.991

With respect to items not tested, nothing came to our attention that caused us to believe that the State of Maine had not complied, in all material respects, with those requirements. However, the results of our procedures disclosed immaterial instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs.

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

 CPA  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990

# SCHEDULE OF FINDINGS & QUESTIONED COSTS



**Schedule of Compliance Findings and Questioned Costs\***

**For the Year Ended June 30, 1989**

<u>Program</u>	<u>Findings/Amount of Questioned Costs</u>	<u>Recommendation/Auditee Response</u>
<u>Department of Administration</u>		
Bureau of Public Improvements	Bureau of Public Improvements (BPI) contract procurement policies do not comply with the implementing regulations of federal statutes and executive orders.	Recommendation:  We again recommend that BPI incorporate all relevant procurement provisions.
<u>Various Federal Programs</u>		
Required clauses not contained in procurement records (1) NSC	BPI 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.	Auditee Response:  We agree with the recommendation that the Bureau of Public Improvements comply with all procurement standards to conform to federal law and the standards identified in Section § - 36 (Procurements). The Chief Engineer is now working with a committee on a document update. The procurement standards will be incorporated in the new document to be completed this year.
<u>Prior Year Finding</u>	Procurement standards for the expenditures of federal grant funds are set forth in Attachment "O" of OMB Circular A-102 and in the <u>Common Rule</u> .  The bureau's contract documents do not include 6 of the 13 procurement provisions indicated in the federal documents.	

Questioned Costs: None

**Legend of Compliance Findings:**

NGC Major Program General Compliance  
NSC Major Program Specific Compliance  
NNC Nonmajor Program General and Specific Compliance

F-1

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Corrections</u>  Administrative Services  Juvenile Justice & Delinquency Prevention CFDA #16.540  Criminal Justice Block Grant CFDA #16.573  No system to assure subrecipients meet requirements (2) NMC	<p>OMB Circular A-128, subsection 9, requires that a state or local government that receives federal financial assistance, and that provides \$25,000 or more to a subrecipient in a fiscal year shall:</p> <ol style="list-style-type: none"> <li>(1) Determine whether the subrecipient has met the audit requirements,</li> <li>(2) Determine whether the subrecipient expended federal funds in accordance with applicable laws and regulations.</li> <li>(3) Ensure corrective action within six months after receipt of the audit report when there are instances of noncompliance.</li> <li>(4) consider whether a subrecipient audit necessitates adjustment of the recipient's own records,</li> <li>(5) require that each subrecipient permit independent auditors to have access to the records and financial statements as necessary to comply with the OMB Circular.</li> </ol> <p>The Department of Corrections (DOC) does not have a system to ensure that subrecipients meet the audit requirement of OMB Circular A-128.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that DOC ensure that subrecipients meet the audit requirements of Circular A-128.</p> <p>Auditee Response:</p> <p>No response received.</p>
Maine Correctional Center  Promotion of the Arts - Arts in Education CFDA #45.003  Federal pass-through funds not recorded (3) NMC	<p>The Maine Correctional Center (MCC) received a federal grant of \$1,325 from the Maine Arts Commission. The center did not credit the proceeds to a special revenue account; it deposited them directly into the inmate benefit fund. Expenditures were for allowable costs and were properly documented.</p> <p>Governmental generally accepted accounting principles require government revenues be recorded on the accounting system of the government entity.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that federal pass-through funds received from other state agencies be recorded on the State Controller's records in the special revenue fund. (Note: MCC should use a federal appropriation account).</p> <p>Auditee Response:</p> <p>No response received.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Corrections</u>  Maine Youth Center  Vocational Education - Basic Grants to States CFDA #84.048  Cash management - federal grants (4) MGC	<u>OMB Common Rule for Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Subpart C, Section .20 - Standards for Financial Management Systems</u> - requires procedures to minimize the time elapsing between the transfer of funds and the time of disbursements.  The Maine Youth Center (MYC) does not have procedures to ensure that only enough cash is on hand to meet immediate cash needs. MYC personnel drawdown excess cash during the fourth quarter of the state fiscal year, thereby circumventing the need to drawdown any cash during the first quarter of the subsequent year.  Questioned Costs: None	Recommendation:  We recommend that MYC minimize the time elapsing between the transfer of funds to MYC and disbursements.  Auditee Response:  No response received.
<u>Department of Economic and Community Development</u>  Supportive Housing Demonstration Program CFDA #14.178  Lack of written agreements (5) NMC	Housing and Urban Development regulations require the recipient of assistance to obtain the project sponsor's agreement to adhere to six conditions stated in 24 CFR 841.305.  The Department of Economic and Community Development made two payments to approved recipients totaling \$294,872 without written agreements to communicate restrictions and requirements.  Questioned Costs: None	Recommendation:  We recommend that the department require signed agreements prior to authorizing grant payments.  Auditee Response:  Due to the speed with which these projects were implemented, it appears that written agreements were not done prior to authorizing grant payments for the two Supportive Housing Demonstration projects. As far as can be determined by DECD, these were the only two instances where written grant agreements were not done. The Community Development Block Grant program makes more than fifty grant awards of different types a year and has always required written grant agreements prior to disbursing funds. DECD has taken further steps to insure that all grant programs will require written grant agreements.



<u>Program</u>	<u>Findings/Amount of Questioned Costs</u>	<u>Recommendation/Auditee Response</u>
<u>Department of Economic and Community Development</u>  Community Development Block Grant <u>CFDA #14.228</u>  Audit requirements not met (6) MSC	<p>The Department of Economic and Community Development (DECD) is responsible for ensuring that subrecipient audits are in accordance with OMB Circular A-128. DECD has accepted subrecipient audit reports that are deficient.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that DECD accept only those audits that meet the OMB standards and require revision of deficient audits.</p> <p>Auditee Response:</p> <p>Over the last six months, the CDBG program has become fully staffed after a lengthy period of frequent staff turnover. A reorganization of responsibilities has increased the level of staffing available to review audits. DECD has requested training materials from HUD and the State Audit Department to assure that staff are fully aware of procedures necessary for the proper review of audits. This combination of staffing and training will insure that DECD accepts only those audits that meet OMB standards and requires revision of deficient audits.</p>
Community Development Block Grant <u>CFDA #14.228</u>  DECD grant files did not consistently include documentation of grant requirements (7) MSC  <u>Prior Year Finding</u>	<p>Documents must be available in order to demonstrate adherence to federal and state regulations. A test of grant documentation disclosed that DECD did not consistently maintain the required documentation.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the Office of Economic and Community Development maintain all necessary grant documents.</p> <p>Auditee Response:</p> <p>The Community Development Block Grant (CDBG) program involves many federal and state requirements and documents. In order to administer the program effectively, all the Office of Community Development staff as well as outside monitoring agencies must have access to files. The Office of Community Development will make every effort to insure that documents removed from files for review are returned in a timely manner and that all files are maintained with complete information.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Economic and Community Development</u>	OMB Circular A-87, Attachment A, E, 2(a) requires that the department assess costs to grants "for the time and efforts devoted specifically to the execution of grant programs." Department of Economic and Community Development (DECD) charges certain positions directly to the Community Development Block Grant (CDBG). Individuals in these positions also work on non-CDBG activities but do not document how they distribute their time. Because we could not determine the relative benefit derived, we question the entire charge.	Recommendation:
Community Development Block Grant CFDA #14.228		We recommend that DECD charge costs to each federal program based on the benefit received and document the basis for the distribution.
Costs not distributed based on benefit to grant program (8) MSC		Auditee Response:
	Questioned Costs: \$315,449	<p>With regard to OMB Circular A-87 and its requirements involving distribution of costs, DECD operates under the provisions outlined in A-87 Attachment B, B 10(b) which states that distribution of time records would be required by staff if they were paid from more than one source of funds. The staff that work with several federal and state initiatives are solely paid by CDBG funds.</p> <p>The federal Department of Housing and Urban Development (HUD), which has the ultimate oversight authority with regard to federal requirements such as OMB Circular A-87, is aware that staff are available to work on state initiatives without salary reimbursement from the State. In its monitoring visits and reports over the years, HUD has not made any findings about DECD's compliance with the distribution of costs requirements nor has HUD requested time distribution records.</p> <p>DECD does recognize that program costs should be shared whenever possible. Accordingly, DECD sought and received legislative approval in 1990 to transfer 3 positions from CDBG funding to state General Fund accounts. When the other state and federal programs that share staff were created, their funding did not include funds for administrative positions.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Educational and Cultural Services</u>  Food Distribution Program CFDA #10.550  Commodities not accounted for by value (9) MSC  <u>Prior Year Finding</u>	Title to donated foods shall pass to distributing agencies upon their acceptance of donated foods at time and place of delivery according to 7 CFR.  Program personnel do not account for Federal Food Distribution Program commodities by value. As a consequence there is no recognition of the Food Distribution Program in the state's financial statements.  Questioned Costs: None	Recommendation:  We recommend that the department assign monetary values to commodities, and account for transactions by these values as well as by quantity.  Auditee Response:  The division does assign monetary values to commodities for program allocation purposes. We concur that the commodity values are not recorded on the records of the state controller. However, without additional funding resources, the reporting of this information by existing staff would decrease the services they could provide to local schools.
Food Distribution Program CFDA #10.550  Inadequate control over processor performance reports (10) MSC  <u>Prior Year Finding</u>	Processor performance reports shall be received no later than the final day of the month following the reporting period according to 7 CFR Section 250.30 (m).  The distributing agency received 4 of the 96 processor performance reports over two weeks late.  Questioned Costs: None	Recommendation:  We recommend the department ensure timely submission of processor performance reports.  Auditee Response:  We concur. The division is in the process of filling the field examiner position. This position will be responsible for tracking processor performance reports and ensuring timely submission.
Food Distribution Program CFDA #10.550  Written agreements missing (11) MSC  <u>Prior Year Finding</u>	Distributing agencies must enter into written agreements with all subdistributing agencies, recipient agencies, warehouse carriers, or other entities to which distributing agencies deliver donated foods under their distribution program as stipulated by 7 CFR Section 250.12 (b).  We were unable to locate written agreements for 2 of 25 agencies examined which received donated food commodities.  Questioned Costs: None	Recommendation:  We recommend that the distributing agency obtain and keep on file all required agreements.  Auditee Response:  We concur. With the consolidation of the food distribution program and school nutrition program, the division is now combining agreements for both programs which will eliminate the requirement to file separate agreements.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Educational and Cultural Services</u>  National School Lunch Program <u>CFDA #10.555</u>  Untimely review of school lunch program (12) MSC	<p>The state School Nutrition office did not complete an Assessment, Improvement and Monitoring System (AIMS) review within the required time period. Of the 25 reviewed during our audit, we noted one that was not completed within the four year period, as required by 7CFR 210.18.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the School Nutrition office ensure all reviews are conducted within the required time period.</p> <p>Auditee Response:</p> <p>We concur. It has been the practice of this division to accommodate requests made by program administrators to change scheduled reviews to a more convenient time and date. In order to ensure that all reviews are conducted on a 3-year period, and to ensure all audits are completed within the 4-year allowance, this division will no longer allow rescheduling of audit reviews and aims reviews once the date has been established.</p>
Aids-School Health Education <u>CFDA #13.118</u>  Inadequate fiscal monitoring of sub-recipient cash on hand (13) NMC	<p>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. The OMB <u>Compliance Supplement</u> requires that "grantee financial management systems shall include procedures to minimize the time elapsed between the transfer of funds from the U.S. Treasury and disbursement of funds by the grantee." The same requirements apply to subgrantees.</p> <p>School Health Education grants range between \$1,000 and \$7,000. Program personnel distribute the total amount of each subgrant to a LEA at one time.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the Department of Educational and Cultural Services disburse funds to Local Educational Agencies (LEA) at the time needed and institute a monitoring system to assure that LEA's cash on hand is not in excess of current obligations.</p> <p>Auditee Response:</p> <p>We do not concur. The recommendation that the program institute a monitoring system to assure that LEAs cash on hand is not in excess of current obligations would not be cost effective due to the grant amounts awarded through the cooperative agreement.</p>
Educationally Deprived <u>CFDA #84.010</u>  Inadequate financial and cash management monitoring practices (14) MSC  <u>Prior Year Finding</u>	<p>OMB Circular A-102, Attachment G requires that grantee financial management systems provide for effective control over and accountability for all funds; that advances to subrecipients be made as close as possible to the time the secondary recipient disburses those funds.</p>	<p>Recommendation:</p> <p>We recommend that the state Chapter I program ensure that financial reports are received in a timely manner; and that payments to subrecipients are made as close as possible to the date funds are disbursed.</p>

Program

Department of Educational and Cultural Services

Educationally Deprived  
CFDA #84.010

Inadequate financial and cash management  
monitoring practices (cont'd.)

Findings/Amount of Questioned Costs

The state Chapter I office does not adequately monitor the financial operations and cash needs of subrecipient Local Educational Agencies (LEA). Of the 25 projects reviewed:

- (1) Fifteen projects submitted requests to carry unexpended cash balances forward to the next year. Of these 15 projects, 7 had carryover requests which were not approved by the State's Chapter I office required date;
- (2) Of the 15 projects with carryover requests, 4 reported cash on hand in excess of 15% of the allocation and the funds were not returned in accordance with the Chapter I office requirement.
- (3) Eight carryover request forms were submitted late;
- (4) Fourteen LEAs submitted annual financial reports later than the state's required date.

Questioned Costs: None

The state Chapter I office did not adequately monitor the financial operations and cash needs of subrecipient local educational agencies. Of the 25 projects reviewed:

- (1) Five submitted annual financial reports showing cash on hand at the end of the project period in excess of 10% of the amount allocated.
- (b) Nineteen submitted the annual financial reports later than the Chapter I office's requirement of 15 days after the end of the project period.

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

Questioned Costs: None

Recommendation/Auditee Response

Auditee Response:

We do not concur. The state Chapter I Office has developed and implemented procedures to ensure that financial reports are received in a timely manner and that payments to subrecipients are made as close as possible to the date funds are to be disbursed. Federal law established an allowable carryover of 15%. The state Chapter I Office requires a more restrictive carryover of 10%. The fifteen day due date of financial report submission is an arbitrary date set by the state Chapter I Office and is more restrictive than that required by the federal government.

These procedures and due dates were established to assure that all LEAs submit the appropriate documentation in a timely manner and in such form as will meet federal law.

Recommendation:

We recommend that the state Chapter I program office ensure that subrecipient financial reports are submitted in a timely manner; and that payments are made as close as possible to the date subrecipients disperse the funds.

Auditee Response:

We do not concur. The State Chapter I office does monitor all LEA migrant projects and develops projects to provide services to subrecipients based on their individual needs. The Chapter I program has implemented procedures to ensure that financial reports are received in a timely manner and that payments to subrecipients are made as close as possible to the date funds are to be disbursed.

<u>Program</u>	<u>Findings/Amount of Questioned Costs</u>	<u>Recommendation/Auditee Response</u>
<u>Department of Educational and Cultural Services</u>  Migrant Education <u>CFDA #84.011</u>  Report not filed on a timely basis (16) MSC	The department did not submit the annual needs assessment, which should accompany the annual application, on a timely basis. Although the due date for the application is May 1 the department did not mail the needs assessment until June 29, 1988.  Questioned Costs: None	Recommendation:  We recommend the department ensure the timely submission of reports.  Auditee Response:  We do not concur. The annual needs assessment of migrant student needs was submitted on June 29, 1988, rather than with the application submitted on May 1, based on a request for an extension from the U.S. Department of Educational Migrant office. The rationale for the request was that more adequate data would be available for determination of needs, after the annual performance reports were submitted by the LEAs. The extension was granted by U.S.D.E..
Handicapped State Grants <u>CFDA #84.027</u>  Unallowable cost charged to program (17) MSC	Costs of amusements are unallowable according to OMB Circular A-87, Attachment B. Entertainment at a conference was charged to the Handicapped State Grant.  Questioned Costs: \$600	Recommendation:  We recommend the department improve the expenditure review process to ensure compliance with federal regulations.  Auditee Response:  We concur. The Divisions of Special Education and Finance have established a conference account that is used when revenues are brought in from fees charged for attendance at these conferences. Inadvertently, a cost for entertainment was paid with federal funds. A journal has corrected this situation and the Division of Finance and the Division of Special Education will more closely monitor this in the future.
Handicapped State Grant Program <u>CFDA #84.027</u>  Distribution requirement to LEAs not met (18) MSC  <u>Prior Year Finding</u>	Section 300.706 of 34 CFR requires a minimum of 75% of funds received for special education programs must be distributed to Local Educational Agencies.	Recommendation:  We recommend that the department adhere to mandated fund distribution requirements.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Educational and Cultural Services</u> <u>Handicapped State Grant Program</u> <u>CFDA #84.027</u>  Distribution requirement to LEAs not met (cont'd.)	<p>Program expenditures to Local Educational Agencies (LEA) were \$45,236 less than the minimum distribution requirement for the FY 1988 grant year. During the FY 1988 audit, \$46,565 was questioned based on preliminary expenditure totals.</p> <p>Questioned Costs: None</p>	<p>Auditee Response:</p> <p>We concur. The proportion of the federal grant representing the local entitlement part has been increased sufficiently above the minimum 75% to allow for any minor variations in the distribution to the LEAs, precluding underpayment.</p>
<u>Handicapped State Grant</u> <u>CFDA #84.027</u>  LEAs supplanted local funds (19) MSC	<p>According to 34 CFR 300.230 the amount of local funds for expenditures in the current fiscal year for the education of handicapped children must be at least equal to the total amount or average per capita amount of local school funds actually expended for the education of such children in the preceding fiscal year.</p> <p>Our review of 25 LEAs showed 2 supplanted local funds with federal funds by \$5,594.</p> <p>Questioned Costs: \$5,594</p>	<p>Recommendation:</p> <p>We recommend the Division of Special Education review expenditures reported by the LEAs to ensure that federal funds are not used to supplant local funds.</p> <p>Auditee Response:</p> <p>This finding is questionable. LEAs may find other ways of offering the same level of program for exceptional children with less expenditure of local funds. This does not mean that federal funds were used to pick up costs previously funded by local dollars. There are also other factors that may reduce local funds. For example, student enrollment may decline or an extremely high cost placement of a student may no longer be necessary because the student returned to the LEA or exited the system. This needs to be clarified before next year's audit.</p>
<u>Handicapped State Grant Program</u> <u>CFDA #84.027</u>  Inadequate financial and cash management practices (20) MSC  <u>Prior Year Finding</u>	<p>OMB Circular A-102, Attachment G states that advances made by primary recipient agencies to secondary recipients shall be made as close as possible to the time the secondary recipient makes the disbursement.</p> <p>OMB Circular A-102, Attachment G also states that a grantee financial management system shall provide for accurate and complete disclosure of the financial results of the program and effective control over and accountability for all funds.</p>	<p>Recommendation:</p> <p>We recommend the Division of Special Education ensure that financial reports are received in a timely manner; and that payments to subrecipients are as close as possible to the date funds are disbursed by the subrecipient.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<p>Department of Educational and Cultural Services</p> <p>Handicapped State Grant Program</p> <p><u>CFDA #84.027</u></p>	<p>The Division of Special Education does not adequately monitor the financial operations and cash needs of subrecipient Local Educational Agencies (LEA). Of the 25 projects reviewed:</p>	<p>Auditee Response:</p>
<p>Inadequate financial and cash management practices (cont'd.)</p>	<ol style="list-style-type: none"> <li>(1) Seventeen LEAs submitted requests to carry unexpended cash balances forward to the next year and 5 of these had carryover amounts in excess of 15 percent of the grant award,</li> <li>(2) Fifteen did not file the annual financial reports by the State's required due date,</li> <li>(3) One of the LEAs received funds before its grant award had been approved.</li> </ol>	<p>The Division of Special Education will adjust its instructions on next year's application to indicate that 85% of the grant award must be expended and; entitlement for the next fiscal year will not reflect the carryover in excess of the 15%. We will also include a similar notice in this year's approved budget package. The Division of Special Education, through its accountant, will identify units exceeding the 15% allowable carryover and notify them to this effect. The division will more closely monitor subrecipient cash needs.</p>
<p>Handicapped State Grant Program</p> <p><u>CFDA #84.027</u></p>	<p>Questioned Costs: None</p>	
<p>No inventory record of capital assets purchased by subrecipients</p> <p>(21) MSC</p>	<p>The Division of Special Education does not maintain inventory records of capital equipment purchased at the subrecipient level with federal funds. 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 implemented.</p>	<p>Recommendation:</p>
<p><u>Prior Year Finding</u></p>	<p>Questioned Costs: None</p>	<p>We recommend that the Division of Special Education establish and maintain inventory records of capital assets purchased by subrecipients, and that it perform a periodic inventory of those assets.</p>
<p>Handicapped State Grant Program</p> <p><u>CFDA #84.027</u></p>	<p>The agreements between the Division of Special Education and their subrecipients do not contain a general provision requiring compliance with Equal Employment Opportunity regulations; instead, the agreement contains a specific provision for the equal employment of handicapped individuals.</p>	<p>Auditee Response:</p>
<p>Subrecipient agreements lack Equal Employment Opportunity provisions</p> <p>(22) MSC</p>		<p>The division is implementing a system comparable to that utilized by the Division of Compensatory Education. The Division of Special Education has employed an individual whose primary responsibility will be to develop inventory control and procedures for FY '91. A form will be included in this year's approved budget for local entitlement funds.</p>
<p><u>Prior Year Finding</u></p>		<p>Recommendation:</p>
		<p>We recommend that the Division of Special Education revise subgrant documents to include required Equal Employment Opportunity provisions.</p>



Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<p><u>Department of Educational and Cultural Services</u></p> <p>Handicapped State Grant Program CFDA #84.027</p> <p>Subrecipient agreements lack Equal Employment Opportunity provisions (cont'd.)</p> <p>Handicapped State Grants CFDA #84.027</p> <p>Administrative costs exceeded allowable limits (23) MSC</p> <p><u>Prior Year Finding</u></p>	<p>OMB Circular A-102, Attachment O states that contracts having a value of \$10,000 or more awarded by grantees, their contractors and subgrantees shall contain a provision requiring compliance with Equal Employment Opportunity regulations.</p> <p>Questioned Costs: None</p> <p>Section 300.620 of 34 CFR imposes restrictions relative to the amount of administrative costs chargeable to the grant program.</p> <p>As of June 30, 1989 administrative costs expended for the federal fiscal year ended September 30, 1989 exceeded the allowable maximum by \$82,998.</p> <p>Questioned Costs: \$82,998</p>	<p>Auditee Response:</p> <p>We do not concur. The Division of Special Education maintains the position that appropriate assurances have been completed by subrecipients. Application materials developed and revised this year will include the required written clarification.</p> <p>Recommendation:</p> <p>We recommend that the department ensure that administrative costs do not exceed the maximum allowed.</p> <p>Auditee Response:</p> <p>The Division of Special Education will work to ensure that administrative costs do not exceed the maximum allowable.</p>
<p><u>Stafford Loan Program</u> CFDA #84.032</p> <p>Inadequate accounting system (24) MSC</p> <p><u>Prior Year Finding</u></p>	<p>Maintaining administrative and fiscal procedures to ensure proper and efficient administration of the program is a basic requirement of the four agreements between the U.S. Department of Education and the Department of Educational and Cultural Services (DECS) regarding the Maine Guaranteed Student Loan Program (MGSLP). During the audit of fiscal year ended June 30, 1986, there were findings concerning the inadequate accounting system for the MGSLP. In order to help improve the accounting system for the MGSLP, DECS engaged a private firm which finished the study and made recommendations. As of the fiscal year ended June 30, 1989, the department had made no changes in the accounting system.</p> <p>The Stafford Loan (MGSLP) personnel did not implement the recommended changes in the accounting system because legislative changes transferred the program from the Department of Educational and Cultural Services to the Finance Authority of Maine (FAME) which took over the Stafford Loan Program as of March 16, 1990.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>None</p> <p>Auditee Response:</p> <p>All functions relative to the Stafford Loan Program have been transferred to the new Higher Education Loan and Grant Authority, a subdivision of FAME.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Educational and Cultural Services</u>  Stafford Loan Program <u>CFDA #84.032</u>  Administrative costs incorrectly returned to the federal grantor agency (25) MSC  <u>Prior Year Finding</u>	<p>As a result of a U.S. Department of Education, Region I Office of Student Financial Assistance review of the Maine Department of Educational and Cultural Services (DECS), the questioned costs of \$1,695,391 for administrative cost allowances were repaid to the federal government.</p> <p>During our audit of fiscal year ended June 30, 1986, we examined the federal review report and determined that all but a small portion of the questioned amounts paid represented legitimate expenses of the state. We recommended that the amount paid should be recovered from the U.S. Department of Education. On March 1, 1989, DECS filed a suit against the Secretary of Education in an attempt to recover the repayment. The matter remains in litigation.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>None</p> <p>Auditee Response:</p> <p>We concur. The department's Assistant Attorney General has filed a legal suit to recover, from the federal government, the amount of funds paid in error plus the interest earned on those payments.</p>
Division of Vocational Education  Vocational Education - Basic Grants <u>CFDA #84.048</u>  Expenditures incorrectly allocated (26) MSC	<p>OMB Circular A-87 requires allowable costs be allocated to programs that benefit from the expenditure.</p> <p>The Division of Vocational Education did not allocate the cost of carpeting to other programs benefiting from the expenditure.</p> <p>Questioned Costs: \$5,869</p>	<p>Recommendation:</p> <p>We recommend that the Division of Vocational Education allocate the cost of the carpeting to all programs benefiting from the expenditure.</p> <p>Auditee Response:</p> <p>We concur. Steps will be taken to allocate costs to all programs benefiting from an expenditure.</p>
Division of Vocational Education  Vocational Education - Basic Grants <u>CFDA #84.048</u>  Matching funds report not consistent with source data (27) MGC	<p>Due to an error in compiling source data, the Financial Status Report (SFR 269) for the year ending June 30, 1989 overstated nonfederal expenditures by \$57,740. Corrected nonfederal expenditures still exceed program matching requirements.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the agency take care to report accurate financial information.</p> <p>Auditee Response:</p> <p>We concur. The Division of Finance will make the necessary effort to ensure accurate financial reporting.</p>

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Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response															
<u>Department of Educational and Cultural Services</u> Division of Vocational Education Vocational Education - Basic Grants <u>CFDA #84.048</u> Financial status report submitted late (28) MGC	OMB Circular A-102, Attachment L requires grantees to submit the annual Financial Status Report (SFR 269) no later than 90 days after the date of completion of the grant.  The Division of Vocational Education submitted the SFR 269 for the grant year ending June 30, 1989 on January 16, 1990.  Questioned Costs: None	Recommendation:  We recommend that Division of Vocational Education submit the Financial Status Report in a timely manner.  Auditee Response:  We concur. Every effort will be made to meet the due date for filing the financial status report. All of the state agencies were involved in a major change in the financial structure (MFASIS). The department's Division of Finance was involved in training to accommodate this new system, further limiting our financial accounting services.															
Division of Vocational Education <u>CFDA #84.048</u> Inadequate fiscal monitoring of sub-recipients' cash on hand (29) MSC  <u>Prior Year Finding</u>	Section 80.20(a)7 of 34 CFR, Subtitle A, Subpart C, requires that procedures be established to minimize time elapsing between transfer of funds and disbursement by grantees.  By the end of the program year 4 of the 25 subrecipients tested had excess cash on hand; one of the 4 had expended only 5% of the funds received; another had not expended any of the funds.  Questioned Costs: None	Recommendation:  We recommend that the Vocational Education Division monitor and effectively manage cash on hand at the subrecipient level.  Auditee Response:  We concur. Program managers, responsible for certain sections of the Perkins Act will more closely monitor the status of the local units' actual cash requirements.															
<u>Various Federal Programs</u> Department legal fees not distributed equitably (30) MSC, NMC  <u>Prior Year Finding</u>	Legal fees assessed by the Department of the Attorney General are 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 to the extent of benefits received.  Questioned Costs: <table> <thead> <tr> <th>CFDA #</th><th>Program</th><th>Cost</th></tr> </thead> <tbody> <tr> <td>10.560</td><td>State Administrative Expense for Child Nutrition</td><td>\$ 8,944</td></tr> <tr> <td>15.904</td><td>Historic Preservation Grants-in-Aid</td><td>4,137</td></tr> <tr> <td>84.002</td><td>Adult Education - State Administered Program</td><td>2,376</td></tr> <tr> <td>84.004</td><td>Civil Rights Technical Assistance and Training</td><td>4,497</td></tr> </tbody> </table>	CFDA #	Program	Cost	10.560	State Administrative Expense for Child Nutrition	\$ 8,944	15.904	Historic Preservation Grants-in-Aid	4,137	84.002	Adult Education - State Administered Program	2,376	84.004	Civil Rights Technical Assistance and Training	4,497	Recommendation:  We recommend that the department implement an allocation plan 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.
CFDA #	Program	Cost															
10.560	State Administrative Expense for Child Nutrition	\$ 8,944															
15.904	Historic Preservation Grants-in-Aid	4,137															
84.002	Adult Education - State Administered Program	2,376															
84.004	Civil Rights Technical Assistance and Training	4,497															

Program	Findings/Amount of Questioned Costs		Recommendation/Auditee Response
<u>Department of Educational and Cultural Services</u>	<u>CFDA #</u>	<u>Program</u>	<u>Cost</u>
<u>Various Federal Programs</u>	84.012	Educationally Deprived Children - State Administration	\$ 5,543
Department legal fees not distributed equitably (cont'd.)	84.027	Handicapped - State Grants	52,661
	84.032	Higher Education Act Insured Loans	10,216
	84.048	Carl D. Perkins	7,845
	84.164	Title II - EESA	1,498
	84.011	Chapter I - Migrant Education	6,925
	Total Questioned Costs		<u>\$104,642</u>
<u>Various Federal Programs</u>	The department did not file the Federal Cash Transactions Reports (SF-272) in a timely manner.		Recommendation:
Cash transactions report not filed in a timely manner (31) MGC	OMB Circular A-102, Attachment H, Section 3(b)(4) stipulates that the SF-272 must be filed within 15 days of the end of a quarter.		We recommend that the department prepare and submit reports on a timely basis.
<u>Prior year Finding</u>	Questioned Costs: None		Auditee Response:
			Authorization for an extension in filing the Federal Cash Transactions Reports was requested in writing. However, acknowledgement of our request was never received from the Federal Government. In addition, due to the implementation of a new state accounting system and recruitment of department accounting staff as trainers, there were certain routine assignments that could not be completed within the timeframes specified. Timely filing of reports should not be a recurring issue.
<u>Various Federal Programs</u>	The Maine Department of Educational and Cultural Services is not adequately reviewing subrecipient audit reports to ensure compliance with federal regulations. Of the 25 audit reports reviewed, 2 did not meet the requirements of the single Audit Act of 1984, as amended.		Recommendation:
Inadequate review procedures for sub-recipient audits (32) MSC	Section 80.26 of 34 CFR requires that state or local governments that receive federal financial assistance and provide \$25,000 or more of it in a fiscal year to a subgrantee shall determine whether the state or local subgrantee met the audit requirements of the Act (Single Audit Act of 1984, as amended).		We recommend that the department improve the subrecipient audit report review process. A detailed review guide to ensure the audit reports contain the required information would be beneficial.
	Questioned Costs: None		Auditee Response:
			We concur. The notes to the financial statements were included in the report but were inadequate. We also concur that the Auditor's Report to the Schedule of Federal Financial Assistance was missing from an audit report. Steps will be taken to improve the audit report review process.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response												
Department of Educational and Cultural Services														
Various Federal Programs														
Payroll costs not distributed properly (33) MSC	OMB Circular A-87 Attachment A (J)(1) requires a cost allocation plan to support the distribution of any joint costs related to the grant program. Our examination disclosed that personnel costs for employees who did not exclusively work for those programs were charged to various federal programs.	Recommendation:  We recommend that the department develop a cost allocation plan that will charge each federal program according to benefits received.												
Prior Year Finding		Auditee Response:												
	<table><tr><th>CFDA #</th><th>Program</th><th>Amount</th></tr><tr><td>84.027</td><td>Handicapped - State Grant</td><td>\$ 87,700</td></tr><tr><td>84.048</td><td>Vocational Education - Basic Grants</td><td>45,440</td></tr><tr><td></td><td>Total Questioned Costs</td><td>\$133,140</td></tr></table>	CFDA #	Program	Amount	84.027	Handicapped - State Grant	\$ 87,700	84.048	Vocational Education - Basic Grants	45,440		Total Questioned Costs	\$133,140	The Division of Special Education has developed a cost allocation plan to support the distribution of payroll charges to federal programs.  The Division of Finance will develop a more detained cost allocation plan to equitably distribute payroll charges to federal programs. An analysis will be made to further document time and attendance to support the distribution of charges made to federal programs.
CFDA #	Program	Amount												
84.027	Handicapped - State Grant	\$ 87,700												
84.048	Vocational Education - Basic Grants	45,440												
	Total Questioned Costs	\$133,140												
Maine Arts Commission														
Various Federal Programs														
Inadequate assurance of compliance with federal requirements (34) NMC	The federal Uniform Requirements for Grants to State and Local Governments Compliance Supplement sets forth major compliance requirements of programs and the generally applicable requirements of national policy prescribed by statute. All grantees, including subgrantees, must assure compliance with the general requirements.  The Maine Arts Commission advised program recipients of the general requirements. However, other than civil rights and labor laws, it did not require them to assure compliance with all general requirements.  <table><tr><td>CFDA #45.001</td><td>Design Arts</td></tr><tr><td>CFDA #45.003</td><td>Arts in Education</td></tr><tr><td>CFDA #45.007</td><td>State programs</td></tr></table>	CFDA #45.001	Design Arts	CFDA #45.003	Arts in Education	CFDA #45.007	State programs	Recommendation:  We recommend that the Maine Arts Commission obtain subrecipients' assurance of compliance with all federal requirements.  Auditee Response:  The Maine Arts Commission is now independent of the Department of Education and this matter will be referred to the attention of the commission's director.						
CFDA #45.001	Design Arts													
CFDA #45.003	Arts in Education													
CFDA #45.007	State programs													
	Questioned Costs: None													

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Environmental Protection</u>  Water Quality Management Planning Grant <u>CFDA #66.454</u>  Non-Point Source Reservation Grant <u>CFDA #66.459</u>  Late filing of Financial Status Reports (35) NMC	Financial Status Reports are required to be submitted within 90 days of project completion or termination according to 40 CFR.  The department did not submit the Financial Status Report for the Non-Point Source Reservation grant and the Water Quality Management Planning grant in a timely manner. The reports were delayed, pending settlement of unliquidated obligations at the end of the grant period, and were submitted in September and August of 1989 respectively.  Questioned Costs: None	Recommendation:  We recommend that the department submit Financial Status reports on a timely basis.  Auditee Response:  The late submittal of a final Financial Status Report (FSR) for these grants is acknowledged. OMB Circular A-102, Attachment H. Paragraph 3-a(4) allows Federal agencies to grant extensions to the 90 day deadline for final FSR rule to recipient agencies. EPA has established such a procedure which shall consist of a written request to EPA Region I for an extension. This request will outline any circumstances necessitating a delay in final FSR submittal.  With the above mentioned grants, the extension was necessary but the procedure for approval of an extension was not initiated. DEP will take steps should future conditions warrant an extension beyond the 90 day deadline for final FSR submittal.
<u>Executive Department</u>  Division of Community Services  Low Income Home Energy Assistance Program <u>CFDA #13.789</u>  Crisis intervention fund reservation (36) MSC	Federal regulations require that a reasonable amount of funds be reserved for use in weather related or supply shortage emergencies.  Comparison of the amount reserved and actual expenditures indicates a substantial under-reservation of funds for the program year ended September 30, 1988. An even lower percentage was reserved for crisis purposes for the program year ending September 30, 1989.  Questioned Costs: None	Recommendation:  We recommend that the division use more historical data in determining amounts to be reserved for emergency situations.  Auditee Response:  This finding is judgmental and is based purely on historical data. The reference that "an even lower percentage has been reserved for crisis purposes for the program year ending September 30, 1989," implies that this lower percentage is not proper nor sufficient. This judgment is improperly based purely on historical amounts since actual program reports reflect an unused balance of HEAP/ECIP funds carried forward from the period ending September 30, 1989. The Division made funds available for the crisis program well into the warm weather following the end of the heating season at all subgrantees. Division management does use historical data, as well as other criteria, in planning the crisis program reserve amount at the commencement of each season in October.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Executive Department</u>  Division of Community Services  Weatherization Program for Low Income Persons <u>CFDA #81.042</u>  Duplicate vendor payments (37) MSC	During our review we discovered a duplicate vendor payment. The division has taken corrective action to collect the overpayment.  Questioned Costs: \$167	Recommendation:  We recommend that the division take greater care when processing invoices.  Auditee Response:  The Division has requested details regarding this overpayment from the workpapers of state audit. Corrective action to recover this payment should resolve this questioned cost. Division management will ensure that greater care is taken to prevent reoccurrence of this discrepancy.
Division of Community Services  Weatherization Program for Low Income Persons <u>CFDA #81.042</u>  Financial reports not reconciled (38) MGC	The division has not reconciled Financial Status Reports (FSR) with the books of account for each of the funding sources U.S. Department of Energy (DOE) and Petroleum Violation Escrow (PVE) Fund. Total expenditures reported to DOE for the period July 1, 1988 to June 30, 1989 appear reasonably accurate. However, a comparison of reported amounts, provided by each of the sources (DOE and PVE), with the books of account discloses a significant variation for each source.  Questioned Costs: None	Recommendation:  We recommend that the division reconcile reported expenditures and the books of account, and that it make the necessary revisions and/or adjustments.  Auditee Response:  These two funding sources, DOE and PVE are utilized for precisely the same purposes. Due to various journal entries between these funding sources the individual sources do not reconcile. However, the combined total is accurate. The Division will take steps to reconcile these two accounts and to ensure that expenditures are properly tracked and reconciled during the current period to prevent reoccurrence.
Division of Community Services  Temporary Emergency Food Assistance Program <u>CFDA #10.568</u>  Weatherization Program for Low Income Persons <u>CFDA #81.042</u>  Financial reports filed late (39) MGC  <u>Prior Year Finding</u>	OMB Circular A-102 and federal regulations require submission of Financial Status Reports (FSR) at specified intervals.  Our examination noted that 5 of 10 reports examined were not filed within a timely manner; and that 4 of the 10 reports examined required 7 revisions to correct previously reported data.  Computer problems coupled with reporting requirement revisions were stated as the cause of reporting problems.  Questioned Costs: None	Recommendation:  We recommend that the division evaluate and amend the reporting systems and procedures used to prepare financial reports to allow timely and accurate report submission.  Auditee Response:  Timely filing of financial reports for the Department of Energy is hampered by required compliance tests of monthly data submitted by subgrantees two weeks prior to the due date of the reports. This process will be actively monitored by Division Management during 1990/91.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Executive Department</u>		
Division of Community Services	Program monitoring of subrecipients did not meet the standards of relevant federal regulations, the state plan or program rules.	Recommendation:  We recommend that the division develop and implement a monitoring system and schedule of site visits that are acceptable to federal grantor agencies.
Low Income Home Energy Assistance CFDA #13.789	Our examination, of information reports submitted to federal grantor agencies, revealed that subrecipient monitoring in accordance with stated plans was inadequate.	Auditee Response:  During 1987/88 the Division experienced 100% turn-over in our fiscal monitoring staff. At the commencement of the period, the Division employed four Field Examiners, supervised by an Auditor III. By July 1988, this entire staff had terminated their employment. Division management thoroughly reviewed the policy and procedures applicable to this unit, and in September 1988 commenced the restructuring of this unit. By July 1989, a thorough fiscal monitoring tool had been developed and was promptly placed in use by the Division. The further development of this unit has been hampered by two internal promotions of Field Examiner III's, each of which was the lead staff member of this unit at the time of their promotion. The Division is currently in the process of acquiring additional staff members to complete the restructuring of the fiscal monitoring units, which also now bears the responsibility for programmatic monitoring as well as fiscal monitoring, due to recent layoffs. During 1989/90 this unit did complete twenty-two on-site monitoring visits to our subgrantees, which resulted in the removal of special conditions imposed on one of our federal grants. This unit will continue to satisfy all compliance requirements with the restoration of its full staff. This has been an extensive process and has required substantial efforts by Division management.
Weatherization Assistance Program for Low-Income Persons CFDA #81.042	Questioned Costs: None	
Program monitoring is inadequate (40) MSC		
<u>Prior Year Finding</u>		
Division of Community Services	OMB Circular A-102 and federal regulations mandate that grantee financial management systems include procedures to minimize the elapsed time between the transfer of funds from the U.S. Treasury and the disbursement by the grantee.	Recommendation:  We recommend that Community Services review and amend the process for requesting federal cash to minimize cash-on-hand balances.
Low Income Home Energy Assistance Program CFDA #13.789	Our examination disclosed that excessive cash balances were maintained due to inadequate cash forecasting and drawdown procedures.	
Weatherization Program for Low Income Persons CFDA #81.042	Questioned Costs: None	
Cash management procedures inadequate (41) MGC		
<u>Prior Year Finding</u>		



Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Executive Department</u>		<b>Auditee Response:</b>
Division of Community Services		The Business Manager II has reviewed cash draw-down procedures with the internal financial staff and the employee previously responsible for this function is no longer with the Division. The Division is currently on the Smartlink system for federal cash draw-downs which should substantially improve the timing of cash receipts. This process will also be actively monitored by Division management during 1990/91 to ensure compliance.
Cash management procedures inadequate (cont'd.)		
Division of Community Services	Allocation of nonpersonal service costs is not according to the allocation plan.	<b>Recommendation:</b>
Temporary Emergency Food Assistance (Administrative Costs) CFDA #10.568	OMB Circular A-87 requires that costs allocated to a particular objective should be based on the extent of benefits received by that objective.	We recommend that the division review the cost allocation plan in order to equitably allocate costs to the various federal programs.
Low Income Home Energy Assistance CFDA #13.789	Our review disclosed that the allocation methods employed do not reflect the methodology stated in the cost allocation plan.	<b>Auditee Response:</b>
Community Services Block Grant CFDA #13.792	Questioned Costs: None	The Division is currently in the process of revising our cost allocation plan. Once completed, adherence to this new plan will be actively monitored by Division management.
Weatherization Assistance Program for Low-Income Persons CFDA #81.042		
Cost allocation not in accordance with plan (42) MSC		
<u>Prior Year Finding</u>		
Division of Community Services	Systems and procedures that ensure compliance with grantor agency responsibilities regarding subgrantee audits, as stipulated in applicable federal regulations, are inadequate.	<b>Recommendation:</b>
Temporary Emergency Food Assistance Program CFDA #10.568	Our examination noted a subgrantee audit report which did not include the Schedule of Federal Financial Assistance funds provided by the Division of Community Services. The division did not refer that and other report deficiencies to either the subgrantee or CPA firm which prepared the report for correction.	We recommend that Community Services assure that required subgrantee audit reports are both received and evaluated for acceptability. We further recommend that the compliance audits of subgrantees be completed as required.
Low Income Home Energy Assistance Program CFDA #13.789		
Community Services Block Grant CFDA #13.792		
Weatherization Program for Low Income Persons CFDA #81.042		
Subgrantee compliance audits inadequate and incomplete (43) MSC		

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Executive Department</u>		
Division of Community Services	Our review also noted that the compliance portions of subgrantee audits, for which the division is responsible, have not been completed.	Auditee Response:
Subgrantee compliance audits inadequate and incomplete (cont'd.)	Questioned Costs: None	The Division has recently put an audit review and resolution system in place to facilitate the processing of completed compliance audits. The Division's MAAP team is currently in the process of performing compliance audits which will be current by the end of 1990/91. This process is impeded by difficulties encountered in coordinating "single audit" visits which require the participation of other state department, thereby incurring scheduling difficulties. The Division's MAAP team was not in place during this audit period and will now ensure completeness of audit reports submitted.
Division of Community Services	Proper distribution of payroll costs to the various federal programs has been affected by data entry errors for time and attendance records and by incorrect time, attendance and travel records.	Recommendation:
<u>Various Federal Programs</u>	Our examination revealed data entry errors in 5 of 40 transactions tested. Consequently, we question certain incorrect payroll cost allocations.	We recommend that the division adjust the incorrectly allocated costs. We also recommend that it implement controls so that the data entries can be verified, and that it correctly prepare time and attendance and travel records.
Payroll distribution inaccurate (44) MSC	Questioned Costs:	Auditee Response:
	Low Income Home Energy Assistance Program \$372.53	The Division's payroll costs are allocated using a computerized system which has been determined to be flawed. The Division is currently in the process of implementing a new system which will be closely monitored for quality control. Once a workpaper detailing these errors is submitted by the State audit team, the Division will determine whether journal entries can be made to correct these questioned costs.
	Community Services Block Grant ( 212.74)	
	Weatherization Assistance for Low Income Persons 215.07	
	Temporary Emergency Food Assistance Program ( 65.47)	
	Total Questioned Costs \$309.39	

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Reponse
<p>Department of Human Services</p> <p>Bureau of Income Maintenance</p> <p>State Administrative Matching Grants for Food Stamp Program</p> <p>CFDA #10.561</p> <p>Incorrect charge to the program (45) MSC</p>	<p>Under the provisions of OMB Circular A-87, Attachment A, Paragraph C2, "a cost is allocable to a particular cost objective to the extent of benefits received by such objective."</p> <p>Witness fees, allocable to another federal program, were incorrectly charged to the Food Stamp Program.</p> <p>Questioned Costs: \$187</p>	<p>Recommendation:</p> <p>We recommend that the bureau make a journal entry to transfer this charge to the correct cost objective. We further recommend that the department exercise more care when reviewing invoice account codes prior to payment.</p> <p>Auditee Response:</p> <p>We have made a journal to charge the appropriate account.</p> <p>We will take the necessary steps to assure that this does not happen again.</p>
<p>Bureau of Income Maintenance</p> <p>State Administrative Matching Grants for Food Stamp Program</p> <p>CFDA #10.561</p> <p>Untimely establishment of claims against households (46) MSC</p> <p><u>Prior Year Finding</u></p>	<p>According to 7 CFR §273.18(a), each state agency "shall establish a claim against any household that has received more food stamp benefits than it is entitled to receive." Each state agency, on a quarterly basis, must submit a Status of Claims Against Households (FNS-209) to detail its activities relating to claims against households.</p> <p>An audit test to determine whether 25 newly established claims were promptly reported revealed five instances in which claim forms were undated. We were unable to determine whether these claims were promptly reported. Based on inquiry and observation, we found that the state agency does not promptly report all claims against households. If a current claim has been established, any subsequent claim determinations against that same household are held in a pending file (and not reported) until the initial claim is closed/collected. Some claims therefore are not reported during the reporting quarter.</p> <p>According to FNS-209 instructions, "all claims established during the quarter..." must be reported. A claim is established when, prior to any initial verbal or written contact with the household, the state or local office responsible for processing the claim determination receives a completed claim determination.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that all claims received by the Food Stamp Issuance Unit be promptly reported to the Food Nutrition Service. We further recommend that all claim determination forms be dated for future auditing purposes.</p> <p>Auditee Response:</p> <p>The Bureau of Income Maintenance established a work group in late 1989 to develop a comprehensive electronic accounting system for overpayments in both AFDC and Food Stamps. The group consists of representatives of the following units: Food Stamp Issuance, Financial Services, Data Processing, Special Investigations and Recovery, and Support Enforcement.</p> <p>The group is in the process of including the various individual items required. The problem of multiple claims for a single household will be solved and the manual paper system will be abolished. The back-up documents will be located at the regional office level. Dates will be retained within the computer system. The target date for installation is October, 1990.</p> <p>As an interim step, the claims form was revised in December, 1989 to include space for all dates recommended by auditors.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>  Division of Financial Services  State Administrative Matching Grants for Food Stamp Program <u>CFDA #10.561</u>  Excess administrative costs (47) MGC	<p>The division incorrectly compiled administrative expenditures for the quarter ending 9/30/89 resulting in an overcharge of \$1,458 to the federal government.</p> <p>Questioned Costs: \$1,458</p>	<p>Recommendation:</p> <p>We recommend that the department exercise more care in preparing financial reports. In addition, we also recommend that it make necessary adjustments to subsequent financial reports.</p> <p>Auditee Response:</p> <p>The Department will take steps to ensure that this type of error is not repeated.</p>
Bureau of Child and Family Services  Child Care Food Program <u>CFDA #10.558</u>  Incorrect allocation of employee compensation costs (48) MSC  <u>Prior Year Finding</u>	<p>According to Attachment A, Paragraph C2 of OMB Circular A-87, "a cost is allocable to a particular cost objective to the extent of benefits received by such objective."</p> <p>A nutrition consultant position supported entirely by Child Care Food Program funds did not devote time and effort specifically to that program.</p> <p>The bureau decided to use 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 could not determine whether the position provided direct services to the program; therefore, we question all salary and fringe benefits paid in fiscal year 1989.</p> <p>Questioned Costs: \$34,357</p>	<p>Recommendation:</p> <p>We again recommend that the salary and fringe benefits for this position which are charged to the Child Care Food Program be based on time and effort devoted specifically to the program.</p> <p>Auditee Response:</p> <p>The use of Child and Adult Care food Program (CACFP) administrative funds to pay the salary and fringe for the nutritionist position was approved by U.S.D.A. in FY '86. The Department will review the duties of the nutritionist position as it compares with the needs of CACFP and prepare legislation that addresses cost sharing the position between CACFP and other duties as appropriate. The legislative changes are expected to be submitted as part of the Department's FY '91 budget.</p>
Division of Financial Services/Bureau of Medical Services  Medical Assistance Program <u>CFDA #13.714</u>  Untimely submission of certification regarding drug-free workplace requirements (49) MGC	<p>On February 23, 1989, Health Care Finance Administration's (HCFA) Division of Financial Management sent a copy of the published regulations regarding drug-free workplace requirements to each regional participant in the Medicaid Program. Attached to these regulations was a copy of a U.S. Department of Health and Human Services' certification required by regulations implementing the Drug-Free Workplace Act of 1988, 45 CFR Part 76, Subpart F. As of March, 1990 this certification had not been signed and returned to the HCFA as requested.</p>	<p>Recommendation:</p> <p>We recommend that attachments to program award notices, or any other correspondence directly received by the department's Division of Financial Services from HCFA (which request action on the part of the state Medicaid agency), be immediately communicated to that agency.</p>

Program

Findings/Amount of Questioned Costs

Recommendation/Auditee Reponse

Department of Human Services

Division of Financial Services/Bureau of Medical Services

Untimely submission of certification regarding drug-free workplace requirements (cont'd.)

The Division of Financial Services, which received the certification and the accompanying request, failed to bring this to the attention of the state Medicaid agency. However, when brought to its attention the commissioner signed the certification which was then forwarded to the Health Care Finance Administration (HCFA) as required.

Questioned Costs: None

Auditee Response:

The Division of Financial Services will make every effort to communicate any correspondence from HCFA to the State Medicaid Agency as soon as possible and ensure that any response required be submitted forthwith.

Bureau of Income Maintenance/Bureau of Medical Services

Medical Assistance Program  
CFDA #13.714

Durable medical equipment  
(50) MSC

Prior Year Finding

According to Medicaid procedures, the Bureau of Medical Services furnishes durable medical equipment to qualified recipients. As described in the prior year audit, durable medical equipment is not inventoried nor is it recovered for reuse when no longer needed by the individual for whom it was originally required. The auditee previously responded that it would resolve the matter (with HCFA's approval) by amending the current policy on ownership of this equipment so that title would vest in the recipient. To date, the state Medicaid agency has drafted a proposed policy change but has not formally adopted the change (legislation) or incorporated it into the policy manual.

The management, use, and disposition of equipment purchased with federal funds is specified in 45 CFR. 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 cited in 45 CFR Subpart O, part.74.

Questioned Costs: None

Recommendation:

We recommend that the Bureau of Medical Services do one of the following:

- (1) Adopt the proposed policy change so that title to durable medical equipment vests in the recipient.
- (2) Develop and maintain an inventory system for this equipment in accordance with Subpart O of 45 CFR §74.135.141.

Auditee Response:

Our Consultant Pharmacist, together with the R.N. who was doing the prior authorizations for DME, have been working on a major re-write of the DME policy. It is expected that there will be substantial savings to the Medicaid program as a result of the new policy in that we will no longer pay acquisition costs plus a 50% mark-up. Included in that new policy is the change that will permit title to the durable medical equipment to vest in the recipient. We expect to go to rule-making on this policy by September 1 of this year.

Program	Findings/Amount of Questioned Costs						Recommendation/Auditee Response
Department of Human Services	A review to determine the status of the state's Medicaid provider audits revealed the following (as of 2/15/90):						Recommendation:
Division of Audit							We recommend that the Department of Human Services take steps to complete annual audits of Medicaid providers on a timely basis.
Medical Assistance Program							Auditee Response:
FDA #13.714							
Medical provider audits are not performed on a timely basis (51) MSC	Provider/Facility Type:	1985	1986	1987	1988	1989	
	Intermediate Care Facilities (Nursing Homes)	1	1	7	32	52	145
	Intermediate Care Facilities For the Mentally Retarded	0	1	5	9	28	43
	Hospitals	45	45	45	45	45	45
	Rural Health Centers	22	1	13	21	22	22
	Home Health Centers	16	6	8	17	17	17
	Totals	84	54	78	124	164	272
According to Attachment 4.19-D (page 2) of the State Plan, "on-site audits will be conducted on an annual basis in accordance with generally accepted auditing standards... for skilled nursing homes, intermediate care facilities and intermediate care facilities for the mentally retarded."							
Untimely provider audits permit the following:							
(1) Incorrect billings go undetected for extended periods of time.							
(2) No assurance that program resources are properly appropriated.							
(3) Untimely recoupment of funds due back to the state as a result of overpayments and/or unallowable costs.							
(4) An accelerating cash outflow and a decelerating cash inflow.							
Questioned Costs: None							

A few years ago, the Federal Government required all states to do at least 15% of their nursing home audits in each year. This regulation was changed and now what they are requiring is that the states provide assurances that they will be performing audits of nursing facilities but do not list or require any certain amount to be done each year. When the State plan says that on site audits will be conducted on an annual basis it is the Department's position that these audits will be done annually but do not have to be done every year. For example, we might do two years or three years at once such as doing the audits for the years ending June 30, 1987, 1988 and 1989 all in the same year. We are doing annual audits on the facility but we are doing them once every three years in this example. We feel that as long as we do an annual audit of the facility's records we are in compliance with the State plan whether we do this every year or once every two or three years as long as we audit each year of the facility's operations.

Program

Department of Human Services

Office of Data, Research and Vital Statistics

Medical Assistance Program

CFDA #13.714

Late submission of quality control  
six month summary reports  
(52) MSC

Findings/Amount of Questioned Costs

According to 42 CFR subparagraph (f) each state Medicaid agency "must submit reports to Health Care Finance Administration (HCFA), in the form and at the time specified by HCFA, including...

A summary report on eligibility findings and payment error findings for all cases in the 6-month sample, to be submitted by May 31 of each year for the previous April-September sampling period, and by November 30 for the October-March sampling period...."

A review of the division's timeliness in submitting two Medicaid quality control summary reports revealed that they submitted them after the required due date.

<u>Report Sampling Period</u>	<u>Due Date</u>	<u>Preparation/ Submission Date</u>
4/88 - 9/88	5/31/89	3/07/90
10/88 - 3/89	11/30/89	3/15/90

Questioned Costs: None

Recommendation/Auditee Reponse

Recommendation:

We recommend that the division prepare the Medicaid quality control (MQC) six month summary reports within the required time frame.

Auditee Response:

Two issues need to be raised in response to this finding:

The first is that these regulations were promulgated by HCFA prior to the adoption of their automated reporting system. Therefore, the substance of the reports is available to HCFA from their computer system. This is why we have been assured by the Boston Office that there is no intent or expectation to enforce this regulation. In fact, although it was known that the April '88 to September '88 report was especially late, there was not one inquiry from Boston HCFA as to what the problem was.

The second issue is that not all circumstances relating to the production of this report is in the control of the agency. As an example, the statistician ran statistics for the report on the April '89 to September '89 review period on May 21, 1990 but because of a problem in the HCFA software relating to the coding of OMB cases, the data had to be rerun on June 14 after the software was fixed. Also, the report cannot be run until after all issues regarding cases in the sample are settled. Therefore, if we have a variance that is on appeal to Boston or Washington, or issues relating to the sampling process that must be resolved, or if HCFA is unable to complete their subsample of our cases, then we are unable to run the statistics so as to submit a report.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>	Subparagraph (a)(1) and (2) of 42 CFR 433.320 state:	Recommendation:
Division of Financial Services/Bureau of Medical Services	...the agency must refund the federal share of overpayments that are subject to recovery to the Health Care Finance Administration (HCFA) through a credit on its Quarterly Statement of Expenditures form (HCFA-64). The federal share of overpayments subject to recovery must be credited on the HCFA-64 report submitted for the quarter in which the 60-day period following discovery...ends.	We recommend that the Division of Financial Services ensure compliance with procedures for refunds to HCFA. We further recommend that it prepare the HCFA-64 report in accordance with HCFA instructions under "overpayment adjustments" for all unrecovered overpayments made to providers.
Medical Assistance Program CFDA #13.714	Refunds to HCFA must be made whether or not the state Medicaid agency recovered overpayments from providers.	Auditee Response:
Noncompliance with procedures for refunds to HCFA; not adhering to instructions for preparing the Quarterly Medicaid Statement of Expenditures (53) MGC	Our test of financial records revealed:	The State of Maine has had an excellent track record over the years in reporting 60 day overpayments to the Federal Government. The process for reporting overpayments is performed on a monthly basis by a staff member within the Division of Financial Services. There have been numerous cyclical problems which have hampered the process (i.e.)...year end closings. The Division will make every effort to overcome these problems and record these overpayments in compliance with the procedures for refunds to HCFA.
	<ul style="list-style-type: none"> <li>(1) Of 11 overpayments made to long-term nursing care facilities, the federal share of 3 overpayments was not credited to HCFA in a timely fashion.</li> <li>(2) Of 25 overpayments made to hospitals, the federal share of 2 overpayments (\$316,093) was not credited to (and thus recovered by) HCFA within 60 days.</li> <li>(3) Unrecouped provider overpayments are not reflected on the HCFA-64 form in accordance with HCFA instructions promulgated for the preparation of that report. They are currently reported as a net or adjustment to quarterly expenditures for services rather than reported separately as overpayment adjustments.</li> </ul>	
	Questioned Costs: None	



Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>	<p>The Code of Federal Regulations establishes a payment error rate for all state agencies that process beneficiary claims on behalf of the AFDC Program. Maine has exceeded the federal tolerance error rate for 1981, 1983, 1984, 1985 and 1986. As of June 30, 1989 the federal government has assessed state disallowances, aggregating \$3,260,823.</p> <p>With the passage of the Omnibus Reconciliation Act of 1989, all AFDC sanctions for fiscal years 1981-1990 were waived.</p>	<p>Recommendation:</p> <p>None</p>
<p>Family Support Payments to States - Assistance Payments (AFDC Maintenance Assistance - State Aid)</p> <p><u>CFDA #13.780</u></p> <p>Aid to Families with Dependent Children (AFDC) disallowances</p> <p>(54) MSC</p> <p><u>Prior Year Finding</u></p>	Questioned Costs: None	<p>Recommendation:</p> <p>We recommend that the Department of Human Services require all employees to record hours worked and not worked on their individual time sheets.</p>
<p>Bureau of Income Maintenance</p> <p>Family Support Payments to States - Assistance Payments (AFDC Maintenance Assistance - State Aid)</p> <p><u>CFDA #13.780</u></p> <p>Employee time records did not reflect attendance and leave actions</p> <p>(55) MSC</p>	<p>Paragraph B(10)(6) of Attachment B of OMB Circular A-87 states:</p> <p>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.</p> <p>State of Maine Civil Service Rules mandate:</p> <p>Each department or division shall maintain an adequate set of employee records for the purpose of recording attendance and leave actions. These records shall include the following information: attendance on official duty; vacation leave earned, used and accrued; sick leave earned, used and accrued; and any other leave with or without pay...</p> <p>One week's time sheets for two Department of Human Services employees did not reflect either hours worked or not worked.</p>	<p>Auditee Response:</p> <p>The Department understands the finding. It will take the necessary steps to bring it into compliance with the applicable Maine Civil Service Rules.</p>
	Questioned Costs: \$459	

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<p><u>Department of Human Services</u></p> <p>Bureau of Income Maintenance</p> <p>Child Support Enforcement CFDA #13.783</p> <p>No contract exists for an attorney who represents the department (56) MSC</p>	<p>The department uses a private attorney to represent them in certain paternity cases, but has not executed a contract with the attorney. The attorney fees for \$113,156 were charged to the program during the audit period.</p> <p>Section 48.5 of the State of Maine - <u>Manual of Financial Procedures</u> sets forth certain required procedures for procuring special services when the amount exceeds \$7,500. These procedures will require a determination of need; a Request For Proposal (RFP) or Invitation For Bids (IFB) submitted to a Contract Review Committee for approval; and a legal advertisement placed in Maine newspapers. The bureau only made a determination of need.</p> <p>According to subparagraph C1, Attachment A of OMB Circular A-87, "costs must meet the following criteria: Be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part."</p>	<p>Recommendation:</p> <p>We recommend that when procuring additional services under this grant, the bureau conform to procedures for contracting with outside firms or individuals.</p> <p>Auditee Response:</p> <p>We believe that there is a contract in place at this time. We are attempting to obtain a copy. If there is no contract, then we will take the necessary steps to ensure that proper procedures are followed.</p>
<p>Bureau of Income Maintenance</p> <p>Child Support Enforcement CFDA #13.783</p> <p>Travel expenses not in accordance with state policy (57) MSC</p>	<p>Questioned Costs: \$113,156</p> <p>An employee was reimbursed for mileage expenses for commuting. Such travel expenses are not allowed under state policy.</p> <p>Section 40.5 of the State of Maine - <u>Manual of Financial Procedures</u> states: ...mileage reimbursement shall be for miles actually traveled on official business. Because commuting expenses are not reimbursable, mileage reimbursement is limited to the lesser of the distance between the employee's headquarters and work destination or employee's residence and work destination.</p> <p>According to subparagraph C1, Attachment A of OMB Circular A-87, "costs must meet the following criteria: Be consistent with policies, regulations, and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part."</p> <p>Questioned Costs: \$19</p>	<p>Recommendation:</p> <p>We recommend that the bureau inform all employees about reimbursable mileage, particularly those who travel frequently.</p> <p>We also recommend that supervisors who review and approve travel vouchers ensure that employees who commute to headquarters do not charge for commuter travel when performing work related duties in or near their residence.</p>

Program

Department of Human Services

Bureau of Income Maintenance

Child Support Enforcement

CFDA #13.783

Travel expenses not in accordance with state policy (cont'd.)

Bureau of Rehabilitation/Disability Determination Services

Social Security - Disability Insurance

CFDA #13.802

Untimely submission of Payment Management System reports (58) MSC

Findings/Amount of Questioned Costs

The Department of Health and Human Services' Federal Assistance Financing Branch (FAFB) monitors all federal cash outlays to recipients on a grant-by-grant basis under the Payment Management System (PMS). For cash accountability, the FAFB prepares certain basic reports quarterly which are then forwarded to each recipient for data comparison. The recipient must compare the PMS reports to its own cash and disbursement records, note any differences, and return the reports to FAFB within 45 days after the close of each quarter.

Payment Management System reports tested, for 4 quarters showed that the bureau submitted reports for 2 quarters beyond the required due date.

<u>Report Period</u>	<u>Due Date</u>	<u>Submission Date</u>	<u>No. of Days Late</u>
7/1/88-9/30/88	11/14/88	11/24/88	10
1/1/89-3/31/89	5/15/89	5/18/89	3

Questioned Costs: None

Recommendation/Auditee Response

Auditee Response:

We agree with the finding and the recommendation with respect to an employee who was reimbursed for travel expenses which were not in accordance with state policy, i.e. reimbursement for one way mileage between the employee's headquarters and his place of residence. Regional Managers will immediately be instructed to take steps to insure that all employees understand the state's policy on this issue. Additionally, supervisory staff will be given specific instructions to review all expense vouchers to insure that changes are in accord with established state policies and procedures.

Recommendation:

We recommend that the department prepare and submit quarterly Payment Management System reports within the required time frame or obtain extensions of due dates from the Federal Assistance Financing Branch.

Auditee Response:

The Department understands the audit finding and will attempt to meet the filing dates in a more timely manner in the future.

Program

Department of Human Services

Bureau of Rehabilitation/Disability Determination Services

Social Security - Disability Insurance  
CFDA #13.802

Late submission of required data/reports to the Social Security Administration (59) MSC

- Findings/Amount of Questioned Costs
- Disability Determination Services (DDS) are required to submit the following reports and/or data by the 25th day after the close of each quarter of the federal fiscal year (submitted simultaneously to the SSA):
- (1) SSA-4513 (State Agency Report of Obligations for SSA Disability Programs)
  - (2) SSA-4514 (Time Report of Personal Services for Disability Programs)
  - (3) SSA-871 (State Agency Schedule for Equipment for SSA Disability Programs)
  - (4) MER Cost Analysis Supplement to the SSA-4513 report

A review to determine whether the required reports/data were submitted in a timely manner revealed the following:

<u>Quarter Ending</u>	<u>Due Date</u>	<u>Submission Date</u>	<u>Number of Days Late</u>
9/30/88	10/25/88	10/28/88	3
12/31/88	1/25/89	1/27/89	2
3/31/89	4/25/89	4/25/89	-
6/30/89	7/25/89	7/26/89	1

Within 45 days after the close of the quarter and 60 days after the close of the federal fiscal year DDSs must report obligations and employee time into the Cost Effectiveness Measurement System (CEMS) database. A review to determine whether the department reported this data on time revealed:

<u>Quarter Ending</u>	<u>Due Date</u>	<u>Input/ Submission Date</u>	<u>Number of Days Late</u>
9/30/88	11/30/88	11/16/88	-
12/31/88	2/15/89	2/13/89	-
3/31/89	5/15/89	5/13/89	-
6/30/89	8/15/89	8/18/89	3

Questioned Costs: None

Recommendation/Auditee Response

Recommendation:

We recommend that the state agency submit all of the data/reports to the SSA within the required time frame.

Auditee Response:

We accept the fact that some of these quarterly reports were submitted late particularly those for the fourth quarter of the state fiscal year 1989. However, the problem lies with the late issuance of the State Controller's analysis sheets, which are necessary for the preparation of the above reports. For the first three quarters of state fiscal year 1989, we did not receive the State Controller's analysis sheets until at least 20 days after the end of the quarter. For the fourth quarter of state fiscal year 1989, the state keeps its books open longer and we did not receive the State Controller's analysis sheets until 40 days after the end of the quarter.

Maine DDS will make every effort to comply with the due date requirements of the above reports.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>  Bureau of Rehabilitation/Disability Determination Services  Social Security - Disability Insurance CFDA #13.802  MEDDIC data not correctly reported (60) MSC	<p>Chapter VII of the Social Security Administration's Financial Procedures Handbook, Cost Effectiveness Management System (CEMS) states, "all medical services costs incurred by the Disability Determination Services (DDS) are to be reported in appropriate cost categories on the Medical Expense Disaggregated Direct Input of Cost (MEDDIC) form."</p> <p>DDS personnel enter hospital charges into the MEDDIC on-line computer system based on the medical fee schedule rather than on the actual cost.</p> <p>During the 1989 fiscal year, medical evidence of record (MER) costs were entered into the MEDDIC system based on the information on form R-20B (Authorization for Service). In some instances physicians did not submit the MER nor a bill for services, resulting in an overstatement of MER costs on the MEDDIC system.</p> <p>In August of 1989, SSA approved and DDS implemented a modified sampling plan for MER costs. This plan calls for entering every other MER into the MEDDIC system to alleviate the overstatement of MER costs.</p> <p>Questioned Costs: None</p> <p>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 1989 state fiscal year by \$136,880. Both the Maine Department of Human Services and the Department of Mental Health and Mental Retardation incur administrative costs charged to the block grant.</p> <p>Title 42, Section 3004-3 of the United States Code Services states, "Of the amount paid to any state not more than 10 percent may be used for administering the funds made available."</p> <p>Questioned Costs: \$136,880</p>	<p>Recommendation:</p> <p>We recommend that DDS personnel enter hospital charges into the MEDDIC system based on actual medical charges.</p> <p>Auditee Response:</p> <p>We accept this finding that hospital bills, for x-ray and lab work were requested on MEDDIC at the lower Medicaid fee schedule rate rather than the full amount of the bill which was reported. The agency person responsible for MEDDIC has been directed to report these bills on MEDDIC at the actual billed amount.</p>
Bureau of Child and Family Services  Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA #13.992  Exceeding administrative charge requirements (61) MSC  <u>Prior Year Finding</u>	<p>Questioned Costs: None</p> <p>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 1989 state fiscal year by \$136,880. Both the Maine Department of Human Services and the Department of Mental Health and Mental Retardation incur administrative costs charged to the block grant.</p> <p>Title 42, Section 3004-3 of the United States Code Services states, "Of the amount paid to any state not more than 10 percent may be used for administering the funds made available."</p> <p>Questioned Costs: \$136,880</p>	<p>Recommendation:</p> <p>We recommend that the bureau adequately define and properly classify administrative costs. 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.</p> <p>Auditee Response:</p> <p>Administrative costs have been clearly defined and classified since the fall of 1987.</p> <p>Internal controls to track and monitor administrative costs are in place by both the Department of Human Services and the Department of Mental Health &amp; Mental Retardation. Monthly fiscal analysis printouts allow each Department to track and monitor administrative costs routinely.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>		
Bureau of Child and Family Services		Based on their tracking, both Departments recognized in the fall of 1988 that the 10 percent administrative requirement would be exceeded. Therefore, both Departments requested the transfer of all administrative positions from their federal Block Grant accounts to their state General Fund accounts. This action, however, required legislative approval. Legislative approval was granted but was not effective until July 1, 1989. As a result, both Departments exceeded the 10 percent administrative requirement. Nevertheless, effective July 1, 1989, the following corrective action was taken:
Exceeding administrative charge requirements (cont'd.)		<ol style="list-style-type: none"> <li>1. The Department of Human Services transferred eight staff positions from the federal Block Grant account to the state General Fund account.</li> <li>2. The Department of Mental Health and Mental Retardation transferred five staff positions from the federal Block Grant account to the state General Fund account.</li> <li>3. The Department of Mental Health and Mental Retardation elected to no longer use any Block Grant funds for any kind of administrative function relative to the Block Grant.</li> </ol> <p>The two Departments will continue to coordinate their efforts in order to comply with federal Block Grant requirements. Because the Department of Mental Health and Mental Retardation is no longer using any federal Block Grant funds for administrative functions, only the Department of Human Services needs to closely track and monitor administrative expenditures.</p>

<u>Program</u>	<u>Findings/Amount of Questioned Costs</u>	<u>Recommendation/Auditee Reponse</u>
<u>Department of Human Services</u>		<b>Recommendation:</b>
Division of Maternal and Child Health/Division of Financial Services	During a test of program expenditures we could not locate support documentation for an item even though efforts were made to locate documents at both the Bureau of Accounts and Control and the department's Division of Financial Services.	We recommend that the department retain all documentation which support grant expenditures.
Maternal and Child Health Services Block Grant CFDA #13.994		<b>Auditee Response:</b>
Supporting documentation for program expenditure not located (62) MSC	Questioned Costs: \$418	The Division of Financial Services will endeavor to be more careful in the proper filing of invoices in the future.
Division of Personnel		<b>Recommendation:</b>
Maternal and Child Health Services Block Grant CFDA #13.994	Workers' Compensation payments made to recipients are charged to the same appropriation fund account from which their salary was originally charged to.	We recommend that attention be paid to correctly code expenditures and that strict coding guidelines be implemented at the department's Division of Financial Services to discourage use of federal funds to cover state liabilities.
Incorrect allocation of federal funds (63) MSC	During fiscal year 1989, the coding for the correct state account was mistakenly replaced with a block grant special revenue account code. For the next ten months, the block grant account was used which resulted in additional costs charged to the federal account. When the state implemented a new accounting system in late 1989, the error was corrected.	<b>Auditee Response:</b>
	Questioned Costs: \$13,305	The Personnel Division has taken appropriate steps to ensure that worker's compensation payments are charged to the proper appropriation fund accounts.
Division of Maternal and Child Health		<b>Recommendation:</b>
Maternal and Child Health Services Block Grant CFDA #13.994	A test of 10 out of 38 subrecipient grants disclosed that one did not submit the quarterly and final reports as required in the Division of Maternal and Child Health's <u>Grant Policy Manual</u> . Paragraph 6, Section II, Subsection A subgrantee reporting requirements set forth in the Policy Manual state that "quarterly income and expenditure reports are due forty-five days following the completion of the first three quarters."	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 time frame of 45 days.
Required financial reports for one sub-recipient not submitted (64) MSC	Paragraph C of the same section also states "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."	<b>Auditee Response:</b>
<u>Prior Year Finding</u>	Questioned Costs: None	DMCH recognizes the importance of monitoring subgrantee agencies. Reviewing quarterly reports is an important part of monitoring. DMCH will continue to diligently monitor quarterly reporting and will follow up on all delinquent reports. The Division will develop a standardized letter to be sent to subgrantee agencies near year's end to remind them to submit the final quarterly and year end report.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>		Recommendation:
Bureau of Health/Division of Maternal and Child Health		None
Maternal and Child Health Services Block Grant CFDA #13.994	Our review of the personnel records for positions funded by the Maternal and Child Health Services Block Grant revealed that the primary purposes of eight positions were not directly related to the objectives of this grant; and that 100% of the time and effort spent in these positions was not directed specifically to administering this grant program.	
Several positions funded by block grant were not directly related to grant objectives (65) MSC	Corrective action was taken in the fall of 1989 when the Bureau of Health requested that the state fund these positions. Legislation was subsequently passed and beginning July 1, 1990 these positions will be state funded.	
<u>Prior Year Finding</u>	A single questioned cost amount was derived by compiling total personal services costs associated with these positions which were incurred during the audit period.	
	Questioned Costs: \$217,843	
Bureau of Rehabilitation		Recommendation:
Rehabilitation Services - Basic Support CFDA #84.126	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 16 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.	We again recommend that the Bureau of Rehabilitation establish and maintain written policies regarding conditions, criteria, and procedures and providing 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 processing referrals and applications, as required.
Lack of written procedures for services and processing of referrals and applications for services (66) MSC	Section 361.42 (b) of 34 CFR states: ...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.	Auditee Response:
<u>Prior Year Finding</u>	In addition, Section 361.30 of 34 CFR mandates: ...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.	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. (The Management Action Program is a management system supported by RSA which was implemented in Maine in 1986). 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.
	Questioned Costs: None	



Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>  Bureau of Rehabilitation  Rehabilitation Services - Basic Support <u>CFDA #84.126</u>  Excess subrecipient cash balances (67) MSC	<p>A review of cash reports submitted by 6 of the 13 subrecipients revealed that 4 of the 6 maintained excess cash on hand.</p> <p>Treasury Circular 1075 and 34 CFR Section 80.20 (a)(7) state that when the advance method of dispersing funds is used the advances must be limited to the immediate cash needs of the recipient organization. Grantees are required to monitor subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances made to the grantee.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the bureau establish procedures which will prevent the payment of excess cash to subrecipients. This may require more frequent payments or smaller amounts.</p> <p>Auditee Response:</p> <p>It has been the practice of the Bureau of Rehabilitation to provide to the subgrantee payments on a quarterly basis without regard to the amount of cash on hand. The current grant monitoring system requires the subgrantee to submit both monthly and quarterly financial reports which indicate the current cash balance. The Bureau will begin, effective immediately, to monitor the unspent balance and withhold payment until the subgrantee holds no more than two months operating cash.</p>
Bureau of Rehabilitation  Rehabilitation Services - Basic Support <u>CFDA #84.126</u>  Lack of required State Plan assurance regarding set-aside funds (68) MSC  <u>Prior Year Finding</u>	<p>A review of methods and procedures that Rehabilitation Services - Basic Support used to administer Small Businesses Services revealed that the State Plan does not assure that the state unit maintains a description of methods used to set aside funds, and the purpose for the set-aside.</p> <p>Section 361.50 (c) of 34 CFR states:  ...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.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>To achieve compliance with program regulations, we again recommend that the State Plan include the required assurances on set-aside funds generated from the Small Business Enterprise program.</p> <p>Auditee Response:</p> <p>The State Unit maintains a description of the methods used in setting aside funds and the purposes for which funds are set aside. They are contained in the rules of the Business Enterprise Program which were developed according to the procedures of the States Administrative Practices Act (APA) and have been approved by the appropriate federal agencies.</p>
Bureau of Rehabilitation  Rehabilitation Services - Basic Support <u>CFDA #84.126</u>  Required subgrantee financial reports were not submitted or submitted late (69) MSC	<p>Our review of monthly and quarterly financial reports submitted by all 13 subgrantees revealed that many reports were either submitted late or not submitted at all. In order for the Bureau of Rehabilitation to maintain effective control and accountability for all grant funds subrecipient agencies need to provide financial reports on time.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the bureau enforce the financial reporting standards required of subrecipients. In addition, we recommend that the agency obtain those reports not yet submitted by subrecipients.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>		Auditee Response:
Bureau of Rehabilitation		
Required subgrantee financial reports were not submitted or submitted late (cont'd.)		The Bureau acknowledges the accuracy of the finding. We have requested that these missing reports be submitted. The current monitoring system's reporting requirements, when enforced, allows the Bureau to control and account for the grant funds. The Bureau will initiate the practice of withholding payment to subgrantees when reports are not submitted in a timely manner.
Bureau of Rehabilitation		Recommendation:
Rehabilitation Services Basic Support CFDA #84.126	A review of the submission dates for the Quarterly Cumulative Caseload reports revealed that 2 of 4 were submitted after the due date.	We recommend that the bureau make a concerted effort to submit these reports in a timely manner.
Late submission of caseload reports (70) MSC	Section 361.23 of 34 CFR requires submission of "reports in the form and detail and at the time required by the secretary...."	Auditee Response:
	Questioned Costs: None	The Bureau routinely files these reports in a timely fashion, but, due to unusual circumstances, did not do so on these two occasions. The Bureau will make concerted efforts to submit these reports in a timely fashion in the future.
Office of Data, Research and Vital Statistics		Recommendation:
State Administrative Matching Grants for Food Stamp Program CFDA #10.561	The original weekly time slips for one individual were not available for audit purposes.	We recommend that employee time and attendance records be retained through the federal audit. These records are needed to support charges for personal services to grant programs.
Assistance Payments - Matching Assistance (AFDC Maintenance Assistance - State Aid) CFDA #13.780	OMB Circular A-87, Attachment B, Subparagraph 10(b) states, "Payrolls must be supported by time and attendance or equivalent records for individual employees."	Auditee Response:
Employee time and attendance records not retained on file for audit purposes (71) MSC	Questioned Costs: \$1,275	This is the first time that this office has been told that time sheets are to be kept on file for at least three years. Needless to say, the requested time sheets for the individual were destroyed in the first part of 1989. This was done for no other reason than to eliminate paper in the files.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Reponse
<u>Department of Human Services</u>		<b>Recommendation:</b>
Bureau of Income Maintenance/Bureau of Medical Services	Attachment A, Paragraph C2(a) of OMB Circular A-87 states, "a cost is allocable to a particular cost objective to the extent of benefits received by such objective."	We again recommend that the department charge the correct account/activity codes to allocate personal services costs of these individuals to the proper federal programs.
State Administrative Matching Grants for Food Stamp Program CFDA #10.561	Our review included the status and disposition of deficiencies disclosed in the prior year grant reports. We noted that no responsive action has been initiated regarding 17 of 19 Bureau of Income Maintenance employees whose wages were directly charged to the incorrect account/activity codes. As an example, the salaries and wages of several employees described in the personnel roster as "AFDC/FS WORKERS" are charged to a Medical Assistance Program (CFDA #13.714) appropriation account/activity code, and vice versa. As a result of our current review, we determined that the wages and salaries of 17 of these same employees were still incorrectly allocated. Coding had been changed to correctly allocate personal services costs for 2 employees. We also identified 3 other employees whose wages are charged to incorrect cost centers.	<b>Auditee Response:</b>
Medical Assistance Program CFDA #13.714		Corrective action has been taken by the Department of Human Services. A thorough review of regional income maintenance personnel and their job duties has been completed by this agency and all incorrect account/activity codings have been changed to properly charge the Food Stamp, AFDC, and Medical Assistance Administration programs. The departmental memorandums from the Financial Services Division to the Personnel Division dated June 26, 1989 and February 26, 1990 are on file and are readily available for review.
Assistance Payments - Maintenance Assistance (AFDC Maintenance Assistance - State Aid) CFDA #13.780		
Incorrect allocation of employee compensation costs (72) MSC		
<u>Prior Year Finding</u>		
	These allocations of employee compensation costs resulted in apparent overcharges to the pertinent federal programs. We developed the questioned cost by compiling total salaries and wages of these individuals for the period 7/1/88 through 6/30/89.	
	Questioned Costs: \$210,992	
<u>Division of Financial Services</u>		<b>Recommendation:</b>
Foster Care - Title IV-E CFDA #13.658	The Division of Financial Services' accounting personnel compile cost allocation workpapers to support indirect cost allocation entries which are then charged to the department's various federally supported grant programs. These workpapers do not reflect signed supervisory approval and are not, as a rule, checked for accuracy.	We recommend that:
Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA #13.992		(1) The department use only "actual" STA-CAP expenditures charges to compute a program's portion of indirect costs.
Rehabilitation Services - Basic Support CFDA #84.126		(2) The department exercise more care in preparing of client workpapers used for allocating indirect costs.
Insufficient procedures to assure accurate calculations and recovery of grantee indirect costs (73) MSC		(3) The department make necessary adjusting journal entries to correctly charge the program accounts and reflect these adjustments in the programs' next quarterly statements of expenditures (where applicable).

Program

Department of Human Services

Division of Financial Services

Insufficient procedures to assure accurate calculations and recovery of grantee indirect costs (cont'd.)

Findings/Amount of Questioned Costs

A review of four indirect cost allocation entries (quarter ending 6/30/89) revealed these deficiencies:

CFDA #

13.658 The distribution percentage factor applied to the AFDC data processing costs used in calculating the indirect cost base was not applied. The result was an undercharge of \$1,101.

13.992 STA-CAP charges, which represent the cost of state central services, were double counted in the total allocation amount used to compute indirect costs. The result was an undercharge of \$103.

84.126 STA-CAP expenditures used to calculate net indirect costs were not based on actual charges. The result was an undercharge of \$4,496.

Questioned Costs: None

Recommendation/Auditee Response

Auditee Response:

The Department concurs with this finding. Corrective steps are being taken to correct the undercharges mentioned in this finding.

Division of Financial Services

Social Services Block Grant

CFDA #13.667

Alcohol and Drug Abuse and Mental Health Services

CFDA #13.992

Maternal and Child Health Services Block Grant

CFDA #13.994

Excess federal cash  
(74) MGC

Treasury Circular 1075, General Regulations paragraph A requires that advances to a recipient "be limited to the minimum amounts needed and shall be timed to be in accord with the actual, immediate cash needs of the recipient organization....."

A review of federal cash management procedures for the 12 major federal programs administered by the Department of Human Services revealed the following 3 programs with excess cash on hand:

<u>Program</u>	<u>CFDA #</u>	<u>Avg. Daily Balance (3 Mo. Avg.)</u>	<u>Avg. Daily Cash Needed (3 Mo. Avg.)</u>
Social Services Block Grant	13.667	\$680,211.71	\$125,828.04
ADAMHS Block Grant	13.992	280,265.95	26,515.55
MCMS Block Grant	13.994	125,833.69	32,351.01

Recommendation:

We recommend the department evaluate and revise the cash forecasting procedures for the three major federal programs so that funds obtained from the U.S. Treasury are limited to the immediate cash needs of these programs.

Auditee Response:

With the recent implementation of the Maine Financial and Statewide Information Systems (MFASIS), the method of requesting federal funds has been revised to incorporate the requirements in Treasury Circular 1075 and The DHHS Manual for Recipients Financed Under the Payment Management System (PMS) which requires "the amount of Federal cash on hand...be as close to daily needs as is administratively feasible."

[Emphasis added.]

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>  Division of Financial Services  Excess federal cash (cont'd.)	<p>The department used inadequate forecasting methods to determine the amount of cash required to meet the immediate cash needs of the program. Consequently, it maintained an excessive amount of federal cash.</p> <p>Questioned Costs: None</p>	
 Bureau of Health/Bureau of Child and Family Services/Office of Alcohol and Drug Abuse Prevention/Bureau of Rehabilitation	<p>Attachment F, Subparagraph 2h of OMB Circular A-110 requires that an audit be performed "usually annually, but not less frequently than every two years."</p>	<p>Recommendation:</p> <p>We recommend that audits of subrecipients who receive more than \$25,000 in financial assistance be completed on time in order to achieve compliance with federal audit requirements.</p>
<u>Various Federal Programs</u>	<p>A review of the subrecipient audit status records at the department's Audit Division revealed that during program years 1986 and 1987 \$3,568,735 of federal funds, which were passed through to 7 subrecipients, were unaudited as of January 1990. The amount unaudited is:</p>	<p>Auditee Response:</p> <p>We agree there are 7 unaudited subrecipients for 1986 and 1987 which puts them over the two year Federal compliance requirement for audits. We are significantly understaffed both as to authorized unfilled positions (3) and positions which should be authorized.</p>
Unaudited Federal Funds (75) MSC		
<u>Prior Year Finding</u>		
	Special Supplemental Food Program for Women, Infants and Children CFDA #10.557	\$2,627,731
	Social Services Block Grant CFDA #13.667	583,106
	Administration for Children, Youth and Families - Child Abuse and Neglect State Grants CFDA #13.669	3,000
	Preventive Health and Health Services Block Grant CFDA #13.991	16,530
	ADAMHS Block Grant CFDA #13.992	\$124,150
	Maternal and Child Health Services Block Grant CFDA #13.994	112,715
	Rehabilitation Services Basic Support CFDA #84.126	<u>101,503</u>
	Total	<u>\$3,568,735</u>

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Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response				
<u>Department of Human Services</u>  Unaudited federal funds (cont'd.)	<p>We also noted that two contracts awarded to subrecipients of the Child Care Food Program (CFDA #10.558) were not audited for the 1987 grant year. We could not determine the dollar amount since the contracts are openended, i.e., subrecipients are reimbursed for expenses incurred for serving meals while final award amounts are not determined until an audit is performed.</p> <p>Questioned Costs: None</p>					
<p>Bureau of Child and Family Services/Bureau of Health/Bureau of Rehabilitation/Office of Alcohol and Drug Abuse Prevention</p> <p>ADAMHS Block Grant <u>CFDA #13.992</u></p> <p>Maternal and Child Health Services Block Grant <u>CFDA #13.994</u></p> <p>Rehabilitation Services - Basic Support <u>CFDA #84.126</u></p> <p>Noncompliance with subrecipient audit resolution requirements (76) MSC</p> <p><u>Prior Year Finding</u></p>	<p>We tested the subrecipient audit resolution process by reviewing 21% of the 1987 grant year audit reports. We examined 25 reports which were completed six months prior to the date of our audit and noted the following deficiencies:</p> <p>Subrecipient audit reports (dated 8/31/88, 1/13/89, 2/13/89, 6/26/89) resulted in grant overpayments totalling \$17,925 which were not returned to the department.</p> <p>An audit report of one subrecipient disclosed 10 administrative weaknesses. The department's Audit Division requested that management respond, in writing, within 30 days of the audit transmittal letter date (6/30/89) to outline a plan of action for correcting these deficiencies. As of the date of review the department had received no response.</p> <p>Questioned Costs:</p> <table><tr><th><u>CFDA #</u></th><th><u>Amount</u></th></tr><tr><td>13.992</td><td>\$17,925</td></tr></table> <p>A subrecipient audit report dated October 18, 1988 disclosed a grant overpayment of \$10,486. It was not resolved until 13 months after the audit report issuance date.</p>	<u>CFDA #</u>	<u>Amount</u>	13.992	\$17,925	<p>Recommendation:</p> <p>We again recommend that the department make a concerted effort to recoup the grant overpayments to the subrecipients in question. We further recommend that the department resolve amounts due within six months.</p> <p>Auditee Response:</p> <p>DHS has developed policy to address resolution of audits within specified time periods. This policy has not been fully implemented because a decision has not been made concerning whether the Administrative Hearing Unit of DHS or the Commissioner's Office will be involved in situations where agreement cannot be reached between DHS and the subrecipient agency. Resolution of this issue is forthcoming and will be incorporated in the Uniform and Standard Procedures for resolving audits in accordance with MAAP (Maine Accounting and Auditing Practices).</p>
<u>CFDA #</u>	<u>Amount</u>					
13.992	\$17,925					

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response								
<u>Department of Human Services</u>										
Noncompliance with subrecipient audit resolution requirements (cont'd.)	<p>A subrecipient audit report dated April 4, 1988 disclosed a grant overpayment of \$10,875. This was not resolved until 19 months after the audit report issuance date.</p> <p>Questioned Costs:</p> <table><tr><th>CFDA #</th><th>Amount</th></tr><tr><td>13.994</td><td>None.</td></tr></table> <p>A subrecipient audit dated October 26, 1988 revealed a grant overpayment of \$5,158 which was not returned to the department.</p> <p>Questioned Costs:</p> <table><tr><th>CFDA #</th><th>Amount</th></tr><tr><td>84.126</td><td>\$5,158</td></tr></table> <p>Total Questioned Costs: \$ 23,083</p>	CFDA #	Amount	13.994	None.	CFDA #	Amount	84.126	\$5,158	
CFDA #	Amount									
13.994	None.									
CFDA #	Amount									
84.126	\$5,158									
Bureau of Child and Family Services/office of Alcohol and Drug Abuse Prevention/Division of Maternal and Child Health	In prior year audits it was disclosed that the department had no established follow-up procedures for collecting amounts due the state. The amounts were determined from audits of its subrecipients. The department has drafted a policy to address this weakness but has neither formally adopted it nor uniformly implemented the proposed procedures.	Recommendation:  We recommend that the department's administering units that have block grant subrecipients formally establish and implement collection procedures to ensure timely recoupment of block grant funds due back to the state.								
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	<p>The net amount due to the department as of 6/02/90, determined as a result of the block grant subrecipient audits, is approximately \$193,037 (excluding monies carried forward to fiscal year 1991).</p> <p>Questioned Costs: \$193,037</p>	Auditee Response:  DHS has developed policy to address resolution of audits within specified time periods. This policy has not been fully implemented because a decision has not been made concerning whether the Administrative Hearing Unit of DHS or the Commissioner's Office will be involved in situations where agreements cannot be reached between DHS and the subrecipient agency. Resolution of this issue is forthcoming and will be incorporated in the Uniform and Standard Procedures for resolving audits in accordance with MAAP (Maine Accounting and Auditing Practices).								
Follow-up procedures for collecting block grant subrecipient audit settlement amounts have not been implemented (77) MSC										

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Reponse
<u>Department of Human Services</u>	The Department of Human Services does not have an established system to assure that audits of the subrecipients meet the requirements of Circulars A-128 and A-110.	Recommendation:
Bureau of Child and Family Services/Bureau of Health/Bureau of Rehabilitation/Bureau of Adult and Elder Services/Office of Alcohol and Drug Abuse Prevention	Office of Management and Budget (OMB) Circular A-128, Paragraph 9 states:	We again 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.
<u>Various Federal Programs</u>	"State or local governments that receive Federal financial assistance and provide \$25,000 or more per fiscal year to a sub-recipient shall:	Auditee Response:
No system to assure that subrecipient audits meet federal requirements (78) MSC	"a. determine whether State or local subrecipients have met the audit requirements of this Circular and whether subrecipients covered by Circular A-110, <u>Uniform Requirements for Grants to Universities, Hospitals, and Other Nonprofit Organizations,</u> have met that requirement.	As of 1/1/90, the Department of Human Services has instituted a new policy with units of state and local governments and non profit agencies with whom we contract for services which essentially requires them to have an audit applicable for the type of entity to which they qualify, A110 or A-128.
<u>Prior Year Findings</u>	"b. determine whether the subrecipient spent Federal Assistance funds provided in accordance with applicable laws and regulations....	
	"c. ensure that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with Federal laws and regulations;	
	"d. consider whether subrecipient's audits necessitate adjustment of the recipient's own records..."	
	Questioned Costs: None	



Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<p><u>Department of Human Services</u></p> <p>Bureau of Child &amp; Family Services</p> <p><u>Various Federal Programs</u></p> <p>Lack of an established system for appropriate corrective action (79) MSC</p> <p><u>Prior Year Finding</u></p>	<p>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 has not established a uniform system to initiate timely corrective action for noncompliance with federal program requirements.</p> <p>The department has drafted a position paper to address the audit resolution process for subrecipients. However, to date, it has not implemented the new policy.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We again recommend that the department implement a uniform system to assure that subrecipient audit findings are appropriately resolved within a six month period.</p> <p>Auditee Response:</p> <p>DHS has developed policy to address resolution of audits within specified time periods. This policy has not been fully implemented because a decision has not been made concerning whether the Administrative Hearing Unit of DHS or the Commissioner's Office will be involved in situations where agreement cannot be reached between DHS and the subrecipient agency. Resolution of this issue is forthcoming and will be incorporated in the Uniform and Standard Procedures for resolving audits in accordance with MAAP (Maine Accounting and Auditing Practices).</p>
<p>Division of Financial Services</p> <p><u>Various Federal Programs</u></p> <p>Physical inventory of capital equipment not conducted as required (80) MSC</p> <p><u>Prior Year Finding</u></p>	<p>The Department of Human Services' capital equipment records did not consistently identify items purchased with federal funds. Our review of the capital equipment records revealed similar deficiencies.</p> <p>The <u>Common Rule</u> requires that the "percentage of Federal participation in the cost of the property..." be included in the records. The <u>Common Rule</u> further states that "a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."</p> <p>The department has not conducted a physical inventory in each location during the last two years.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We again recommend that physical inventories be taken at each location every two years and that the results be reconciled to the property records. We also recommend that property records include the required identifying information.</p> <p>Auditee Response:</p> <p>The Department will conduct a physical inventory of capital equipment during FY 1991.</p>

Program

Department of Human Services

Division of Financial Services

Various Federal Programs

Late submission of quarterly federal financial reports (81) HGC

Prior Year Finding

Findings/Amount of Questioned Costs

According to program regulations (specific references listed below), federal financial reports are generally due 30 days after the close of each quarter.

<u>CFDA #</u>	<u>CFR Citation</u>
10.561	7CFR § 277.11(c)(4)
13.658	45CFR § 74.73
13.714	42CFR § 430.30(c)(1)
84.126	34CFR § 80.41(b)(4)

Of 28 financial reports tested, 14 were submitted beyond the required due date.

<u>Program Name</u>	<u>CFDA #</u>	<u>No. of Quarterly Reports Late</u>	<u>Average No. of Days Late</u>
Food Stamp Program	10.561	1	1
Foster Care - Title IV-E	13.658	4	6
Medical Assistance Program	13.714	4	18.25
Rehabilitation Services Basic Support	84.126	4	16
AFDC	13.780	1	11

Questioned Costs: None

Our review of travel expense vouchers revealed:

- (1) The department reimbursed an employee for \$10 without receiving a meal receipt to support that expense.
- (2) The department reimbursed an employee \$99 for mileage expenses to and from his residence which did not comply with state policy.
- (3) The department also reimbursed an employee \$121 for accommodations under the American Plan although the supporting receipt did not segregate meals and lodging amounts.

Section 40 of the State of Maine - Manual of Financial Procedures provides minimum requirements related to traveling expenses of state officials and employees.

Recommendation/Auditee Response

Recommendation:

We recommend that the department prepare and submit its quarterly federal financial reports within the required time frame or obtain written extensions to reporting due dates from the respective federal agencies.

Auditee Response:

The controller's expenditure reports received by this department were not received in time to complete many of these reports within the required time frame. Since January 1, 1990 the State has adopted a new financial system called the Maine Financial and Administrative Statewide Information System. This system provides reports to the departments on a more timely basis. Every effort will be made to prepare and submit the reports within the required time frame.

Recommendation:

We recommend:

- (1) The department adequately support all travel expenses as required.
- (2) Office personnel claim only allowable mileage costs.
- (3) The receipts show meals and lodging amounts when employees make accommodations under the American Plan.

Office of Commissioner

Various Federal Program

Supporting documents not available; unallowable mileage expenses; noncompliance with state reimbursement procedures (82) MSC

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Human Services</u>  Supporting documents not available; unallowable mileage expenses; noncompliance with state reimbursement procedures (cont'd.)	<p>According to subparagraph C1, Attachment A of OMB Circular A-87, "costs must meet the following criteria:</p> <p>Be consistent with policies regulations, and procedures that apply uniformly to both federally assisted and other activities of the unit of government of which the grantee is a part."</p> <p>Questioned Costs: \$230</p>	<p>Auditee Response:</p> <p>The findings have been reviewed by the Department:</p> <ol style="list-style-type: none"> <li>1. The employee has repaid the state 2.08 difference between amount allowed without a receipt (8.00) and the actual amount (10.08).</li> <li>2. The employee was not aware that this was not allowed. He has repaid the amount in full (99.00).</li> <li>3. The arrangements for the conference were made by the Department of Labor. The hotel, when contacted, stated that they do not break out meals from lodging. The rate was a package rate for the conference.</li> </ol>
Affirmative Action Office/Bureau of Income Maintenance  <u>Various Federal Programs</u>  Required notices not posted (83) MGC	<p>According to paragraph 3 of the department's Policy Dissemination section of its <u>Affirmative Action Plan</u> (under the subheading Internal Dissemination), "the policy statement regarding non-discrimination and affirmative action, as well as illegal harassment, will be sent to all bureaus and divisions within the department to be posted at each location." (Action Date: June 1, 1988)</p> <p>A review of bulletin boards revealed that the department's policy statements on non-discrimination, affirmative action and illegal harassment were not posted, in plain view of employees, at the Bureau of Income Maintenance.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the Department of Human Services, in all of its locations, post all of the necessary policy statements promulgated under its Affirmative Action Plan in order to achieve compliance with its internal policy dissemination requirements.</p> <p>Auditee Response:</p> <p>The pertinent notices had been posted on the rear bulletin board, the "official" one at the time. We have now determined that the front bulletin board should become the "official" board, thereby assuring that all employees have ready visibility. All mandatory postings will be routed through the Assistant Director for Management &amp; Budget in order to assure posting on the official board.</p>

<u>Program</u>	<u>Findings/Amount of Questioned Costs</u>	<u>Recommendation/Auditee Response</u>
<u>Department of Labor</u>  Employment Service CFDA #17.207  Unemployment Insurance CFDA #17.225  Late submission of reports (84) MSC  <u>Prior Year Finding</u>	<p>The U.S. Department of Labor, Employment and Training Administration, mandates reporting requirements for grant recipients.</p> <p>The Bureau of Employment Security submitted the annual ETA 8701 report 44 days late and quarterly reports from 1-5 days late.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the Bureau submit reports according to prescribed due dates.</p> <p>Auditee Response:</p> <p>The annual ETA 8701 report was 44 days late because of a pending new salary plan for the Unemployment Insurance Program for fiscal year 1990. The required legislative document approving the new salary plan was to be attached to the report for the bureau's fiscal year 1990 request and was not received until the above time period. We will review our procedures and make sure the report is prepared and submitted on time and then submit the documentation for a revision to the salary plan at a later date.</p>
Employment Service CFDA #17.207  Unemployment Insurance CFDA #17.225  Incomplete documentation of cost allocation plan (85) MSC	<p>OMB Circular A-87, J.(1) requires formal accounting records to substantiate the proprietary of eventual charges allocated to grants.</p> <p>The Bureau of Employment Security developed an analysis of the ratio of various federal program positions in local offices. The rates generated by the analysis and the rates used to allocate invoices were not always the same.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the Bureau of Employment Security adequately justify and consistently apply cost distribution rates.</p> <p>Auditee Response:</p> <p>The auditors completed their examination using a report generated in October of fiscal year 1989. Percentages were adjusted during the fiscal year in certain locations because of agreements with outside agencies subletting office space from the Bureau of Employment Security. These changes were not recorded in the expenditure control book. Management agrees with the auditors recommendation and will generate a report after each percentage change and give a revised copy to the accountant responsible for assigning expenditures to the cost accounting system.</p>
Employment Service CFDA #17.207  Unemployment Insurance CFDA 317.225  Yearly equipment report not completed (86) MSC	<p>OMB <u>Common Rule</u> requires states to comply with state laws and procedures for the acquisition, management and disposal of equipment. The Bureau of Employment Security is out of compliance with the state requirement to submit a yearly Equipment Report. The bureau has not reconciled detail equipment records to the Bureau of Public Improvements records.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the Bureau of Employment Security reconcile detail records and submit an annual report to the Bureau of Public Improvements.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Labor</u>		Auditee Response:
Yearly equipment report not completed (cont'd.)		An annual property inventory was recently conducted at all cost center locations; with this information, staff is now in the process of reconciling the agency's computerized system with records received from the Bureau of Public Improvements (BPI). Additional staff will be assigned to assist with the reconciliation. All required quarterly reports (State CPR Reports) have been submitted to BPI on time.
Job Training Partnership Act <u>FDA #17.250</u>  Errors in categorizing and coding of expenditures (87) MSC	The Job Training Partnership Act places limitations on expenditures for support services. Of 60 expenditures tested, 6 were posted incorrectly to either the training or support category.  Questioned Costs: None	Recommendation:  We recommend that the Bureau of Employment and Training Programs assign and code expenditures to the correct categories.  Auditee Response:  Currently we have systems where Counselors submit weekly invoices for transportation, child care and needs based payments. These items are charged to support and were not a problem. The errors were for items such as books and supplies, uniforms and tools. Our policy is that if a specific item is required by a school in order for a client to participate, the cost is charged to training. If the item is required for a job or any other purpose they are charged to support.  Because many times it is impossible to determine whether an invoice should be charged to support or training at the Administrative level, we designed a supportive service form to be completed by a Counselor and require that the assignment of costs be checked and signed by the Office Manager. Recently, we held a session with field managers and other appropriate staff, where we stressed the importance of coding costs.  In the future, the Director of Operations will make periodic checks at the Central office to ensure that items are being charged to the appropriate cost category.  The expenses identified during the audit as posted incorrectly have been reassigned to the proper category.

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Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Labor</u>  Job Training Partnership Act <u>CFDA #17.250</u>  Excess cash on hand (88) MSC	<p>Department of Treasury Circular 1075 requires cash advances to be limited to the minimum amounts needed and to immediate cash requirements.</p> <p>Bureau of Employment and Training Programs (BETP) authorized payments to subrecipients in amounts larger than necessary to meet immediate program needs. We noted disclosure of this situation in the monitoring reports and in evidence of excess cash: one provider returned over \$80,000 in unspent grant funds.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that BETP evaluate requests for cash in light of past expenditure practices and the reasonableness of anticipated expenditures.</p> <p>Auditee Response:</p> <p>BETP has a policy which limits cash on hand of subcontractors to immediate needs. Immediate needs are defined as reimbursement of actual costs plus a projection of 3 days cash needs. Requests for cash are processed weekly.</p> <p>The requests are reviewed for reasonableness. In addition, on-site monitoring of financial management systems includes a review of cash management; however, we agree that the system does rely on the accuracy of cost projections by the subcontractor.</p> <p>In the future, any subcontractor who draws excess cash for a contract will be required to develop a corrective action plan. A repeat violation may result in sanctions which will limit the provider to a reimbursement of actual expenses only.</p>
  Job Training Partnership Act <u>CFDA #17.250</u>  Lack of documenting the basis for allocation (89) MSC	<p>OMB Circular A-87 states that a cost is allocable to an objective to the extent of benefits received. Program delivery staff provide services to various state and federal programs. We could not determine that the Bureau of Employment and Training Programs (BETP) considered the extent of benefits received when it distributed the costs of delivering of program services.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that BETP clearly document the relationship between costs allocated to the federal and state program and the benefits received.</p> <p>Auditee Response:</p> <p>A written cost allocation plan for BETP Administrative costs was provided to the auditors and it is our understanding that there were no problems in this area.</p> <p>The basis for program delivery cost allocation of indirect costs is based on the percent of contribution. The information on cost allocation is maintained by the Director of Operations who notifies the fiscal office of the percent to be charged to each grant for the cost of salaries and overhead.</p>

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Labor</u>		
Lack of documenting the basis for allocation (cont'd.)		We do agree, however, that documentation of periodic changes should be made and we will annotate such occurrences.
<u>Job Training Partnership Act</u> <u>CFDA #17.250</u>	Bureau of Employment and Training Programs (BETP) requires subrecipients to review the accuracy of data input, and to obtain or examine the documentation supporting client eligibility for a sample selected quarterly by the bureau. BETP did not perform a physical inspection of this documentation during fiscal year 1989.	Recommendation:
Lack of on-site reviews of data verification and client eligibility documentation (90) MSC	Questioned Costs: None	We recommend that BETP periodically review subrecipient documentation to ensure the validity of data and the eligibility of participants.
		Auditee Response:
		During FY 89, two major developments affected the MIS monitoring schedule. First, we redesigned the Management Information System to incorporate State programs and, second, the position previously assigned responsibility for verifying participant eligibility was eliminated due to budget shortages. These two factors resulted in a pause in monitoring.
		Since the audit, the monitoring activities have been resumed and Bureau of Employment and Training Programs (BETP) staff has conducted on-site monitoring reviews at the Training Resource Center and Training and Development Corporation, and three Service Providers in the 12-County SDA in order to verify the accuracy of data. The eligibility verification samples were completed for each quarter by each field office.
		During FY 90, BETP will resume on-site visits to all field offices to monitor data validation and participant eligibility verification.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Labor</u>  Job Training Partnership Act <u>CFDA #17.250</u>  Lack of a system to ensure that subrecipient audits meet audit requirements; no formal process for audit resolution (91) MSC  <u>Prior Year Finding</u>	OMB Circular A-128 requires the recipient organization to determine that subrecipients have an audit made in accordance with the Circular's requirements.  The Department of Labor does not have a system to ensure that these audits meet Circular A-128 audit requirements. Since the 1987 fiscal year audits of three of five not-for-profit subrecipients have not met the applicable requirements.  In addition, the state administrative agency does not have a formal process to monitor resolutions of audit exceptions within established time frames.  Questioned Costs: None	Recommendation:  We recommend that the Department of Labor ensure that audits of the subrecipients meet the requirements of OMB Circular A-128. We also recommend that the department ensure prompt resolution of audit exceptions.  Auditee Response:  The BETP has drafted a policy statement and a system to ensure subrecipient audits. We are currently working with the Maine Department of Finance to finalize these policies. The policies will be issued by August 1, 1990.
Job Training Partnership Act <u>CFDA #17.250</u>  An accurate inventory of capital equipment was not available for review (92) MSC  <u>Prior Year Finding</u>	To properly account for and exercise control over assets purchased with federal funds, 20 CFR 629.41 requires accountability for property in accordance with state procedures. Capital equipment inventory records are not maintained in sufficient detail to satisfy record keeping requirements.  Questioned Costs: None	Recommendation:  We again recommend that the department prepare and maintain equipment records in accordance with state procedures.  Auditee Response:  All capital equipment quarterly reports have been submitted to the Bureau of Public Improvements (BPI) for their review. Records of new purchases are reported quarterly and reconciled annually to the State Controller's property records. Each SDA maintains an inventory of capital equipment. All capital equipment purchased with JTPA funds is accounted for.  As we understand it, the issue is that when JTPA was created in 1983 a reconciliation was not completed on capital equipment purchased with CETA funds. CETA equipment located at JTPA locations was recorded and placed on the JTPA inventory; however, it is not considered complete due to equipment being located in other locations throughout the State.  The Department has estimated the cost of completing this project to be in excess of \$50,000. Given the scarcity of administrative funds, this project has been put on hold.  During FY 90 we will initiate discussions with BPI to determine the most cost effective approach to this problem.



Program

Department of Marine Resources

Sea Grant

Anadromous and Great Lakes Fisheries Conservation  
CFDA #11.405

Interjurisdictional Fisheries Act of 1986  
CFDA #11.407

Charges exceed benefit to grant  
(93) NMC

Findings/Amount of Questioned Costs

OMB Circular A-87 states that costs are allowable charges to a grant to the extent to which they benefit the grant. Salary and fringe costs for four full-time positions have been charged to federal programs in amounts that are in excess of the time spent to benefit the programs. We question the total federal share of the expense for these positions because an appropriate charge cannot be determined.

Questioned Costs:

<u>CFDA</u>	<u>Program</u>	<u>Amount</u>
N/A	Sea Grant	\$ 7,365
11.405	Fish Restoration on The Androscoggin	9,461
11.407	Transboundary Herring Project	9,519
11.407	Lobster Research	13,341
		<u>\$39,686</u>

Recommendation/Auditee Response

Recommendation:

We recommend that the department establish a cost allocation plan for charges to federal programs that are based on benefits provided to the program.

Auditee Response:

As soon as possible after the exit interview with your auditors, we took corrective action regarding all findings.

Department of Mental Health and Mental Retardation

Bureau of Mental Health/Bureau of Mental Retardation/Bureau of Children with Special Needs/Division of Accounting, Audit and Reimbursement

Social Services Block Grant  
CFDA #13.667

Performance reports not completed  
(94) MSC

Prior Year Finding

Title 42 U.S.C. 1397e requires each state to prepare reports on those activities which used federal funds. The Federal Register (Vol. 52/No. 197/October 13, 1987) requires states to submit annual and biennial reports within six months of the end of the reporting period.

The Department of Human Services and the Department of Mental Health and Mental Retardation administer Social Services Block Grant monies. The Department of Human Services prepared a biennial performance report for the period October 1, 1987 through September 30, 1989. However, there was no report for the portion of grant funds administered by the Department of Mental Health and Mental Retardation.

Questioned Costs: None

Recommendation:

We recommend that the Department of Mental Health and Mental Retardation prepare a biennial performance report for the period mentioned. In addition, we again recommend that the department prepare a performance report for the previous grant period as cited in the prior year audit report.

We further recommend that the department prepare and submit subsequent reports to the federal oversight agency, as required.

Auditee Response:

Bureau officials have never submitted such reports since Human Services, as the single designated agency, had been. Performance reports will be prepared and submitted at the earliest possible date.

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response						
<u>Department of Mental Health and Mental Retardation</u>  Bureau of Mental Health  Social Services Block Grant CFDA #13.667  ADAMHS Block Grant CFDA #13.992  Allocation of subrecipient audit costs (95) MSC	Paragraph C2, Attachment A, OMB Circular A-87 states, "A cost is allocable to a particular grant or cost objective to the extent of benefits received by such objective."  The Department of Mental Health and Mental Retardation does not have a system to properly allocate costs of the department's audit staff. The department conducts audits simultaneously on Block Grant and General Fund pass-through monies. We question the amount charged to the Block Grant funds.  <table><tr><th>CFDA</th><th>Amount</th></tr><tr><td>13.667</td><td>\$27,011</td></tr><tr><td>13.992</td><td>20,013</td></tr></table> Questioned Costs: \$47,024	CFDA	Amount	13.667	\$27,011	13.992	20,013	Recommendation:  We recommend that the department develop a methodology to properly allocate audit costs.  Auditee Response:  Administrative costs charged to Block Grants have been minimal and well within federal ceilings. Costs have not been strictly allocated due to the enormous record keeping required to do so. The Department will once again examine the feasibility of allocating costs within current staffing constraints.
CFDA	Amount							
13.667	\$27,011							
13.992	20,013							
Audit Division  Social Services Block Grant CFDA #13.667  ADAMHS Block Grant CFDA #13.992  Staff auditors are not knowledgeable of financial and compliance requirements for block grants (96) MSC	<u>Government Auditing Standards</u> states, "Due professional care...includes obtaining a working understanding of the operations to be audited and when necessary available performance criteria (including laws and regulations)."  Internal auditors of the Department of Mental Health and Mental Retardation perform external audits on block grant subrecipients but are not familiar with block grant financial and compliance requirements.  Questioned Costs: None	Recommendation:  We recommend that the department's internal audit staff obtain adequate knowledge of block grant financial and compliance audit requirements.  Auditee Response:  Departmental auditors have been informed of the requirements. Three new staff were hired within the past year which may have caused the confusion.						
Bureau of Mental Health/Bureau of Children with Special Needs/Bureau of Mental Retardation  Social Services Block Grant CFDA #13.667  ADAMHS Block Grant CFDA #13.992  Lack of a system to assure that subrecipient audits meet requirements (97) MSC  Prior Year Finding	The Department of Mental Health and Mental Retardation does not have an established system to assure that audits of the department's subrecipients meet the requirements of OMB Circulars A-128 and A-110.  Questioned Costs: None	Recommendation:  We recommend that the department establish a system to assure that audits of subrecipients meet the OMB requirements.  Auditee Response:  The Department had implemented such a system and thought it met all requirements. A review will immediately address this inconsistency.						

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<p><u>Department of Mental Health and Mental Retardation</u></p> <p>Bureau of Mental Health</p> <p>Social Services Block Grant CFDA #13.992</p> <p>Lack of an established system to assure corrective action within six months of receiving subrecipient audit reports (98) MSC</p> <p><u>Prior Year Finding</u></p>	<p>The Single Audit Act of 1984 requires that recipient agencies establish systems to ensure corrective action within six months after receiving subrecipients' audit reports.</p> <p>The department does not have a uniform system to initiate timely corrective action on noncompliances with federal program requirements.</p> <p>The department is currently discussing audit resolution issues in order to develop procedures that assure both timely and appropriate corrective action for disclosures made in subrecipient audits.</p>	<p>Recommendation:</p> <p>We recommend that the department establish a system to assure that audit findings are resolved within a six month period.</p> <p>Auditee Response:</p> <p>Such a system has now been implemented which will assure corrective action within six months following the issuance of audit reports.</p>
<p>Division of Accounting, Audit and Reimbursement</p> <p>Social Services Block Grant CFDA #13.667</p> <p>ADAMHS Block Grant CFDA #13.992</p> <p>Independence of department - internal audit division (99) MSC</p> <p><u>Prior Year Finding</u></p>	<p>Paragraph 19, Chapter 3 of <u>Government Auditing Standards</u> (1988 Revision) states, "the audit organization should... be accountable to the head or deputy head of the government entity and... organizationally located outside the staff or line management function of the unit under audit."</p> <p>The department's Office of Administration (Division of Accounting, Audit, and Reimbursement) is responsible for directing and supervising both the accounting and auditing functions of the department.</p> <p>The Audit Division is not independent as it is organizationally located within the staff or line management function of the unit under audit.</p> <p>The department has initiated a plan to segregate the audit from the accounting function. To date, reorganization has not been officially approved or implemented.</p>	<p>Recommendation:</p> <p>In order to achieve compliance with independence standards we recommend that the audit staff become organizationally independent from the Office of Administration.</p> <p>Auditee Response:</p> <p>The Department has initiated a request to the Department's of Administration and finance which, if approved, will clearly delineate a more independent organizational structure.</p>
	Questioned Costs: None	

Program	Findings/Amount of Questioned Costs	Recommendation/Auditee Response
<u>Department of Mental Health and Mental Retardation</u>  Bureau of Mental Health  Alcohol and Drug Abuse and Mental Health Services Block Grant <u>FDA #13.992</u>  Subrecipients' financial reports do not adequately identify sources and uses of funds (100) MSC	<p>OMB Circular A-110, Attachment F, Section 2(f) states that recipients' financial management systems shall provide for records that, "contain information pertaining to federal awards, authorizations, obligations, unobligated balances, assets, outlays and income."</p> <p>Quarterly financial reports, submitted by providers of mental health services which receive pass-through block grant funds, do not adequately identify either the source or the application of funds for federally sponsored activities.</p> <p>We requested department personnel to provide 28 quarterly financial reports. Seven were not available for inspection.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that the department revise quarterly financial reports to identify, by funding source, the receipt and expenditure of agreement funds. This would allow department personnel to monitor sources of revenue, expenditures, and the amount of excess cash on hand.</p> <p>We further recommend that the department retain quarterly financial reports.</p> <p>Auditee Response:</p> <p>The Department does require and retain quarterly reports. Several were overdue at time of audit. While quarterly statements do not identify specific funds, year end financials do.</p>
Bureau of Mental Health  Alcohol and Drug Abuse and Mental Health Services Block Grant <u>CFDA #13.992</u>  Licensing and monitoring of providers (101) MSC  <u>Prior Year Finding</u>	<p>Title 34B, § 3606, MRSA states that "the commissioner shall monitor the licensee, at least once a year, for continued compliance with applicable laws and regulations."</p> <p>The Department of Mental Health and Mental Retardation does not have any procedures in place to monitor the licensee (providers of mental health services) for continued compliance with applicable laws and regulations.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that department officials develop policies and implement procedures to better monitor licensees for continued compliance with laws and regulations.</p> <p>Auditee Response:</p> <p>The Department has recently received legislative approval to hire two more staff. Policies and procedures have been implemented since the audit.</p>
Bureau of Mental Health  <u>Various Federal Programs</u>  Cash management (102) MSC	<p>U.S. Housing and Urban Development (HUD) receipts of \$228,606 were used to fund expenditures of other grant programs. Reimbursements for expenditures of the other grant programs were not always requested. Cash balances should not be used to support other programs.</p> <p>Questioned Costs: None</p>	<p>Recommendation:</p> <p>We recommend that expenditures for each individual grant be reported to the appropriate funding source. We recommend that the department apply cash advances only to the programs for which they are drawn down; and to draw down cash only for immediate program needs.</p> <p>Auditee Response:</p> <p>The Department agrees and will more closely monitor cash advances in the future.</p>



STATE OF MAINE  
STATUS OF SIGNIFICANT OR MATERIAL FINDINGS AND RECOMMENDATIONS  
FOR THE YEARS ENDED PRIOR TO JUNE 30, 1989

Significant or material findings and recommendations which have not received favorable action have been restated in this audit report and are duly noted. The remainder have either been resolved, have had corrective measures instituted, or are being negotiated with the appropriate grantor agency.

AGENCY/PROGRAM	PRIOR YEAR SIGNIFICANT OR MATERIAL FINDINGS/STATUS
Department of Educational and Cultural Services	
Educational loans receivable	<p>Loans are available through the department to students participating in postgraduate 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 or 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.</p> <p>In our prior year audit, we noted that loans made to Postgraduate 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.</p> <p>Status: No corrective action has been taken. This finding has been repeated on page D-6 of this report.</p>
Department of Finance	
Bureau of Accounts and Control	
Incorrect use of prepaid expense	<p>At June 30, 1987, recorded assets were overstated and expenditures understated by \$2,599,096 due to incorrect use of the prepaid expense account.</p> <p>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.</p>

**AGENCY/PROGRAM**

**PRIOR YEAR SIGNIFICANT OR MATERIAL FINDINGS/STATUS**

Department of Finance

Bureau of Accounts and  
Control

Incorrect use of prepaid  
expense (cont'd.)

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.

**Status:**

No corrective action has been taken. This finding has been repeated on page D-12 of this report.

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.

**Status:**

No corrective action has been taken. This finding has been repeated on page D-13 of this report.

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 State of Maine 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 reduces the manual's usefulness.

**AGENCY/PROGRAM**

**PRIOR YEAR SIGNIFICANT OR MATERIAL FINDINGS/STATUS**

Department of Finance

Bureau of Accounts and  
Control

Lack of sufficient current  
policies and procedures (cont'd.)

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 these conditions to be material weaknesses we recognize that there are many desirable features of the state's system of accounting and control that we have not mentioned.

**Status:**

No corrective action has been taken. This finding has been repeated on page D-2 of this report.

Department of Mental Health  
and Mental Retardation

Augusta Mental Health  
Institute

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 two 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.



## AGENCY/PROGRAM

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Billings for patient care and  
treatment not up-to-date (cont'd.)

## PRIOR YEAR SIGNIFICANT OR MATERIAL FINDINGS/STATUS

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 were 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 did not present a true picture of financial position due to the delays in posting transactions.

### Status:

The agency was still behind in its billing for patient care on June 30, 1989 by 15 months. Pharmaceutical services rendered are still not being billed.

Department of Professional and  
Financial Regulation

Bureau of Insurance

Late billing of assessments

Title 24-A, Section 237, Maine Revised Statutes Annotated of 1964, as amended, states, "the expense of maintaining the Bureau of Insurance shall be assessed annually by the Superintendent of Insurance against all insurers licensed to do business in this State...." Other provisions in the applicable law state, "on or before April 20th of each year, the superintendent shall notify each insurer of the assessment due" and "payment shall be made on or before June 1st."

A review of assessments levied on insurers in the 1986-87 fiscal year revealed that the notifications of total assessment due of \$752,748 were not forwarded to the respective insurers as of April 20. 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.

### Status:

No corrective action has been taken. This finding has been repeated on page D-17 of this report.

## VARIOUS STATE AGENCIES

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

### Executive Department - Community Services

Temporary Emergency Food Assistance Program	10.568
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Low Income Home Energy Assistance Block Grant	13.789
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Weatherization Assistance Program	81.042
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### Department of Human Services

Special Supplemental Food Program - Women, Infants, Children	10.557
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Child Care Food Program	10.558
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Nutrition Services	13.635
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Grants for Supportive Services and Senior Citizens	13.663
--	--------

Social Services Block Grant	13.667
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Preventive Health and Health Services Block Grant	13.991
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Alcohol and Drug Abuse and Mental Health Block Grant	13.992
--	--------

Maternal and Child Health Service Block Grant	13.994
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Senior Community Services Employment Program	17.235
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Rehabilitation Services Basic Support	84.126
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### Department of Labor

Job Training Partnership Act	17.250
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### Department of Mental Health and Mental Retardation

Social Services Block Grant	13.667
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Alcohol and Drug Abuse and Mental Health Services Block Grant	13.992
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#### Status:

No corrective action has been taken. This finding has been repeated on page D-31 of this report.



# MANAGEMENT LETTER





STATE OF MAINE  
DEPARTMENT OF AUDIT  
STATE HOUSE STATION 66  
AUGUSTA, MAINE 04333  
Area Code 207  
Tel. 289-2201

RODNEY L. SCRIBNER, CPA  
STATE AUDITOR

MANAGEMENT LETTER

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

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

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. The attachments that accompany this letter summarize our comments and suggestions regarding those matters. A separate report dated June 22, 1990, contains our report on reportable conditions in the State's internal control structure. This letter does not affect our report dated June 22, 1990, on the component unit financial statements of the State of Maine oversight unit.

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

*Rodney L. Scribner CPA*  
Rodney L. Scribner, CPA  
State Auditor

June 22, 1990

AGENCY/PROGRAM

CONDITION

Department of Administration -  
Office of Information Services -  
Bureau of Data Processing

Overbilling of maintenance  
charges  
(1)

Out of 25 computer service billings tested the maintenance charges for June 1989 were overbilled by 33 percent. If this error rate were projected through the fiscal year, state agencies incurred approximately \$12,367 in overbillings.

We recommend that the Office of Information Services properly document all charges and periodically review the accuracy of amounts billed to other state departments and agencies.

**Auditee Response:**

The bureau has reviewed the finding and recommendation regarding the overbilling of maintenance charges. We are in the process of establishing new equipment rental rates that will preclude the possibility of error in computing maintenance charges.

Office of Information Services -  
Bureau of Data Processing

Journal entry approval  
(2)

One individual prepares and approves journal entries affecting the bureau's internal service fund. Errors existed in journal preparation that went unnoticed.

We recommend that a separate individual with authority and responsibility for journal preparation review and approve all journals.

**Auditee Response:**

We are in agreement with your recommendation that one person prepare journal entries and an individual with a proper level of authority and responsibility approve journal entries. We have initiated procedures that will ensure that all journal entries are properly authorized.

Office of Information Services -  
Telecommunication Fund

Lease purchase payable  
(3)

At June 30, 1989 the balance of the two known lease purchase agreements did not agree with the agency general ledger or the State Controller's records. A \$7,723 variance has been identified and will be adjusted. A \$1,098 variance has not been identified.

We recommend that the agency reconcile the lease purchase payable account.

**Auditee Response:**

We are in agreement with the finding and recommendation pertaining to the variances found in the Bureau's Lease Purchases Payable account. We have adjusted \$7,723 in our records and are continuing our efforts to identify the remaining \$1,098.

## AGENCY/PROGRAM

Department of Administration -  
Office of Information Services -  
Bureau of Data Processing

Prepayments to Internal Service  
Fund  
(4)

### Auditee Response:

Office of Information Service -  
Office of Information Services  
Fund

General Fund positions used  
to subsidize Internal Service  
Fund  
(5)

## CONDITION

The Internal Service Fund received payments of \$12,000 for services to be provided. The bureau recorded these payments as revenue for the 1989 fiscal year. Our examination revealed that the amounts were not supported by written agreements; there were no specific time periods for project completion; services to be provided were not clearly defined; and no records were maintained as to services provided or charges made against these prepayments.

We recommend that the Office of Information Services maintain adequate records to ensure that services provided are equivalent to amounts prepaid. We also recommend OIS account for prepayments as deferred revenue until revenue recognition criteria are met.

The Office of Information Services is in agreement with your finding and recommendation related to proper documentation that is necessary to support charges made by the Office for future services to be rendered. Therefore, we have taken measures to assure that all agreements are well documented and the revenues properly reflected, should any prepayments be made.

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

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

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



# AGENCY/PROGRAM

# CONDITION

Department of Administration -  
Office of Information Services -  
Bureau of Data Processing

General Fund positions used  
to subsidize Internal Service  
Fund (cont'd.)

## Auditee Response:

Office of Information Services -  
Office of Information Services  
Fund

Accounts payable  
(6)

## Auditee Response:

Department of Administration -  
Bureau of Public Improvements

Incomplete project files  
(7)

## Prior Year Finding

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

The June 30, 1989 accounts payable balance of the Office of Information Services (OIS) Fund contained items from February 1989 but not paid until September 1989.

We recommend that the OIS establish and clear accounts payable on a timely basis.

We acknowledge your finding and recommendation regarding the age of some of our accounts payable. It is our policy not to make payments to vendors until we are satisfied that all goods and services rendered meet the satisfaction of the department. We will continue to monitor that (the) status of our accounts payable to ensure timely liquidation of our financial obligations.

As in the prior fiscal year, we tested 12 project files for compliance with established contract procurement procedures as outlined in the State of Maine Manual of Financial Procedures and the Procedures for Procurement of Professional Architectural and Engineering Services Manual. The files showed no evidence that the bureaus advertised projects as requiring sealed bids or obtained bid proposals by written quotes. Of the 12 files tested 9 did not hold evidence of surety consent forms indicating that final payment to the contractor would not relieve the surety company of its obligation to the owner as set forth in the surety company's bond.

The Joint Standing Committee on Audit and Program Review, 1988-1989, previously recommended that the bureau develop a checklist for project folders to help ensure completion of all procedural requirements.

## AGENCY/PROGRAM

## CONDITION

Department of Administration - Bureau  
of Public Improvements

Incomplete project files (cont'd.)

Department of Administration - Bureau  
of Public Improvements

Inadequate controls over supplies  
inventory  
(8)

A review of project files initiated after July 1, 1989 revealed that the Bureau of Public Improvements is using an internal checklist as recommended.

The Bureau of Public Improvements (BPI) maintains an inventory of supplies used for its vehicles and the state office complex. BPI estimated the value of its inventory as \$30,000 - \$40,000 at June 30, 1989.

We noted the following deficiencies in BPI control over its supplies inventory:

1. The bureau has not taken a physical inventory of supplies in two years.
2. It has not maintained cost records so that it can readily determine year end valuation of supplies.
3. The bureau has not posted inventory records for purchases or withdrawals since November 1988.
4. It does not use supply requisition slips.

We recommend that the bureau reestablish internal controls over the supplies inventory to prevent possible misappropriation of assets.

We also recommend that the bureau establish a costing system that will provide an inventory valuation at year end.

### Auditee Response:

We are in agreement with your recommendation regarding control over our supplies inventory. The Bureau has instituted new procedures that will meet the requirements of your recommendation.

Department of Administration - Bureau  
of Public Improvements

Acquisition and disposal of vehicles  
not recorded  
(9)

The Bureau of Public Improvement (BPI) did not record in its capital equipment records acquisition of five vehicles and disposal of two vehicles to surplus property.

We recommend that BPI personnel perform a complete physical inventory of all its vehicles. We also recommend that it adjust equipment records to reflect the proper balance in the vehicle detail ledger.

AGENCY/PROGRAM

CONDITION

Department of Administration - Bureau  
of Public Improvements

Acquisition and disposal of vehicles  
not recorded (cont'd.)

**Auditee Response:**

The bureau agrees with the finding and recommendation regarding record keeping related to acquisition and disposal of bureau vehicles. An inventory of bureau vehicles was started in June of 1990. Further, the bureau has updated the vehicle detail ledger in order to strengthen internal controls and meet the requirements of your recommendations.

Department of Administration - Bureau  
of Purchases

Operating losses absorbed by the  
bureau's Internal Service Fund  
(10)

Prior Year Finding

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

A review of the Bureau of Purchases Internal Service Fund accounts revealed that service charges assessed to eligible recipients of federal surplus property are not sufficient to cover the costs chargeable to that program such as acquisition, warehousing, handling, administration and delivery. This resulted in a 1989 fiscal year operating loss of \$48,206, which was absorbed by the Bureau of Purchases Internal Service Fund. The Federal Surplus Property Program was therefore not self-supporting during the audit period, as required by statute.

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

**Auditee Response:**

The Bureau of Purchases recognizes the operating losses related to the Federal Surplus Property Program. The bureau has proposed a reorganization that will reduce the expenses of the program. The reorganization, coupled with a new pricing structure, and product selection strategy will correct the deficiency.

AGENCY/PROGRAM

Department of Administration - Bureau  
of Purchases

Capital equipment records are not  
being maintained  
(11)

Auditee Response:

Department of Administration - Bureau  
of Purchases

Non-compliance with operations manual  
(12)

CONDITION

Since June 30, 1988 the bureau has not reconciled its capital equipment records to those of the Bureau of Public Improvements as required by the State of Maine Manual of Financial Procedures (Section 66).

We recommend that the bureau properly maintain its capital equipment records on a current basis. We also recommend that periodic reconciliations be made.

We are in agreement with your finding and recommendation regarding capital equipment records not being maintained. The Bureau has taken action to comply with your recommendation.

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

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

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

AGENCY/PROGRAM

CONDITION

Department of Administration - Bureau  
of Purchases

Non-compliance with operations manual  
(cont'd.)

Auditee Response:

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

Department of Administration - Bureau  
of Purchases

Source documentation for postal  
billings destroyed  
(13)

The bureau uses postal charge cards as the source documentation for monthly billing reports which are then used to prepare journals to charge departments for postal costs. Both the postal charge cards and the monthly reports were destroyed for the 1989 fiscal year. Consequently, we were unable to test the accuracy of postal billings.

We recommend that the bureau retain the monthly reports in order to provide source documentation for postal billings.

Auditee Response:

We agree with your recommendation that the monthly reports be retained to provide some source documentation for postal billings. These records will be retained and protected.

Department of Administration - Bureau  
of Purchases

Collections of amounts due to the  
bureau not adequate  
(14)

Some inefficiencies exist in the accounts receivable collection process. An analytical review of the Bureau of Purchases accounts receivable records revealed a low inventory turnover ratio (4) and a high number of days of receivables ration (75). In addition, 8 of 9 confirmations of June 30, 1989 account balances showed some discrepancy in amounts owed to the bureau.

We recommend that the bureau review its collection procedures to determine the reason(s) for the activity ratio variances. We also recommend that the bureau provide statements which give user agencies the current and delinquent amounts due.

# AGENCY/PROGRAM

# CONDITION

## Department of Administration - Bureau of Purchases

Collections of amounts due to the bureau not adequate (cont'd.)

### Auditee Response:

We acknowledge the untimeliness in our billings and subsequent collections. The Bureau of Purchases is reorganizing its business operations to improve efficiency. A business manager/chief accountant is proposed and the first priority will be billing/collections. This position is proposed for the first quarter of FY91.

## Department of Administration - Bureau of Purchases

Master purchase agreements not monitored  
(15)

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

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

### Auditee Response:

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

## Department of Agriculture, Food and Rural Resources - Bureau of Agriculture Marketing

Accounting practices and records - Eastern States Exposition  
(16)

The Maine Potato Board (MPB) operates a booth at the Eastern States Exposition (Big E) in Springfield, Massachusetts. The MPB delegated the authority for the financial operations of the booth to a local resident (booth's manager). The MPB did not negotiate a written contract with this individual for operating the booth in either 1988 or 1989.

Section 48 of the State of Maine Manual of Financial Procedures establishes procedures for contracting special services.

## AGENCY/PROGRAM

Department of Agriculture, Food  
and Rural Resources - Bureau of  
Agriculture Marketing

Accounting practices and records  
- Eastern States Exposition  
(cont'd.)

## CONDITION

The booth's manager deposits the daily receipts in a demand deposit account at a local bank and in the name of the MPB. The booth's manager pays all operating expenses directly from the demand deposit account. The MPB deposits the net proceeds with the State Treasury.

This practice violates the provisions of Title 5, Section 131, MRSA which states:

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

In May of 1989, a convection oven costing \$3,218 was purchased through this account. The MPB did not record the purchase on its equipment inventory records, in accordance with the Bureau of Purchases policies and procedures.

Title 5, Section 1811, MRSA states:

The Department of Administration, through the Bureau of Purchases, shall have authority to purchase all services, supplies, materials and equipment required by the State Government or by any department or agency thereof.

Since a lack of internal controls over operations increases the risk of misappropriation of funds, we recommend the following:

1. The Maine Potato Board (MPB) negotiate a written contractual agreement with the booth's manager.
2. The MPB ensure that gross receipts are deposited with the State Treasurer.
3. The bureau purchase goods and services in accordance with established rules and regulations.

AGENCY/PROGRAM

CONDITION

Department of Agriculture, Food  
and Rural Resources - Bureau of  
Agriculture Marketing

Accounting practices and records  
- Eastern States Exposition  
(cont'd.)

Auditee Response:

4. The MPB establish a petty cash fund for the payment of incidental expenses at the booth.
5. The bureau record all capital equipment purchased for the booth on its equipment inventory records.

For the 1990 "Big-E" booth, the Maine Potato Board:

- a. expects to have a written contract with the booth's manager,
- b. will have a local State Treasurer's account for the deposit of gross receipts,
- c. will purchase goods and services in accordance with Bureau of Purchases criteria,
- d. will request a temporary state petty cash advance for the payment of incidental expenses,
- e. and will record capital equipment purchases on equipment inventory records.

Department of Agriculture, Food  
and Rural Resources

Maine Milk Pool

Fund type classification  
(17)

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

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

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

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



AGENCY/PROGRAM

CONDITION

Department of Agriculture, Food  
and Rural Resources

Fund type classification (cont'd.)

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

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

Auditee Response:

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

Department of Agriculture, Food  
and Rural Resources

Harness Racing Commission

Employee paid in excess of actual  
hours worked  
(18)

We reviewed time and attendance records for 15 temporary employees of the Harness Racing Commission comparing actual hours worked to hours paid per the payroll register. We noted 43 instances where the Commissioner paid employees for 40 hours when their time sheets showed they had worked less time. The excess payments totaled \$5,000.

To be in accordance with the applicable bargaining unit contracts and personnel regulations we recommend that the Commissioner base payroll expenses on actual hours worked.

Auditee Response:

This issue is approaching final resolution through negotiations between management and the MSEA.

Department of Agriculture, Food  
and Rural Resources

Seed Potato Board

Depreciation of fixed assets not  
recorded  
(19)

The Codification of Governmental Accounting and Financial Reporting Standards - Section 1100.107 states, "Depreciation of fixed assets accounted for in a proprietary fund should be recorded in the accounts of that fund."

The board did not record depreciation expense on its fixed assets for the fiscal year ending June 30, 1989.

We recommend the board record depreciation expense on fixed assets in the proper accounting period.

Auditee Response:

FY90 depreciation on fixed assets was recorded in FY90, and depreciation expense will be recorded in the proper accounting period henceforth.

# AGENCY/PROGRAM

Department of Agriculture, Food  
and Rural Resources

Seed Potato Board

Petty cash account used for payroll  
cost of temporary employees  
(20)

## Prior Year Finding

## Auditee Response:

Department of Agriculture, Food  
and Rural Resources

Seed Potato Board

Operating transfers  
(21)

# CONDITION

Section 6.2 of the State of Maine Manual of Financial Procedures states:

A petty cash advance may be needed by a department having recurring transactions involving small amounts which may be more practicably and economically liquidated at the point of origin.

The board's policy is to pay wages of casual laborers from the board's petty cash checking account. During the 1989 fiscal year \$55,000 in wages was paid from this account; one worker was paid \$9,428.

As of the date of audit, the board had executed an "Agreement for Special Services" (not to exceed \$1,200) with each worker although some of these workers were expected to earn in excess of \$1,200. In addition, between May 1988 and April 1989 the account was charged \$930 in bank overdraft charges.

We recommend the department contact the Department of Administration - Bureau of Human Resources and establish positions for those workers who earn in excess of \$1,200 annually. We also recommend that accounting personnel from the board monitor the balance of the petty cash checking account and replenish the fund on a timely basis to prevent the account from being overdrawn.

1. The Department is seeking approval to establish seasonal intermittent positions for casual laborers in accordance with personnel law.
2. Responsible staff at the Board have been instructed to replenish the petty cash fund on a timely basis.

Section 1800.106 (GASB) Codification of Governmental Accounting and Financial Reporting Standards states:

Transfers from the General fund to an enterprise fund that serves as a subsidy for the operations of the enterprise should be classified as an operating transfer. Operating transfers, should be reported in the "Operating Transfers" section in the Statement of Revenues, Expenses, and Changes in Retained Earnings (or Equity) for proprietary funds.

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

Department of Agriculture, Food  
and Rural Resources

Seed Potato Board

Operating transfers (cont'd.)

The board received \$245,000 in operating transfers from the General Fund during the 1989 fiscal year that were credited to the general ledger account, Donated Surplus. Historically, both contributed capital and operating transfers have been recorded in the Donated Surplus account. The board's accounting records do not readily identify that portion of the Donated Surplus account balance that should be classified as contributed capital.

We recommend that department officials document that portion of the Donated Surplus account balance that should be reflected as contributed capital and adjust the balance accordingly. Further, we recommend that operating transfers be recorded in a general ledger operating account.

**Auditee Response:**

These recommendations are being researched and we expect to implement and/or correct the procedure during FY91.

Department of Agriculture, Food  
and Rural Resources

Seed Potato Board

Accounting system  
(22)

The following balance sheet account balances were incorrectly reflected on the accounting records. The finish goods account balance at June 30, 1989 was \$632,673; however, the entire finish goods inventory had been sold prior to June 30. A journal entry had not been prepared transferring the cost of sales from the finish goods account to cost-of-goods sold. As a result, the finish goods account balance was overstated and the cost of goods sold was understated.

Revenue amounting to \$392,000 was incorrectly credited to the accounts payable account. As a result, the accounts payable balance was overstated and revenues were understated.

We recommend that an inventory system be developed where the cost of sales are transferred on a periodic basis from the finish goods account to cost-of-goods sold account. We further recommend that revenue derived from the sale of farm products be credited to the board's dedicated revenue account.

**Auditee Response:**

This recommendation is in the process of being implemented.

AGENCY/PROGRAM

CONDITION

Department of Audit

Annual audit on the Unorganized Territory Education and Services Fund not performed  
(23)

Prior Year Finding

According to 36 MRSA §1609:

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

There was no audit of the Unorganized Territory Education and Services Fund for fiscal year 1988. Although a compilation report was issued it does not meet the requirements of the statute.

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

There is a discrepancy between the statutory requirement and what is allowable or acceptable under the American Institute of Certified Public Accountants Professional Standards which state,

When an accountant is not independent, any procedures he might perform would not be in accordance with generally accepted auditing standards, and he would be precluded from expressing an opinion on such statements (i.e. the financial statements of the audited entity).

We recommend amendment of the statute. Statutory changes might include: removing the Fiscal Administrator of the Unorganized Territory from the organizational direction of the Department of Audit; allowing an independent audit agency to audit the Unorganized Territory Education and Services Fund and the municipal cost component; eliminating the requirement for the Department of Audit to perform the audit; or allowing a compilation, which would enable the Department of Audit to perform an audit.

Auditee Response:

We concur with the audit finding as the lack of organizational independence would preclude the department from performing an audit of the Unorganized Territory Education and Services Fund. In response to this finding, the Committee on Audit and Program Review has recommended the statute be revised to allow the State Auditor to contract for an external audit of the Unorganized Territory Education and Services Fund.

# AGENCY/PROGRAM

# CONDITION

Department of Conservation -  
Administrative Services

Land and buildings owned by the  
department not recorded  
(24)

Title 5 M.R.S.A., Chapter 153, Section 1742, states that the Department of Administration, through the Bureau of Public Improvements, has authority:

To require the listing of real estate belonging to or under lease to the State Government showing controlling agency, location, metes and bounds, cost or rental rate and when acquired or rented.

The Department of Conservation, through its various bureaus, has control of land and buildings that are not recorded on the state records.

We recommend that the Department of Conservation develop a listing of land and buildings under its control. The list should contain the information required by Title 5 M.R.S.A. and any additional information the department considers necessary.

## Auditee Response:

The department does maintain computer data bases of land under its control. Each bureau maintains the necessary lists for lands it is legislatively mandated or authorized to manage. Consideration is being given to putting these data bases in a common format which will contain all of the required information.

An inventory of all buildings managed by the department is maintained on a consolidated data base for insurance purposes. We will work with the Bureau of Public Improvements to see how this information can be transferred to their records.

Department of Conservation - Maine  
Conservation Corps

Volunteer wages not correctly  
reported; mandatory deductions not  
withheld  
(25)

The Maine Conservation Corps uses volunteers and interns during the summer months. Some of these receive a stipend (maximum allowed is the minimum wage) for their services. The payments are reported on form 1099-MIS, if wages are \$600. or more as if these personnel were independent contractors. Internal Revenue Service, Circular E paragraph 4 states, "Anyone who performs service is an employee if you, as an employer, can control what will be done and how it will be done." The circular then states, "If an employer-employee relationship exists, it does not matter what it is called." Circular E, under the duties of an employer, requires an employer to have each employee complete form W-2, withhold the required taxes and remit them to the federal government, prepare form W-2 for each employee yearly, and report all earned income to the federal government.

AGENCY/PROGRAM

Department of Conservation - Maine  
Maine Conservation Corps

Volunteer wages not correctly  
reported; mandatory deductions  
not withheld (cont'd.)

Auditee Response:

Department of Conservation - Maine  
Forest Service

State Forestry Nursery has not made  
payments on their capital advance  
(26)

Auditee Response:

CONDITION

We recommend that the Department of Conservation - Maine Conservation Corps comply with the federal regulations for the employment, compensation, and reporting of these seasonal employees.

Within the Maine Conservation Corps the State Environmental Resource Volunteer Effort (SERVE/Maine) oversees a program of volunteers natural resource protection, development, management and preservation work. These volunteers do not fall under the description of seasonal positions under the State of Maine Civil Service Rules, Chapter 1, paragraph 3.4 because they are not "positions established for less than full year periods and expected to be of a regularly recurring nature."

Through conversations with the Attorney General's Office we understand that we are in compliance with State law. We are presently researching what other agencies who utilize volunteers are doing regarding compensation for their volunteers and will furnish this information to the AG with a request for opinion on the status of these volunteers.

Public Law 1979 Chapter 164 authorized a capital advance and repayment schedule for the State Forest Nursery. The \$25,000 yearly payments have not been made since fiscal year 1986. At the date of audit there were sufficient funds available to make the delinquent payments.

We recommend that the Department of Conservation - Maine Forest Service remit \$100,000 to the General Fund and that they continue to repay the advance as scheduled.

The Maine Forest Service has been paying back the loan from the Legislature for the enterprise fund in every year that the Nursery did not get supplementary emergency funding from the Legislature. In FY 86, 87 and 88 the Nursery operated in a deficit requiring additional funding from the Legislature. It seemed illogical during those years to get more money from the Legislature and then turn around and make a payment back to the Legislature on the loan.

AGENCY/PROGRAM

CONDITION

Department of Conservation - Maine  
Forest Service

State Forestry Nursery has not  
made payments on their capital  
advance (cont'd.)

In 1989, with legislative authority, we leased the Nursery and have made two loan payments to the legislature of \$25,000 in FY 89, and 90. We now have only \$50,000 left to pay. While the Nursery fund has more than \$50,000 in it at this time, the lease requires the state to deal with any major damages or capital repair needs at the facility. It seems prudent on the state's part to maintain a repair or closure fund, if needed. The Maine Forest Service fully intends to honor its commitment to pay \$25,000 a year on the Nursery loan until the loan is fully repaid by FY 92.

Department of Conservation -  
Geological Survey Unit

Inactive federal accounts with debit  
balances  
(27)

The Department of Conservation, Geological Survey Unit was identified as the manager for 21 separate federal accounts. Of the accounts, 9 had no financial activity for the fiscal year and all had debit balances.

We recommend that the Department of Conservation review these balances and take the appropriate action, i.e., use them for their designated purpose, return them to the appropriate federal agency, or lapse them to the General Fund.

Auditee Response:

The funds were provided for two purposes: data collection and computerization. There has been little or no financial activity in them because the Maine Geological Survey has been waiting for the recently established state GIS to be installed and become operational so that computerization of the data may begin.

With the state GIS now in operation, the computerization phase can be implemented. The remaining funds will be applied to enter the data collected into the state information base for use in supporting the funded programs as intended. These programs support the mission of the Bureau.

## AGENCY/PROGRAM

Department of Conservation - Bureau  
of Public Lands

Petty cash fund  
(28)

### Auditee Response:

Department of Conservation - Various  
Operating Locations

Weaknesses in internal control over  
cash receipts  
(29)

## CONDITION

The Bureau uses petty cash funds to make non-emergency purchases, i.e., payment of conference fees and hotel bills. Also, the bureau advances \$25.00 per week to each crew person for groceries. At the end of the week crew members give all receipts to the custodian, who requests reimbursement based on the total value of the receipts not the original advance, but does not reconcile the account to the authorized amount.

We recommend that the Bureau of Public Lands use petty cash funds for authorized purposes. We also recommend that it reconcile the petty cash fund periodically to the amount authorized by the Controller.

The conference fees (which included lodging) were paid because of a delay in the approval process and the assignment of a new custodian which precluded obtaining an advance of funds. The custodian has been instructed that paying such fees is not a proper use of the petty cash fund.

The petty cash fund is used for "necessary transactions involving small amounts which may be more practical and economically liquidated at the point of origin." (Manual of Financial Procedures, Section 6.2). In Public Lands, the purpose of the petty cash fund included the payment of advances for groceries for field crews. These advances are being reconciled with purchase receipts.

All petty cash funds are being reconciled to the amount authorized by the controller.

We noted the following weaknesses in the department's control over cash receipts:

1. The Land Use Regulatory Commission and the Maine Forest Service did not deposit cash received on a daily basis.
2. The Land Use Regulatory Commission held permit checks until they were approved. Checks were not stamped for deposit only, and some checks were sent back to the payer as a refund if the permit was not approved.



## AGENCY PROGRAM

## CONDITION

Department of Conservation - Various  
Operating Locations

Weaknesses in internal control over  
cash receipts (cont'd.)

3. Bureau of Public Lands cash totaling of \$5,464 that was received in the last two weeks of June 1989 was not recorded in the accounting records of the state. In addition, the income statement was not prepared until the subsequent fiscal year.
4. Administrative Services did not comply with department policy; it did not submit daily income statements; and did not post and reconcile cashbook pages to deposits.

We recommend that the Department of Conservation review their Information and Policy Letter #82-011, and that all locations which receive cash receipts be made aware of the department's policy.

### Auditee Response:

LURC has 60 days to approve a permit application. If the application is not properly filled out, they return it along with the check that was submitted so that the 60-day approval process does not start. LURC now puts these checks immediately in the Administrative Services safe. Within one week they are either returned with the incomplete application or they are deposited.

The Bureau of Public Lands' cash that was received in the last two weeks of June was actually deposited in June. However, due to end of year schedule demands, the income statement was not prepared by the departments' Administrative Services Unit until July. Procedures have been put in place to ensure that income statements are prepared daily and cashbook pages are posted and reconciled to deposits.

The Information and Policy letter has been revised and all locations have been advised of the proper procedures. Bureaus are depositing all cash received on a daily basis.

## AGENCY PROGRAM

## CONDITION

### Department of Corrections

Uninsured deposits - probation  
and parole restitution accounts  
(30)

The Code of Federal Regulations, Title 12, Section 330, defines the regulations regarding deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC), which includes custodial accounts.

The deposits on hand in two of the restitution bank accounts exceeded \$100,000, the maximum amount of FDIC depository insurance coverage per designated depository. The district offices with cash balances over \$100,000 at June 30, 1989 were:

District II \$155,476

District III \$161,189

In order to include the words "custodial account" we recommend that the department submit the required forms to the bank to provide for a name change on each of the district offices' bank accounts. This change should provide depository insurance coverage on the owner's fractional share of the total commingled funds.

### Auditee Response:

This recommendation has been implemented.

### Department of Corrections

Lack of statewide procedures -  
restitution accounts  
(31)

The following conditions and/or control weaknesses relating to the restitution accounts were noted at three of the Department of Corrections (DOC) Probation and Parole district offices:

1. There is no reconciliation of the detail ledger cards balance to a control card and/or the cash balance in the demand deposit account.
2. There is no supervisory review of the monthly bank reconciliation.
3. Each district office reported checks outstanding in excess of six-months on the bank reconciliation.
4. There is no system (i.e. prenumbered setup sheets) ensuring that the restitution to be repaid by each client is properly established on the one-write system.

In the District Two Probation and Parole office, accounting personnel have no system to account for prenumbered receipts issued compared to cash receipts collected.

## AGENCY PROGRAM

## CONDITION

### Department of Corrections

Lack of statewide procedures -  
restitution accounts (cont'd.)

Personnel in the District Three Probation and Parole office have not reconciled the demand deposit account to the bank statement since May 1989.

The DOC has no written procedures to address the above conditions and/or control weaknesses.

We recommend that the department establish written procedures for handling restitution receipts and maintaining the accounting records. In addition, the department should monitor the accounting functions relating to Restitution Funds to ensure that each district office complies with the written procedures.

### Auditee Response:

The Department is in the process of developing a new computerized system for restitution accounts.

### Department of Corrections

Miscoding of capital equipment  
(32)

Expenditures for capital equipment charged to Capital Projects Fund are coded as Buildings and Improvements, Character and Object (C&O) 7101. Expenditures for removable capital equipment should be coded to one of the various equipment C&O's.

We recommend the Department of Corrections identify and properly code all capital equipment purchases.

### Auditee Response:

The department, in several instances, coded the purchase of capital equipment in error. Expenditures for movable capital equipment are now being coded properly.

### Department of Corrections - Charleston Correctional Facility

Close out of inmate funds  
(33)

The Charleston Correctional Facility does not prepare an authorization form when it closes out inmates' accounts.

We recommend Charleston Correctional Facility obtain the proper documentation and authorization to close out inmates' accounts.

### Auditee Response:

The Facility's business office will take steps to revise an existing form to include prisoners' receipt of any remaining balance of funds along with personal items prior to transfer or release.

## AGENCY PROGRAM

Department of Corrections -  
Charleston Correctional Facility

Bank deposits  
(34)

## CONDITION

The Charleston Correctional Facility prepares one bank deposit per week for 5 days of work. The same employee prepares the deposit, transports the deposit and receives the bank receipt seven days after the deposit.

We recommend the Charleston Correctional Facility either deposit more frequently or prepare separate deposits for each day's work. It should segregate the duties of deposit preparation and transport; and it should obtain bank receipts on a more timely basis.

### Auditee Response:

As previously stated, the Charleston Correctional Facility operates its business office with a limited accounting staff which makes segregation of duties difficult, if not impossible. Due to the expansion of Charleston Correctional Facility and the addition of the administrative responsibility of Bangor Pre-Release Center, the present accounting staff has been increased and more segregation of duties as they relate to preparation and handling of cash and deposits has been implemented. With regard to the facility's deposit practices, it should be noted that all funds received are secured in locked offices as well as locked safes prior to weekly deposits. At no time during the facility's ten year existence has there been an instance of loss, theft, or discrepancy, regarding these funds, and should any discrepancy occur at the bank receiving the deposits, there is an agreement that the facility will be notified by the bank promptly.

Department of Corrections -  
Charleston Correctional Facility

Accounting records  
(35)

Charleston Correctional Facility does not use the proper records for the accounting and financial reporting of locally handled funds.

We recommend the Charleston Correctional Facility use a general ledger accounting system to properly reflect entries supporting the assets and liabilities of all locally handled funds.

### Auditee Response:

Currently the facility utilizes monthly and annual financial statements which details each account's assets and liabilities. In addition, various ledgers and accounting journals are utilized.

With the recent increase in staff, the facility will be researching the improvement of all accounting records as it applies to this audit recommendation of income and disbursement of cash to the facility's locally handled accounts.

## AGENCY PROGRAM

## CONDITION

Department of Corrections -  
Maine Correctional Center

Unapproved invoices  
(36)

### Auditee Response:

Out of 21 invoices paid by the Inmate Welfare Fund, 2 amounting to 28% of the yearly expenditures were not approved for payment.

We recommend an individual other than the person authorized to issue checks approve all invoices.

Procedurally, all welfare fund purchases are approved by the Superintendent or the business Manager. Payments from the checking account are prepared by an Accountant with invoice backup. Checks are signed by the Superintendent or Business Manager and support data is maintained by the Accountant. Invoices mentioned above may have not had approval written on them by the Business Manager. The purchase was approved and the check was signed by the Business Manager. At this time, we believe current practices are proper and provide adequate control.

Department of Corrections -  
Maine Correctional Center

Capital equipment inventory records  
not properly maintained  
(37)

Title 5, Section 1742 MRSA gives the Department of Administration, through the Bureau of Public Improvements (BPI), the authority to make or require an inventory of all removable equipment belonging to the state government and to keep it current.

The department does not maintain Maine Correctional Center (MCC) capital equipment inventory records on a current basis. The last physical inventory was November 1987. Neither the capital equipment reconciliation form nor the quarterly equipment reports were completed for the 1989 fiscal year. A computerized telephone system costing \$98,974 was not recorded on the capital equipment records.

We recommend that MCC personnel:

1. Submit the quarterly equipment reports and the capital equipment reconciliation (Form CPA 17) to BPI on a timely basis.
2. Reconcile the detail equipment records to the control card on a periodic basis.
3. Perform an annual physical inventory of all capital equipment.
4. Post all capital equipment transactions to the inventory records.

### Auditee Response:

The institution has asked for and received a new accountant position. Part of that person's duties will be to maintain equipment records.

AGENCY/PROGRAM

CONDITION

Department of Corrections -  
Maine Correctional Center

Accounting records  
(38)

Auditee Response:

The Maine Correctional Center(MCC) does not use the proper records for the accounting and financial reporting of locally handled funds.

We recommend that MCC use a general ledger accounting system to properly reflect entries supporting the assets and liabilities for all locally handled funds.

The account in question is the inmate account, which is a holding checking account for the inmates' money in total. The manner of reconciliation presently being used is that of a cash flow statement, which was a recommendation of the auditors three years ago. There are no fixed assets in this account and there are few categories of transactions. The actual important accounting/bookkeeping duty is to reconcile, on a daily basis, the inmate account balance with the individual inmate balances to the computer reports. The extra work of trial balances and balance sheets would yield little benefit.

Department of Corrections -  
Maine Correctional Center

Commissary sales  
(39)

Auditee Response:

Commissary sales to inmates for June 1989 were recorded in July 1989 and were deducted from the Inmate Fund.

We recommend that the Commissary Fund record sales in the period when they occur.

Due to the hours of operation in the commissary, we are unable to reconcile our books in the same accounting period as the sale takes place. The commissary remains open until 9:00 P.M. on most nights. At the end of a month, the business office does not reconcile the books and issue a check for these sales until the next day, which could be the first of the next month, or the next fiscal year.

Department of Corrections -  
Maine State Prison

Sales of consigned goods  
(40)

The financial statements of the Prison Industries Fund do not reflect the sales of the inmates' consigned products. The financial statements of June 30, 1989 understate sales by \$670,357.

We recommend the Prison Industries Fund disclose the amount of sales of consigned products in the financial statements.

Department of Corrections -  
Maine State Prison

Sales of consigned goods (cont'd.)

Auditee Response:

Only 20% of the consigned sale actually is deposited into the Industrial account. The other 80% is directly transferred to the individual inmate's account which does not get recorded as income into the MFASIS system. In order to comply with the audit recommendation, a footnote will be added to the financial statements showing sales of inmate novelties and the transfer amount to their accounts.

Department of Corrections -  
Maine State Prison

Financial statement preparation  
(41)

The Prison Industries Fund does not prepare financial statements on a timely basis. Statements from September 1988 through June 1989 were prepared after auditors requested them on August 11, 1989. The statements reveal erratic fluctuations in net income resulting from untimely journal entries.

We recommend that the department prepare the financial statements of the Prison Industries Fund at least quarterly, and recognize expenses and revenues in the period to which they apply.

Auditee Response:

The conversion to the statewide MFASIS system provides current financial statements for facilities and allows expenses and revenues to be put into the system in a timely manner.

Department of Corrections -  
Maine State Prison

Time records  
(42)

Maine State Prison department officials do not, in all cases, provide the payroll clerk with signed employee time records.

We recommend that the personnel officer ensure that department officials sign employee weekly time records indicating correctness of the records.

Auditee Response:

At this time, Maine State Prison's weekly time sheets are approved by supervisors prior to processing.

Department of Corrections -  
Maine State Prison

Overtime authorization  
(43)

During fiscal year 1989, the Maine State Prison paid \$1,605,058 for overtime compensation which comprised 23% of total salaries and wages. On some payrolls several individuals received more overtime than regular compensation. No written policies or procedures governing overtime authorization exist. During the two-week pay period ending May 20, 1989, 300 overtime authorization records totaling \$48,982 were processed for payment. We examined 50 of these records which include employee name, supervisory authorization and warden approval. None were approved by the warden. Thirty-three (66%) were either not signed by a supervisor or the signatures of the supervisor and employee appeared to be the same individual.

## AGENCY PROGRAM

Department of Corrections -  
Maine State Prison

Overtime authorization (cont'd.)

### Auditee Response:

## CONDITION

We recommend that the Maine State Prison establish written policies and procedures governing authorization. We also recommend that overtime be paid only if properly approved and documented.

The audit concluded that 23% of the Personal Services expenditure was directly related to overtime when, in actuality, the final Personal Services overtime usage was only 17% and of that 17%, only 9% is attributed to unbudgeted overtime.

Also, the written recommendation regarding overtime gives the impression that there is no process as to how overtime is determined or allowed. This is not the case. There are a set number of posts required to safely operate each shift. When there are not enough staff available, either through sick time or other situations, those posts are filled by staff through a formalized process agreed upon by the Unions. There is also a process when the post cannot be filled immediately as to which post will be allowed to be vacant for a period of time. Additionally, there are other specific procedures in place regarding the number of individuals that will be allowed to go on vacation on each shift, each week of the year in order to maintain overtime at the lowest levels possible. There are also other related procedures such as the number of non-emergency medical trips which will be allowed each day in order to maintain overtime at the lowest possible levels. These are all procedures that are in writing and in place.

Lastly, what needs to be reviewed is a budgeting process that takes into account the necessary overtime required when medical emergencies exist and high security inmates are required to be in the hospital for lengthy periods of time and which takes into account the number of posts that are required to safely run the facility and budgets for that number of posts. Finally, no overtime is authorized without supervisory staff calling in or approving the overtime, but the process will be revised to show direct signature for authorization and a weekly summary will be submitted to the Warden for review.



## AGENCY PROGRAM

## CONDITION

Department of Corrections -  
Maine State Prison

Fixed Assets  
(44)

Fixed assets at the Minimum Security Unit were not readily identifiable. They were either replaced by newer equipment or were parts of larger units and should not have been listed separately. There were greater quantities on hand than were shown on the listing of fixed assets.

We recommend agency personnel tag/mark fixed assets to correlate with asset numbers shown on the fixed asset file listing. They should expense rather than capitalize repair parts; they should determine assets on hand and properly account for them.

### Auditee Response:

Maine State Prison is currently initiating a change in the procedure to account for fixed assets. An Institutional capital equipment control officer has been assigned the duty of re-tagging ALL capital equipment. Upon receipt of equipment in excess of \$150.00, it will immediately be tagged in the storehouse and the number will be recorded on the receiving report then added to the master inventory listing. This will insure proper control and reporting of capital equipment.

An annual review will be done by Department heads and spot checks by the Institution property officer will be conducted. Maine State Prison is currently expensing repair parts and because there is no detail on equipment being parts of larger units, a response to that issue would be guess work.

Department of Corrections -  
Maine State Prison

Retirement of fixed assets  
(45)

The department does not adjust the accounting records of the Prison Industries Fund when fixed assets are removed from service.

We recommend agency personnel ensure correct accounting for assets removed from service.

### Auditee Response:

See Maine State Prison procedure and notification to Department Heads.

Department of Corrections -  
Maine State Prison

Asset ownership  
(46)

According to the fixed asset file listing, the Inmate Benefit Fund (IBF) owns capital equipment totaling \$37,599. The IBF balance sheet shows no assets. The assets are not listed as property of the state on the fixed asset file listing.

We recommend the Department of Corrections account for ownership of assets purchased by the Maine State Prison IBF and properly account for any other IBFs under its control.

## AGENCY PROGRAM

## CONDITION

Department of Corrections -  
Maine State Prison

Asset ownership (cont'd.)

Auditee Response:

Department of Corrections -  
Maine State Prison

Finish goods inventory  
(47)

As staff time becomes available at some future date, the Department intends to develop guidelines for the operation of benefit funds.

Out of 35 items tested from the Prison Industries Fund finished goods inventory listing, 7.12% were overstated. Projecting this error rate for the fiscal year, the finished goods inventory could be overstated by \$20,697.

We recommend the Maine State Prison establish and maintain an accurate finished goods inventory.

Auditee Response:

At the time the finished goods inventory was taken, work was still in progress. There may have been inventory in transit and, because we have no detailed list of these items reported, an accurate response is difficult. The most recent inventory dated in January of 1990 showed a 3% inventory adjustment. In a prison setting this does not seem excessive.

Department of Corrections -  
Maine Youth Center

Physical Inventory - capital equipment  
(48)

Title 5, Section 1742 MRSA gives the Bureau of Public Improvements the authority to make or require an inventory of all removable equipment belonging to the state government and to keep the inventory current.

The following conditions exist:

1. The Maine Youth Center (MYC) has not performed a physical inventory of capital equipment since 1985.
2. MYC personnel could not locate 3 out of 15 items.
3. A 1971 Chevrolet truck transferred to the state Surplus Property Division did not have a year and serial number consistent with that reported by the state Surplus Property Division. MYC personnel reported that the vehicle information on their equipment records was incorrect.

We recommend that MYC personnel review the accuracy of their equipment records, perform a physical inventory of all equipment, and keep the inventory current.

# AGENCY PROGRAM

Department of Corrections -  
Maine Youth Center

Physical Inventory - capital equipment (cont'd.)

Auditee Response:

Department of Corrections -  
Maine Youth Center

Greenhouse receipts  
(49)

Auditee Response:

Department of Corrections -  
Maine Youth Center

Cash Disbursements  
(50)

Auditee Response:

Department of Corrections -  
Maine Youth Center

Policies and procedures  
(51)

Auditee Response:

# CONDITION

The Youth Center will remedy this situation within its staffing resources, to comply with statutory requirements. The Center will schedule an inventory of removable equipment for this fiscal year. The resultant counts should improve the quality of our existing records, as noted in Item #2 of the Auditor's Findings. Item #3 involved an error made in the surplus Property Division of the Bureau of the Bureau of Purchasing. The error has been corrected by the Center and the Surplus Division has been advised of the change.

Title 34A, MRSA, Sec. 1403, Item 7 requires revenue generated by sale of farm projects to be deposited in a special non-lapsing account. Rather than recording individual greenhouse sales, The Maine Youth Center (MYC) only records the total collected per day. It deposits receipts from greenhouse sales to the students' Welfare Fund.

We recommend the MYC record each sale at the time of sale and deposit all garden project receipts to a special revenue account.

The Youth Center will remedy this situation by:

1. Supplying cash receipts in duplicate for use at the point-of-sale. (Greenhouse or vegetable stand.)
2. Depositing revenues into our existing special revenue account.

The same individual who approves vendor invoices for payment also signs the checks issued for the Welfare Fund and Canteen Fund.

We recommend segregating the duties for vendor invoice approval and cash disbursements.

The Youth Center will remedy this situation by separating the duties of vendor invoice approval and cash disbursements.

The Maine Youth Center (MYC) does not maintain written policies and procedures for operating the locally handled Welfare Fund and Canteen Fund.

We recommend that the MYC implement a policies and procedures manual for operating the locally handled Welfare Fund and Canteen Fund.

The Youth Center (MYC) will establish policies and write procedures for the handling of the Canteen and Welfare Funds.

# AGENCY/PROGRAM

# CONDITION

Department of Economic and  
Community Development

Federal cash not segregated  
(52)

Department of Economic and Community Development (DECD) administrative expenses exceeded the amount that can be charged to the federal Community Development Block Grant (CDBG) by \$37,775. The department paid these expenses using the accumulated non-CDBG cash. The CDBG cash balance and the accumulated non-CDBG cash balance are not segregated.

We recommend that DECD identify and segregate the CDBG cash balance from the non-CDBG cash balance. We recommend that DECD monitor the amount available for administrative expenses and separately accumulate the amounts charged to the CDBG and non-CDBG funds.

## Auditee Response:

DECD will monitor administrative expenses in the CDBG program keeping the accumulated NON-CDBG cash balance separate from the CDBG cash balance.

Department of Economic and  
Community Development

Costs of a state sponsored  
promotional activity not in  
compliance with the Manual of  
Financial Procedures  
(53)

The Department of Economic and Community Development (DECD) organized a promotional gathering in Boston in October of 1988. The State of Maine Manual of Financial Procedures, Section 40.12 requires the names of all consultants and participants for whom the department will make payment. A listing of 32 attendees accompanied the payment request; hotel records indicate 90 people attended the Reception/Dinner. Section 40.12 further requires a breakdown of all costs involved; one charge totaling \$11,161 was listed on the invoice as "banquet" with no further breakdown.

The department also authorized payment for flowers which is not an allowable expense according to Section 40.13.

In order to meet the minimum standards defined by the Financial Procedures Manual, we recommend that the department only authorize payment of invoices for which supporting documentation is available.

## Auditee Response:

DECD will follow the standards defined by the Maine Financial Procedures Manual.

AGENCY/PROGRAM

CONDITION

Department of Economic and  
Community Development

Receipts log not reconciled  
(54)

Prior Year Finding

Auditee Response:

Department of Economic and  
Community Development

Separate grants reported as a  
combined total on Schedule of  
Federal Financial Assistance  
(55)

Auditee Response:

The Community Development office posts checks to a cash receipts log. The finance department deposits the receipts with the State Treasury. However, the department does not reconcile to the state's accounting records.

We recommend that the department periodically reconcile receipts.

Responsibility for reconciling receipts for all offices in DECD has been assigned to one position in DECD in order to comply. Lack of clerical support continues to be a problem.

The Department of Economic and Community Development did not distinguish between funds expended under the CDBG and the Supportive Housing Demonstration Program on the Schedule of Federal Financial Assistance.

We recommend that the department identify and report the transactions of separate grants.

In the summer of 1988, the Department of Economic and Community Development was informed of the availability of federal grant funds under a new program called the Supportive Housing Demonstration Program. However, the notice of availability was given only a short time before the deadline for applications so DECD had to move very quickly to find potential applicants, assist with application preparation and then to set up administrative procedures for a new type of grant.

It appears that in the need for haste, the appropriate steps were not taken to differentiate the Supportive Housing funds on the Schedule of Financial Assistance from the federal CDBG funds that DECD was already receiving. Since that first experience with other types of federal assistance, DECD has implemented measures to insure that the transactions of separate categories of federal grants are identified and reported separately.

## AGENCY/PROGRAM

## CONDITION

Department of Educational and  
Cultural Services - General Purpose  
Aid June 30, 1989

Audit adjustments affecting alloca-  
tions  
(56)

The School Finance Act provides General Purpose Aid for transportation based upon transportation costs incurred by School Administrative Units (SAUs) and reported by SAUs on EF-M-45 (Financial Report of Public Schools) forms. Variances noted in audits of SAUs may require changes in the EF-M-45 forms and could result in a change in allocation.

We tested 25 SAUs for transportation operation costs; 3 showed a variance between the allocation received and the allocation due after submitting revised EF-M-45 reports; 2 received a total of \$3,512.60 more than was due and one received \$509.05 less.

We recommend that the department adjust future allocations for the amounts specified. We further recommend that it review audit adjustment controls to determine their effectiveness.

### Auditee Response:

The three SAU's that showed variances between the allocation received and the allocation due for transportation operation costs, have been corrected. Care will be taken to prevent errors of this nature from recurring.

Department of Educational and  
Cultural Services - General Purpose  
Aid

Allocation data inadequately  
documented  
(57)

### Prior Year Finding

General Purpose Aid allocations to School Administrative Units (SAUs) are based on an allocation formula specified in 20-A MRSA, Section 15605, Subsection 2.

The department made corrections to allocation data, especially the resident pupil count, based on verbal communications. Of 25 SAUs examined, 13 showed variances between the pupil count submitted by the unit and the count used by the department. Reasons for the changes were not documented and the department did not require written verification of changes made.

In our previous report we recommended that no changes should be made to reports submitted by SAUs without written verification. We further recommended that the department computerize data collection and compilation functions in order to limit time spent producing population lists and to limit error risk.

### Auditee Response:

The department has taken steps subsequent to the period under audit to document any changes to date, submitted by the SAU's. A new computer system will be operational by fiscal year 1992 and should provide the department with adequate documentation of any changes made to SAU reports.

**AGENCY/PROGRAM**

**CONDITION**

**Department of Educational and Cultural Services - Bureau of School Management**

Medical Student Loans need improved internal control  
(58)

Prior Year Finding

**Auditee Response:**

**Department of Educational and Cultural Services - Stafford Loan Program**

Federal advances not recorded as liabilities  
(59)

Prior Year Finding

**Auditee Response:**

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

Gifts not authorized  
(60)

**Auditee Response:**

Individuals who receive student loan repayments also maintain the receivable records.

In order to improve internal control over cash receipts, we recommend that medical student loan recipients submit payments directly to the department's Division of Finance for recording and depositing.

All functions relative to medical student loans have been transferred to the new Loan and Grant Authority, a subdivision of F.A.M.E..

The Maine Stafford Loan Program received advances of \$618,783 from the U.S. Department of Education between 1978 and 1980. As of June 30, 1989, \$202,568 remained unpaid and not shown as a liability on the state records. The advance, however, was returned to the federal government in October, 1989.

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

All functions relative to the Stafford Loan Program have been transferred to the new Loan and Grant Authority, a subdivision of F.A.M.E..

During fiscal year 1989 the Governor Baxter School for the Deaf (GBSD) accepted gifts totaling \$2,458 without proper authorization.

MRSA Title 2, Section 5 prohibits branches of state government from accepting any gift with a value greater than \$50 unless specifically authorized to do so by statute or by clear implication of statute, or unless empowered to do so by the governor.

We recommend the department ensure that there is proper authorization for all gifts with a value greater than \$50.

GBSD will pursue proper authorization from the Governor and Legislature in the coming Session to accept gifts.

## AGENCY/PROGRAM

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

Rental funds not in compliance with  
statutes  
(61)

### Auditee Response:

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

Compensation in excess of salary  
rate  
(62)

#### Prior Year Finding

### Auditee Response:

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

Inadequate maintenance of employee  
records  
(63)

## CONDITION

Any monies collected from the rental of  
state owned property is retained in a locally  
handled fund.

Title 5 MRSA, Section 131 requires  
departments or agencies to pay immediately  
to the treasury any monies which are  
collected or received from any source and  
which belong to the state or are for the  
state or any department or agency's use.

We recommend the Governor Baxter School  
for the Deaf (GBSD) handle funds collected  
from the rent of state property in a manner  
that will comply with 5 MRSA, Section 131.

GBSD will pursue proper authorization from  
the Governor and Legislature in the coming  
Session to handle rental funds.

The department has not taken action on a  
prior year finding which recommended the  
Governor Baxter School recover \$4,558  
from an employee on the payroll as full  
time while receiving workers compensation  
benefits.

The Maine Civil Service Rules, Chapter 11,  
Section 2(D)(1), does not allow compensation  
in excess of the salary rate for an employee.

We again recommend the Governor Baxter School  
recover the \$4,558.63 from the employee.

...(The employee) was informed of the  
overpayment in 1988 and was willing to comply  
as soon as an accurate determination of  
the amount owing could be made. There was  
disagreement between GBSD and the Audit  
Department as to which formula would result  
in an accurate figure due to the  
complications of proration.

...(Figures will be completed) immediately  
and we will contact (the employee) in  
September to establish a repayment schedule.

We could not locate 3 of the 26 time sheets  
selected for review.

Maine Civil Service Rules, Section 14  
requires each department or division to  
maintain adequate employee records for  
recording attendance and leave actions.



## AGENCY PROGRAM

## CONDITION

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

Inadequate maintenance of employee  
records (cont'd.)

### Auditee Response:

We recommend the department ensure that the Governor Baxter School for the Deaf prepare and retain time sheets.

Initially three timecards were missing. After searching records, two of the three were located. All three had been delinquent at the time the payroll was prepared.

A new system for rapid recovery of delinquent cards will be implemented in September. We expect the new system to eliminate this problem.

Department of Environmental Protection -  
Division of Administrative Services

Reconciliation of consent agreement  
accounts receivable  
(64)

The Department of Environmental Protection General Fund accounts receivable, \$177,704 at June 30, 1989, have not been reconciled to the records of the State Controller since March 1989; and control records did not agree as of April 30, 1989 when they were last posted. The absence of reconciliation could lead to loss of assets or inaccurate financial information.

We recommend that the agency reconcile its accounts receivable records at each level (detail vs. agency control vs. State Controller's records) on a monthly basis; and that the agency post records and maintain them on a current basis.

### Auditee Response:

Procedures were and are in place to process, track and reconcile accounts receivable. During fiscal year 1989 the staff accountant responsible for accounts receivable was on maternity leave and some records were not maintained on a current basis. Since the accountant's return, the accounts receivable processing, tracking and reconciliation has been brought up to date and maintained.

Steps have been taken to try to assure that normal work and procedural requirements continue to be met when there are staff changes.

AGENCY/PROGRAM

CONDITION

Department of Environmental Protection -  
Division of Administrative Services

Control of consent agreements  
(65)

The Department of Environmental Protection presently has at least one on-going consent agreement where there is no control over the total amount owed or a running total of payments received. We could find no written procedures for administering consent agreements, either for one-time set fines or on-going reimbursement agreements.

We recommend that the department report and record consent agreements as accounts receivable for the full amount owed. We also recommend that the department establish written procedures for administering all consent agreements.

Auditee Response:

The item in question was negotiated prior to a consolidation of enforcement efforts by the Office of the Commissioner. The item is being reviewed to bring it into compliance with procedures. Since consolidation of consent agreements, a uniform approach has resulted in full recording of receivables. Memoranda regarding consent agreements will be consolidated into a standard operating procedure.

Department of Environmental Protection -  
Division of Administrative Services

Maine Environmental Protection  
Fund - working capital advance  
(66)

The Third Special Session of the 113th Legislature approved a working capital advance of \$500,000 to the Maine Environmental Protection Fund (Chapter 884 PL, Part A, Section 3, paragraph 14). The Commissioner was required to report a plan to the Joint Standing Committee on Appropriations and Financial Affairs by February 15, 1989 regarding the amount of the advance to be repaid each year and the number of years to repay. The plan was submitted on March 23, 1989, and the first repayment made on schedule. The advance was recorded on the agency accounts as Due to Other Funds and the character and object coding was budget estimates.

The department has not implemented a system to track or monitor the repayments of the advance. Although not specifically required, such a system is essential for proper control of the advance. Long-term payables such as this working capital advance should be recorded as Working Capital Advances Payable rather than Due to Other Funds.

# AGENCY/PROGRAM

# CONDITION

Department of Environmental Protection -  
Division of Administrative Services

Maine Environmental Protection Fund -  
working capital advance (cont'd.)

## Auditee Response:

We recommend the department implement a system to track and monitor the repayment status of the working capital advance. We also recommend recording the advance on Working Capital Advances Payable, not Due to Other Funds.

The plan established for repayment of the Working Capital Advance provides for a minimum payment once per fiscal year for a period of 20 years. A standard operating procedure (SOP) has been drafted to assure the consistent administration of the repayment process. A tracking system was in place at the time of the audit but will be improved with the implementation of the SOP. The Budget and Finance Division will verify the appropriate balance character and object coding; the Department of Audit may want to contact the Controller's Office directly regarding these issues.

Executive Department - Division  
of Community Services

Journal entries not recorded in  
a timely manner  
(67)

The division did not prepare and record allocation entries affecting the State Controller's records in a timely manner. As a result, the Controller reported inaccurate account balances.

We recommend the division implement procedures to assure that required journal entries are prepared and recorded in a consistent and timely fashion.

## Auditee Response:

The Division has taken steps through existing staff to ensure that these entries are prepared and recorded in a timely manner. As a result of recent staff changes and the implementation of MFASIS, the Division will review and revise our internal controls, which will certainly include ensuring that these allocation entries are prepared and recorded in a timely manner.

Executive Department - Division  
of Community Services

Reports missing  
(68)

We were unable to locate the payroll allocation printout for one payroll period.

We recommend the division take greater care in filing and storing computer reports to ensure their availability for audit and review purposes.

# AGENCY/PROGRAM

# CONDITION

Executive Department - Division  
of Community Services

Reports missing (cont'd.)

## Auditee Response:

Division management will follow the auditor's recommendation that greater care be taken in the filing and storage of computer reports to ensure their availability for audit and review purposes. The Division also wishes to take this opportunity to point out that all of these computerized payroll allocations are supported by individual employee time sheets. These source documents are also maintained as an alternative for review by auditors at their request.

Department of Finance - Bureau of  
Accounts and Control

General Fund balances incorrectly  
lapsed  
(69)

Public Laws of 1987 and 1989 established the Lake Restoration and Protection Fund (1530.8) and the Solid Waste Management Fund (1531.6) as nonlapsing funds.

Balances in these funds totaling \$264,618 incorrectly lapsed to unappropriated surplus.

We recommend that the Bureau of Accounts and Control establish a record of those accounts that by statute are nonlapsing; and that it review this record prior to lapsing or carrying forward General Fund account balances.

## Auditee Response:

Restored soon after.

Department of Finance - Bureau of  
Accounts and Control

Federal Block Grant account balances  
(70)

Prior to July 1, 1988 all federal block grant receipts were deposited into a single undedicated revenue account. The Bureau of Accounts and Control and certain agencies maintained separate records of cash receipts.

After July 1, 1988 the cash balance in the single account was distributed to separate accounts for the various state agencies. Amounts distributed did not always agree with agency records. Neither the bureau nor agency records adequately supported or discredited the amounts distributed.

## Auditee Response:

Accounts and Control balances these accounts at the end of every month. We would take expenditures and deduct them from the revenue source that was assigned to that block grant. When the agencies review the balances at the accounts level, they realized that they had coded some of their deposits to the wrong block grant. But Accounts and Control had no way of knowing that the codes were mixed between Human Services Block Grant. With the new accounting methods, these things are monitored more closely.

## AGENCY/PROGRAM

## CONDITION

Department of Finance - Bureau of  
Accounts and Control

The bureau incorrectly accounted for  
working capital advance  
(71)

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

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

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

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

### Auditee Response:

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

Department of Finance - Bureau of  
Accounts and Control

Working capital advance  
(72)

### Prior Year Finding

As of June 30, 1989, the Bureau of the Lottery had not repaid \$335,000 of a \$400,000 working capital advance. Received in 1973, the advance was to be repaid in accordance with 8 MRSA §374, Subsection 1-L which specifies that lottery revenue may be apportioned for repayment of the money appropriated.

Accounts and Control interpreted the statute to mean that all revenues remaining after the payment of lottery prizes and operating expenses were to be transferred to the General Fund as profits of the Bureau of Lottery. This interpretation did not allow repayment of the working capital advance.

We recommend that the Bureau of Accounts and Control recover the outstanding working capital advance of \$335,000 from the next transfer of profits to the General Fund.

### Auditee Response:

As agreed with Audit's interpretation of this statute and have related that information to Lottery. They now have returned the advance.

# AGENCY/PROGRAM

# CONDITION

Department of Finance - Bureau of  
Accounts and Control

Petty cash advance  
(73)

The G.R.O.W. workshop is accounted for in the Special Revenue Fund. It received a petty cash advance of \$10,000 from the General Fund Petty Cash and Change Fund account #10017 rather than from the Special Revenue Fund Petty Cash and Change Fund #40017.

We recommend that the State Controller journal the advance to the Special Revenue Fund.

Auditee Response:

All funds in special revenue are dedicated; therefore, we consider it more appropriate to use general funds.

Department of Finance - Bureau of  
Accounts and Control

Expenditures processed without proper  
authorization  
(74)

We examined control procedures in place within the pre-audit section of the Bureau of Accounts and Control. Authorized signature cards for 2 of the 25 General Fund expenditures examined were not on file. Those on file did not include the appropriation account charged for 17 of the Capital Projects Fund expenditures.

We recommend that the pre-audit section of the Bureau of Accounts and Control not process payments unless invoices are properly authorized.

Auditee Response:

The bureau has created new signature authorization cards and has had all agencies sign them. Pre-Audit is now monitoring this very closely.

Department of Finance - Bureau of  
Accounts and Control

Control ledger variances not  
reconciled  
(75)

Accounts and Control has responsibility for the final recording of all receipts and expenditures according to the State of Maine Manual of Financial Procedures, Section 38.

Accounting control records maintained by the Bureau of Accounts and Control did not always agree with detail records maintained by various other state agencies. Since the bureau did not consistently reconcile control ledgers to the detail ledgers there were variances in accounts receivable and outstanding debt balances.

We recommend that the Bureau of Accounts and Control periodically reconcile recorded balances, particularly as of June 30th.

Auditee Response:

Every agency is required to submit a reconciliation of Accounts Receivable once a year. We had a new employee verifying this data, but she was not aggressive enough in her enforcement of this requirement. We will be doing better.

## AGENCY/PROGRAM

Department of Finance - Bureau of  
Accounts and Control

Noncompliance with requirements  
related to travel expenses  
(76)

## CONDITION

A review of travel and expense vouchers revealed the following deficiencies relative to the state's policy on influencing officials and department heads.

1. Lack of supporting receipts for meals exceeding \$8.
2. Duplicate charges for some travel expenses.
3. Reimbursement made for lodging for the full amount of double occupancy rates when only two-thirds of this rate is allowed.
4. Expenditures for travel expenses incurred after a conference closing date.
5. Reimbursement of costs for items of a personal nature, i.e., movie rental.
6. Rental of a vehicle without prior approval.
7. Reimbursement of meals when the accompanying program showed that a meal was provided.

Section 40 of the State of Maine Manual of Financial Procedures provides minimum requirements related to traveling expenses of state officials and employees.

We recommend that state officials ensure that the provisions of Section 40 of the Financial Procedures Manual are carried out and that all claims submitted are fair and just to the state. In addition, we also recommend that the Bureau of Accounts and Control make a concerted effort to prevent these conditions from recurring.

### Auditee Response:

This matter has been discussed with pre-audit clerks and will be watched more clearly in the future.

# AGENCY/PROGRAM

# CONDITION

(Office of)

Department of Finance - Bureau  
of Accounts and Control

(Treasurer of State)

(Department of Human Services)

Incorrect accounting of back  
wages  
(77)

The Department of Human Services (DHS) paid back wages to an employee, which resulted from an arbitration settlement. Several accounting errors occurred:

1. DHS was late reporting \$2,232 withheld federal income tax. Treasury reported the withholding to the Internal Revenue Service (IRS) as current taxes and not as late withholding deposit.
2. DHS incorrectly reported the employee's pension contribution of \$2,530 as withheld federal income tax, which the treasury reported to the IRS.
3. The same employee also received retroactive pay. The federal income tax portion was reported through the normal payroll process. DHS separately reported the same tax. Both deductions were reported to the IRS.

We recommend that:

1. The Treasurer's office report withheld federal tax as current or late.
2. The treasury adjust future deposits by the amount of the overpayment.
3. The Bureau of Accounts and Control make appropriate correcting journal entries.
4. The bureau report withholding as current or late.
5. The bureau take due care with unusual or infrequently occurring transactions.
6. The Department of Human Services use the payroll rather than invoices when paying back wages.

Auditee Response:

All correcting entries have been done.



AGENCY/PROGRAM

CONDITION

Department of Finance - Bureau of  
Alcoholic Beverages

Withdrawals from warehouse stock  
(78)

The department did not include special order warehouse sales of \$15,869 to various agency and state liquor stores in year end liquor purchases and accounts payable totals.

We recommend that the bureau establish on the records of the Controller monthly accounts payable and liquor purchases for bailment withdrawals of liquor shipments from the warehouse stock.

Auditee Response:

The accounting department (Administrative Services) has been requested to discontinue this practice.

Special order withdrawals should be handled in the same manner as other purchases and reported in the same month.

Department of Finance - Bureau of  
Alcoholic Beverages

Unrecorded Inventory - Merchandise  
(79)

State owned liquor inventory records were understated by \$83,657, of which \$81,037 was the result of one brand of imported liquor that was placed on hold by the Federal Government. It was not available for immediate store resale and therefore not placed in the value of Inventory-Merchandise.

We recommend that all state owned liquor be included in the state's financial records as Inventory-Merchandise.

Auditee Response:

Subsequent to our discussion, it was determined that Absolut Vodka, 750ml size, (13,428 bottles) indeed should not have been included as inventory. Payment wasn't submitted until October 30, 1989, due to the B.A.T.F. embargo.

The remaining inventory was included in the reconciliation for this period. These adjustments were entered in July 1989.

Department of Finance - Bureau of  
Alcoholic Beverages

Sales to agency stores  
(80)

Title 28-A MRSA §707 requires that the sale of merchandise to agency stores be paid F.O.B. shipping point. Agency stores forward checks, which are completed except for the amount, to the Bureau of Alcoholic Beverages. The department determines the actual amount of the check after shipment to the store and a clerk in the Merchandising Division records it.

We recommend that the bureau use an alternate method of complying with the statutory limitations that does not require presigned checks.

AGENCY/PROGRAM

CONDITION

Department of Finance - Bureau of  
Alcoholic Beverages

Sales to agency stores (Cont'd.)

Auditee Response:

The Bureau of Alcoholic Beverages has submitted a legislative proposal to change the terms of payment which would eliminate the need for presigned checks.

Department of Finance - Bureau of  
Alcoholic Beverages

Inventory valuation method  
(81)

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

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

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

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

Auditee Response:

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

Department of Finance - Bureau of  
Alcoholic Beverages

Revenue recognition  
(82)

Several payments received for liquor shipped to agency stores on June 30, 1989 are included in revenues for fiscal year 1990. Revenues should be recognized on the accrual basis in the accounting period in which they are earned and become measurable.

AGENCY/PROGRAM

CONDITION

Department of Finance - Bureau of  
Alcoholic Beverages

Revenue recognition (cont'd.)

Auditee Response:

We recommend that the department recognize revenue from sales in the same fiscal year as earned.

The Bureau of Alcoholic Beverages agrees with the recommendation. Current procedures should be modified to reflect revenues in the same year sold.

The Liquor Commission would be very receptive to the initiation of an accrual accounting system.

Department of Finance - Bureau of  
Alcoholic Beverages

Warehouse contract  
(83)

Title 5 MRSA §1812 requires that contracts entered into must be approved by the Bureau of Purchase. The Bureau of Alcoholic Beverages does not have a formal approved contract with Fore River Warehouse.

In order to assure favorable contract terms and opportunities for all interested providers to participate we recommend that when securing warehouse services the bureau enter into formal contracts approved by the Bureau of Purchases.

Auditee Response:

The recommendation that the Bureau of Alcoholic Beverages seek bids for warehouse services, reflects a misunderstanding of the nature of bailment warehousing. Under bailment, the sellers of goods to the state, continue to own those goods and continue to have full responsibility for arranging and paying for the storage of goods until they are shipped from the bailment warehouse to the retail stores. Only when the goods are actually in transit to the retail stores does the state assume title to them.

Clearly, if the state owned products were to be stored in a warehouse other than the current bailment warehouse pursuant to bid, any storage savings, if any, would be far offset by the cost of transporting product on a daily basis to the bailment warehouse for integration into outbound loads, the extra handling charge for bringing it into the bailment warehouse would be exorbitant.

# AGENCY/PROGRAM

# CONDITION

Department of Finance - Bureau of  
Alcoholic Beverages

Warehouse contract (cont'd.)

For the aforementioned reasons, the Bureau has no right to seek bids since the storage arrangements are a matter of agreement between the bailment warehouse and the manufacture of the product. The only exceptions to this are when the State owns product by virtue of purchasing through the "Parallel Market" or on "Post Off" which results in tremendous savings to the State, or under the current special arrangement of the local distiller with the Maine State Liquor Commission which is due to expire in 18 months. The total percent (%) of product in the bailment warehouse owned by the State is never more than 10% to 20% and will drop to approximately 5% on expiration of the special arrangement with the local manufacture.

Department of Finance - Bureau of  
Lottery

Gain/loss on sale of assets  
(84)

The procedures which the bureau uses when recording disposal of fixed assets do not recognize any gain or loss resulting from these transactions. Under present practice, the bureau records fixed assets disposals using the fixed assets, reserve for depreciation, depreciation expense and miscellaneous income accounts only.

In order to recognize gains or losses resulting from the sale of those assets we recommend that the bureau record future fixed assets disposals.

## Auditee Response:

Starting with the sale of a vehicle at the June 1990 auction, we will recognize gain/loss on the sale.

Department of Finance - Bureau of  
Lottery

Unclaimed Prize account imbalance  
(85)

Review of the Unclaimed Prize account for the Pick 3 numbers game disclosed debit balances at the beginning and end of the fiscal year. Additionally, there is a discrepancy of \$91,800 in the Unclaimed Prize account between the beginning and ending balances of Pick 3 and Pick 4 games.

We recommend that the bureau determine accurate unclaimed prize balances for both the Pick 3 and Pick 4 games and that it record appropriate adjustments to the Unclaimed Prize account.

# AGENCY/PROGRAM

Department of Finance - Bureau of Lottery

Unclaimed Prize account imbalance (cont'd.)

## Auditee Response:

Department of Finance - Bureau of Lottery

Working capital advance (86)

### Prior Year Finding

# CONDITION

The balance of 67206 at June 30, 1989 is a credit of \$90,527. The breakdown of this is:

200 Pick 3 Debit	1,142
201 Pick 4 Credit	94,669

These numbers are taken off system driven reports. The system balances according to balance procedures established. It is possible due to the way prizes are paid out to have a debit balance situation. This is only a temporary balance and changes on a weekly basis. Without more information we are not able to arrive at the discrepancy amount mentioned above.

As of June 30, 1989, the Bureau of the Lottery had not repaid \$335,000 of a \$400,000 working capital advance. It received the advance in 1973 (Chapter 570, Section 3, Public Laws, 1973) and was to repay in accordance with 8 MRSA § 374, 1-L which specifies that lottery revenue may be apportioned for repayment of the money appropriated.

The bureau interpreted Title 8, MRSA, Section 374 and 387, which relates to the apportionment to lottery revenues, to mean that all revenues remaining after the payment of lottery prizes and operating expenses were to be transferred to the General Fund as profits of the Bureau of Lottery. This interpretation left no means for repaying the working capital advance.

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

## Auditee Response:

Department of Finance - Bureau of Lottery

Lottery Imprest Account (87)

### Prior Year Finding

This amount is to be returned during F.Y. 91.

Checks issued from the Lottery Imprest Account are void after 90 days. As of the June 30, 1989 bank reconciliation checks totaling \$1,072 that were over 90 days old were carried as outstanding items.

Checks no longer negotiable should be restored to cash. No outstanding checks have been written off since the account was established in fiscal year 1986. As a result, cash is understated.

AGENCY/PROGRAM

CONDITION

Department of Finance - Bureau of  
Lottery

Lottery Imprest Account (cont'd.)

Auditee Response:

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

As of August 1990 all outstanding checks that are no longer legally negotiable will be restored to cash. Due to the fact that some checks are cashed after the 90 day period, we will restore any outstanding checks on a fiscal year basis.

Department of Finance - Bureau of  
Lottery

Petty cash account  
(88)

The bureau has established a petty cash account, maintained by the State Treasurer to allow electronic (wire) transfers of funds to lottery agents for prize payments.

The department makes wire transfer and imprest fund replenishment requests by using written and/or "faxed" memoranda which do not require authorization signatures to be processed.

We recommend the department require lottery officials to authorize fund transfers before processing occurs.

Auditee Response:

This process has been changed to include authorization by a lottery official.

Department of Finance - Bureau of  
Taxation

Reconciliation procedures inadequate  
(89)

Reconciliations are inadequate for individual income tax, corporate income tax, sales tax, use tax and estate tax.

The reconciliations for these taxes have either insufficient detail to support the reconciling items or have only the detail transactions and not the total; or have an account total and not the total for the revenue source (c&o). As a result, there were variances to the balances maintained by the Bureau of Accounts and Control.

We recommend that the bureau properly reconcile the taxes noted.

Auditee Response:

Starting in FY 1991 a clerk in the Business Services Division will prepare a monthly tax reconciliation between the "State of Maine Comparative Statement of Income Report" and the "Cumulative Revenue Report by Agency."

# AGENCY/PROGRAM

# CONDITION

Department of Finance - Bureau of  
Taxation

Reconciliation of procedures inadequate  
(cont'd.)

Department of Finance - Bureau of  
Taxation

Adherence to RFTA audit standards  
(90)

## Prior Year finding

## Auditee Response:

Department of Finance - Bureau of  
Taxation

Cost reimbursements not recorded  
in accordance with generally accepted  
accounting principles  
(91)

Starting in FY 1991 a clerk in the Income Tax Division will prepare a monthly tax reconciliation between the "State of Maine Comparative Statement of Income Report" and the "Agency Estate Tax Section Revenue Report."

Bureau auditors did not perform a study and evaluation of the licensee's internal controls for 7 of 25 RFTA audits which we examined. Procedures for auditing are described in Section VII, paragraph 3, of the Regional Fuel Tax Agreement (RFTA) Audit Manual.

As a result of prior year audit recommendations the bureau has improved the quality of audits performed in accordance with RFTA audit requirements. These improvements were noted during a review of the reports and related working papers. We recommend that the bureau continue to pursue methods of implementing RFTA audit requirements.

It is our understanding that the seven audits which failed to meet RFTA Audit Manual standards were processed prior to last year's audit finding. The remaining 17 processed after the finding were in compliance.

Reimbursement of costs related to gasoline and industry tax collections were not recorded in accordance with generally accepted accounting principles (GAAP). The bureau recorded reimbursements as expenditures in the reimbursing funds and as revenue in the fund being reimbursed. As a result, General Fund revenues and expenditures were overstated by \$646,727.

We recommend that reimbursements be recorded as outlined in §1800.103 of the Government Accounting Standards Board codification which states:

Transactions that constitute reimbursements of a fund for expenditures or expenses initially made from it that are properly applicable to another fund should be recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as reduction of that expenditure or expense in the fund that is reimbursed.

AGENCY/PROGRAM

CONDITION

Department of Finance - Bureau of  
Taxation

Cost reimbursements not recorded  
in accordance with generally accepted  
accounting principles (cont'd.)

Auditee Response:

Department of Human Services -  
Office of Commissioner

Various Programs

Support documents not available;  
unallowable mileage expenses;  
noncompliance with state  
reimbursement procedures  
(92)

It appears that while GAAP is the State Auditor's yardstick, the State accounting system is not compatible with GAAP. Our accounting procedures are dictated by Accounts and Control and the Budget Office. Accordingly, we will continue to record these accounting entries in accord with past practice until the State's accounting system is modified to provide for the treatment you recommend.

Our review of travel expense vouchers revealed:

1. The department reimbursed an employee for \$10.00 without receiving a meal receipt to support that expense.
2. The department reimbursed an employee \$99.00 for mileage expenses to and from his residence which did not comply with state policy.
3. The department reimbursed an employee \$121.69 for accommodations under the American Plan although the supporting receipt did not segregate meals and lodging amounts.

Section 40 of the State of Maine - Manual of Financial Procedures provides minimum requirements related to traveling expenses of state officials and employees.

We recommend:

1. The department adequately support all travel expenses, as required.
2. Office personnel claim only allowable mileage costs.
3. When employees made accommodations under the American Plan the receipts show meals and lodging amount.



AGENCY/PROGRAM

Department of Human Services

Various Programs (Cont'd.)

Auditee Response:

Department of Human Services -  
Division of Data Processing

No alternative computer processing  
plan  
(93)

Prior Year Finding

CONDITION

The findings have been reviewed by the Department:

1. The employee has repaid the state \$2.08 difference between amount allowed without a receipt (\$8.00) and the actual amount (\$10.08).
2. The employee was not aware that this was not allowed. He has repaid the amount in full (99.00).
3. The arrangements for the conference were made by the Department of Labor. The hotel, when contacted, stated that they do not break out meals from lodging. The rate was a package rate for the conference.

I am enclosing a copy of the receipt for the Commissioners' check for \$101.08.

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

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

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

AGENCY/PROGRAM

CONDITION

Department of Human Services -  
Division of Data Processing

No alternative computer processing  
plan (cont'd.)

**Auditee Response:**

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

Department of Human Services -  
Division of Data Processing

No personal background checks for  
computer personnel  
(94)

Prior Year Finding

The department does not perform formal background checks on candidates for data processing positions in the data processing division.

The potential misuse of confidential client information and the risk of the misappropriation of state and federal funds requires a formal background check as well as a personal interview.

We again recommend that the Division of Data Processing check backgrounds on all new employees and recheck at appropriate intervals. Personnel managers for the department are currently looking into developing procedures on checking applicants' backgrounds for data processing positions.

**Auditee Response:**

The Division checks references prior to a decision to offer employment. However, the candidates are those certified by the Bureau of Human Resources and placed on the register. As indicated in previous audits, this is a matter to be addressed by the Bureau of Human Resources.

Department of Human Services -  
Division of Financial Services

Untimely recording of accounts  
receivable transactions  
(95)

Our review of the department's accounts receivable records revealed:

1. The manual subsidiary ledgers were not posted up-to-date.
2. One account (claim) recorded in a subsidiary ledger was omitted from the accounting control total.

AGENCY/PROGRAM

CONDITION

Department of Human Services -  
Division of Financial Services

Untimely recording of accounts  
receivable transactions (cont'd.)

Because of the continual change in the composition of accounts receivable, the department should maintain control over the file that provides a record of daily changes. Control is provided through daily changes which must agree with the entries made in the books of account. Entries in the books of account should be made in a timely manner in order to ensure that the accounts receivable balance represents all claims against debtors and that procedures are efficient.

We recommend that transactions affecting accounts receivable be posted to the control and detail records in a timely manner.

**Auditee Response:**

The Department understands the finding and will take the necessary steps to comply with the recommendation.

Department of Human Services -  
Bureau of Income Maintenance

Overpayments of households  
(96)

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

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

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

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

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

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

**Auditee Response:**

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

## AGENCY PROGRAM

Department of Human Services -  
Bureau of Income Maintenance

No contract for an attorney who  
represents the department  
(97)

### Auditee Response:

Department of Human Services -  
Bureau of Income Maintenance

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

## CONDITION

The department uses a private attorney to represent them in certain paternity cases, but has not properly executed a contract with the attorney. Attorney fees for \$113,156 were charged to the program during the audit period.

Section 48.5 of the State of Maine - Manual of Financial Procedures sets forth certain required procedures for procuring special services when the amount exceeds \$7,500. These procedures require a determination of need, a Request For Proposal (RFP) or Invitation For Bids (IFB) submitted to a Contract Review Committee for approval; and a legal advertisement placed in Maine newspapers. The bureau only made a determination of need.

We recommend that when procuring additional services the bureau conform to the procedures for contracting with outside firms or individuals.

We believe that there is a contract in place at this time. We are attempting to obtain a copy. If there is no contract, then we will take the necessary steps to ensure that proper procedures are followed.

Title 5, MRSA, Section 1667, states:

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

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

## AGENCY PROGRAM

Department of Human Services -  
Bureau of Income Maintenance

ASPIRE Program expenses incurred by the Department of Labor charged to the Department of Human Services appropriation account (cont'd.)

Auditee Response:

## CONDITION

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

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

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

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

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

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

Department of Human Services -  
Bureau of Income Maintenance

Lack of formal procedures for verifying eligibility determination (99)

The Bureau of Income Maintenance (BIM) does not have written procedures and the regional offices do not have informal procedures for verifying and documenting the conditions of eligibility for those persons applying to receive Aid to Families with Dependent Children (AFDC) benefits. The BIM's Assistance Payments Manual describes the criteria for eligibility, but does not include verification procedures.

AGENCY PROGRAM

CONDITION

Department of Human Services -  
Bureau of Income Maintenance

Lack of formal procedures for verifying eligibility determination (cont'd.)

Auditee Response:

To ensure that all AFDC applicants meet the eligibility criteria qualifying them for AFDC benefits, we recommend that the Bureau of Income Maintenance develop formal procedures for verifying and documenting conditions of eligibility.

Chapters I and II of the Maine Public Assistance Payments Manual describes general verification procedures which discuss specific eligibility factors. Other procedures are described in memos from central office staff.

Unlike the Quality Control Unit which is required to establish and verify each eligibility element, AFDC eligibility Specialists are required by federal regulations to verify a limited number of factors (assets, income, termination of income and questionable information). The Quality Control Manual, therefore, goes into great detail about verification procedures for establishing birth dates, household composition and such.

There is no separate manual for verification and documentation, however, these procedures are contained in the policy manual and memos dealing with specific eligibility requirements are sent to regional offices as appropriate.

The statement that "Department's Regional Offices do not have their own informal procedures for verifying the conditions of eligibility" is unclear.

The Bureau would like, in the future, to consolidate existing memos and policy into one manual. At this time, however, budget constraints and staff shortages make this task a low priority.

Department of Human Services -  
Bureau of Medical Service

Lack of documentary evidence for supervisory review of negotiated third party liability settlements (100)

A review of 28 third party collections revealed that settlement decisions were not adequately documented nor reviewed by supervisory personnel. Although the third party liability unit has taken corrective action, the results were not evident (in the case records) prior to March of 1990.

Prior Year Finding

AGENCY/PROGRAM

CONDITION

Department of Inland Fisheries  
and Wildlife

Lack of documentation for license  
revenues  
(101)

While testing a sample of selected revenue transactions, we could not locate 4 of 60 licenses. In order to provide proper internal control and an adequate audit trail the department should maintain all documents supporting recorded transactions.

We recommend the department exercise more diligence in maintaining copies of all licenses sold.

Capital equipment records not  
current  
(102)

The department did not post to the detail capital equipment records for the fiscal year ended June 30, 1989. As a result, the agency was late in submitting reports to the Bureau of Public Improvements and in performing the reconciliation of the detail records to the summary records. The State of Maine Manual of Financial Procedures requires state agencies to maintain current capital equipment records.

We recommend that the department maintain capital equipment records on a current basis in accordance with the Financial Procedures Manual.

No prior approval for purchase  
of goods and services  
(103)

A sample of 60 expenditure transactions revealed that 11 items (18%) tested did not document prior supervisory approval. The State of Maine Manual of Financial Procedures, section 71.3, requires that an approved open market purchase order be issued prior to the actual purchase of goods and services. The department's policy manual also requires that an approved open market purchase order be issued prior to the purchase of any item costing over \$50.00, unless the purchase is for an emergency. In each of the 11 instances noted above, the department approved the purchase order after it made the purchase.

We recommend that the department issue purchase orders prior to purchasing goods and services on the open market.

Auditee Response:

We agree in general with your findings and have already taken steps to ensure compliance with your recommendations. We feel confident that the deficiencies noted will not be encountered in future audits.

AGENCY/PROGRAM

Judicial Department - Administrative Office of the Courts

Inconsistent compliance with Bureau of Purchases' procedures for purchase of materials and services  
(104)

CONDITION

The Judicial Department did not consistently comply with the Bureau of Purchases' published procedures for procurement of materials and services. It did not always use purchase orders as required, and many times processed invoices for payment without the signature of a receiving official.

Title 4 M.R.S.A., Chapter 1 Section 26 states:  
Unless otherwise prohibited by law, the Judicial Department shall use the services of and be included in any systems established and maintained by the bureaus within the Department of Finance and Administration and the Department of Personnel and shall be subject to the same rules which apply to the Executive Department unless specifically exempted.

The State of Maine Manual of Financial Procedures Section 16.6 requires that all agencies of the state government follow Bureau of Purchases' procedures for purchases of materials and services.

We recommend that the Administrative Office of the Courts comply with the State of Maine Manual of Financial Procedures Section 16.

**Auditee Response:**

We agree in principle.

Instances noted where signatures appeared to be absent were due to problems with carbon copies. All signatures must appear on copies filed with the Bureau of Accounts & Control in order to be accepted for processing; otherwise, the documents would be returned by the Pre-audit Division.

Prior to the adoption of MFASIS on/about the first of this calendar year, it was an accepted procedure to requisition goods or solicit bids informally and issue purchase orders at time of payment. Purchase orders were issued for every Judicial Department purchase. Missing file copies occurred only when the Bureau of Purchases failed to send confirming copies to the Bureau of Accounts & Control.

Since the introduction of MFASIS, we are in complete compliance. A purchase order has to be filled out prior to initiating a request for payment.



## AGENCY/PROGRAM

Judicial Department - Administrative Office of the Courts

The Administrative Office of the Courts did not comply with procedures on safeguarding capital equipment (105)

## CONDITION

The Administrative Office of the Courts has not taken a physical inventory of capital equipment since June 30, 1986. In addition, it has not submitted quarterly equipment reports to the Bureau of Public Improvements.

The State of Maine Manual of Financial Procedures Section 60.3 states:

The law provides that the Department of Administration, through the Bureau of Public Improvements, shall have authority...to make or require an inventory of all removable equipment belonging to the State Government and keep it current.

Guidance on the maintenance of capital equipment records is provided in Section 66 of the same manual.

Title 4 M.S.R.A. Section 26 states:

Unless otherwise prohibited by law, the Judicial Department shall use the services of and be included in any systems established and maintained by the bureaus within the Department of Finance and Administration and the Department of Personnel and shall be subject to the same rules which apply to the Executive Department unless specifically exempted.

We recommend that the Administrative Office of the Courts comply with the Financial Procedures Manual.

## Auditee Response:

We agree with the need for an up-to-date physical inventory. We disagree with the need to make such reports quarterly to the Bureau of Public Improvements.

A physical inventory will be initiated by the Accounting Department for all courts and other units of the Judicial Department of July 1, 1990 and will be completed by December 31, 1990. This will be a verification inventory performed by each Clerk of Court or other responsible official. There will be spot checks of this process by the Accounting Department or District/Superior Court Administrator.

Up to now we have never been requested by the Bureau of Public Improvements to submit quarterly equipment reports. BPI has requested annual reports which we have provided. We believe that quarterly reports are not necessary since we keep an automated "real time" data base of physical assets that is always current.

## AGENCY/PROGRAM

Judicial Department - Administrative Office of the Courts

Time cards were not available for all personnel  
(106)

### Auditee Response:

## CONDITION

Bi-weekly time cards were not available for all personnel required to submit them.

State of Maine Civil Service Rules states, "Each Department or Division shall maintain an adequate set of employee records for the purpose of recording attendance and leave actions."

We recommend that the Administrative Office of the Courts require all nonexempt employees to prepare and submit adequate time cards and that the office maintain the time and attendance records.

We agree with the recommendation in principle. The Judicial Department has its own statutory authority to require such recordskeeping.

We agree with the need for an adequate set of employee records for the purpose of recording attendance and leave actions. We have an established system that apparently has been neglected in some instances by employees and supervisors. This will be addressed by a memorandum reminding supervisors and employees of the need for maintaining accurate, up-to-date time and leave records.

The Judicial Department is not a part of the Executive Department Civil Service (See 5 M.R.S.A. § 931.1.D.) The Supreme Judicial Court has established pursuant to statutory authority a judicial personnel system.

The State Court Administrator has established, pursuant to statutory authority, financial management procedures to be used in the Judicial Department. A revised Fiscal Manual was issued in February 1989. Section III is reserved for payroll procedures. However, issuance of this chapter was delayed, partially due to the death of the former Employee Relations Officer and partially due to the installation of a new state automated payroll system.

This chapter will set forth a similar policy to that of the Executive Department regarding attendance and leave records. Prior policies have not been codified. This section will be prepared and issued as soon as possible, in any event not later than December 31, 1990.

## AGENCY/PROGRAM

## CONDITION

### Department of Labor

Variance of benefit overpayments  
receivable  
(107)

The Benefits Section provides a summary report of daily transactions for posting to the benefit overpayment ledger account maintained by the Office of Administrative Services. The data base system produces a month end balance. There is a \$10,593 variance between the ledger and computer generated balances. Of this variance, \$9,900 has been outstanding since May of 1987.

We recommend that the Bureau of Employment Security identify and resolve all variances on a timely basis.

### Auditee Response:

Meetings will be scheduled with the U.I. Benefits Section, the Office of Information Processing, and the Office of Administrative Services to identify and reconcile the balances between the overpayment reports and the account balances and resolve any variances.

### Department of Labor

Wire transfer recorded incorrectly  
(108)

The Department of Labor transferred \$1,000,000 from the U.S. Treasury to a depository bank on June 28, 1989 via electronic funds transfer (e.f.t.). Labor recognized revenue and recorded an accounts receivable in anticipation of the e.f.t. The department did not process the income statement necessary to recognize the receipt of cash until fiscal year 1990; instead, they prepared a journal debiting cash and crediting accounts payable to recognize the cash in the proper fiscal period. The journal should have credited accounts receivable. As a result, accounts receivable and accounts payable were overstated at June 30, 1989.

### Auditee Response:

The telegraphic transfer was received by Fleet Bank and credited to our Unemployment Benefit Checking Account on June 28, 1989. An income statement was prepared by this agency on June 30, 1989 and sent to the State Treasurer's Office for processing. Inadvertently, credit for the \$1,000,000.00 was recorded by the Treasurer's Office on July 5, 1989 (State's Fiscal Year 1990). As the deposit was credited to new year revenue, it created a deficit to the State Controller's Cash and Appropriation accounts for period ending on June 30, 1989.

AGENCY/PROGRAM

CONDITION

Department of Labor

Wire transfer recorded incorrectly  
(cont'd.)

State journal number 20161 was prepared for Fiscal Year 1989 to establish an accounts receivable for the appropriation account level (Benefit Account #08410.1). Income Statement number 101, which was credited in the new year, cleared the accounts receivable. However, journal number 20161 did not adjust the Controller's Trust Fund Cash Account (30001) which remained in the red even though the cash had already been received and credited to our account in the bank. Whereas the Treasurer's Office was unable to properly credit the receipt at that time and upon the recommendation of the Controller's Office, journal number 20886 was prepared establishing an accounts payable.

This situation will not occur in the future as the new MFASIS Accounting System will not allow any account to have a deficit balance.

Department of Labor

Inadequate record of employer's  
surety deposits  
(109)

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

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

Auditee Response:

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

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

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

AGENCY/PROGRAM

CONDITION

Department of Labor

Inadequate inventory of employer's  
surety deposits (cont'd.)

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

Department of Labor

Discrepancies in calculation of  
interest due on delinquent  
unemployment tax accounts  
(110)

We were unable to replicate interest due amounts in 10 of 25 tests.

We recommend that the Bureau of Employment Security examine the methodology by which interest due amounts are generated and make any adjustments necessary to assure that all interest due is assessed.

Auditee Response:

This matter is currently being coordinated with the Office of Information Processing. Redesign of the tax database system will address this issue by calculating and posting the interest which the present system cannot accomplish. Some of the problems stem from amounts not on the database. In addition, since the interest rate has fluctuated over the years, accounts older than 2 or 3 years may have different amounts depending on the method of interest calculation.

Department of Labor

Discrepancies in reporting  
employers' annual taxable payroll  
(111)

The Bureau of Employment Security maintains two sources of annual taxable payroll. Annual taxable payroll is used to calculate employers' experience ratings that in turn determine the amount employers are required to pay in unemployment insurance. In 5 of 25 cases payroll totals differed between the Experience Rate Proof listing and the Computer Contribution Inquiry data.

We recommend annual payroll amounts agree regardless of the report format.

Auditee Response:

The redesign of the tax system will resolve this discrepancy. The reason for the discrepancy is that adjustments to annual payrolls are listed in the rate year in which the adjustments are made, not in the year adjusted (unless they're both the same year).

Department of Labor

Supervisory review of individual  
time sheets  
(112)

Prior Year Finding

A responsible official in each Department of Labor local office approves the time and attendance reports of the local office staff. Bureau of Employment Security (BES) procedures do not require the approving official to obtain approval of his or her own attendance record.

AGENCY/PROGRAM

CONDITION

Department of Labor

Supervisory review of individual  
time sheets (cont'd.)

Auditee Response:

We again recommend that responsible BES  
official approve all reports of time worked.

Effective the first pay period in July  
employees will be required to have their  
time and attendance reports approved by their  
immediate supervisor. An employee whose  
supervisor is not physically located in  
his/her office must make arrangements within  
their division for supervisor approval.

Department of Labor

Inadequate segregation of duties  
(113)

Auditee Response:

The individual responsible for inventory  
records frequently has custody of capital  
assets.

We recommend that the Bureau of Employment  
Security separate capital asset custody and  
recordkeeping functions.

The person maintaining property records is  
not responsible for receiving or signing  
capital assets when received. The individual  
responsible for inventory control does not  
process the invoice for payment or has capital  
asset custody as explained in the auditor's  
recommendation. The responsibilities include  
preparing the requisition, applying equipment  
tag numbers on all capitol items, entering  
the item in the computerized accounting system  
and reconciling to the state property records.  
We will continue to review the auditors  
recommendation to make sure there is a clear  
separation of duties.

Department of Labor

Incomplete cash receipts journal  
(114)

Auditee Response:

The Bureau of Employment and Training Programs  
(BETP) elected not to record certain types  
of checks in the cash receipts  
journal. Out of a sample of 25 items, 2  
were not recorded.

We recommend that BETP record all cash when  
received and periodically reconcile to the  
Controller's records.

During the exit interview the auditor did  
not have the information regarding which  
two items were not recorded in the cash  
receipts journal. We believe the checks  
in question were recorded either in the  
General Journal or on the Cash Receipts  
Statements.

# AGENCY/PROGRAM

# CONDITION

## Department of Labor

Incomplete cash receipts journal  
(cont'd.)

However, we will review the procedures and will ensure that all future cash receipts are recorded in the Cash Receipts journal. We will continue our current procedure of reconciling cash to the Controller's records on a monthly basis.

## Department of Labor

Schedule of Federal Financial Assistance misstates expenditures  
(115)

The Bureau of Employment and Training Program (BETP) reported expenditures for the program year rather than the fiscal year being audited. BETP included expenditures that occurred after the date of the audit and excluded prior program year expenditures which actually occurred during the audit period.

We recommend that BETP prepare a Schedule of Federal Financial Assistance to include actual expenditures for the fiscal year and authentic payables at year end.

## Auditee Response:

To comply with Federal reporting requirements, numerous transactions which occur after June 30 must be reported as expenditures for the program year. The schedule of Federal Financial Assistance requested is for audit purposes only. This is a time consuming process but we will prepare the document in future years.

## Department of Marine Resources

Issuance of purchase orders  
(116)

Open market purchase orders are routinely issued subsequent to the actual purchase. This practice does not conform with Section 17.3 of the State of Maine Manual of Financial Procedures.

For all but emergency circumstances we recommend that authority be given to responsible persons in the field so that purchase orders will be issued prior to purchase.

Capital equipment  
(117)

Capital equipment records have not been updated since September 30, 1988. This has resulted in a variance in excess of \$200,000 between the Bureau of Public Improvements general fixed asset account group records and the department documentation. Capital property reports have not been submitted for the quarters ended 12/31/88, 3/31/89 and 6/30/89.

We recommend that the department maintain equipment records and produce a timely quarterly report in accordance with Bureau of Public Improvements regulations.

# AGENCY/PROGRAM

# CONDITION

## Department of Marine Resources

Issuance of purchase orders (cont'd.)

### Auditee Response:

As soon as possible after the exit interview with your auditors, we took corrective action regarding all findings.

## Department of Mental Health and Mental Retardation

Medicaid uncollectables not written off  
(118)

Accounts receivable and the reserve for other accounts receivable for the State of Maine are both overstated: the Department of Mental Health and Mental Retardation has not written off almost \$.8 million of receivables from the Medicaid program. The resulting net value of receivables is not misstated on the financial statements, but is misleading.

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

### Auditee Response:

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

## Department of Mental Health and Mental Retardation

Gross earnings not reported  
(119)

Department personnel record revenue that is expected to be received, rather than revenue earned. The AICPA's Hospital Audit Guide states that patient revenue accounts should show on an accrual basis a complete summary of gross revenues earned at established rates. Any reduced rates should be reported separately as reductions of gross revenue.

We recommend that the department report revenue in accordance with the Hospital Audit Guide.

### Auditee Response:

While we agree with the technical requirement, it will take some time to implement this change given that our present system is, for the most part, manual. Posting charges based on "ability to pay" has always been perceived as more realistic.

## Department of Mental Health and Mental Retardation

Revenue variances  
(120)

The department neither projects nor analyzes revenue. We could not determine the cause of a variance of \$800,000 from fiscal year 1988 to 1989 at Bangor Mental Health Institute. The department believes that a variance of \$3.8 million from fiscal year 1988 to 1989 at Augusta Mental Health Institute was due to the processing of bills from the previous fiscal year.



AGENCY/PROGRAM

CONDITION

Department of Mental Health and  
Mental Retardation

Revenue variances (cont'd.)

Auditee Response:

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Bangor Mental Health Institute

Procedures to determine ability  
to pay

(121)

Auditee Response:

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Bangor Mental Health Institute

Patient billing

(122)

We recommend that the department project revenue, compare it to actual and analyze any variances.

It is inaccurate to assert that revenues are not analyzed or projected due to one apparent inconsistency. The Department routinely and regularly reviews revenues.

There is no basis for calculating the responsible party's ability to pay for care and treatment at state institutions. There are no procedures for verifying information or for including assets. Non-standardized inconsistent assessments may cause the state not to receive the amount of payment it is entitled to.

We recommend that the department implement statewide procedures to ensure that calculations for care and treatment are consistent.

The Department disagrees with both the recommendation and the assertion that there is presently "no basis for calculating the responsibility party's ability to pay...." Assessments of ability to pay are consistently applied by our Reimbursement Specialists and the Department believes that prescriptive procedures would overly restrict our ability to weight a person's unique circumstances without compromising the State's financial requirements.

The department's billing personnel receive accounts receivable cards from Bangor and Augusta Mental Health Institutes which include rate determination for all patients except those who have non-pay status. The department prepares bills from monthly census forms which the institutions also send. If a patient's name appears on the census but no accounts receivable card is found, department personnel assume that the patient has non-pay status.

Revenue could be lost if the card is misplaced or lost in the mail; cards could be intentionally destroyed and payments diverted without being noticed.

AGENCY/PROGRAM

CONDITION

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Bangor Mental Health Institute

Patient billing (cont'd.)

We recommend that the institutions clearly indicate those patients which have non-pay status.

Auditee Response:

We agree with this recommendation and are in the process of changing our system.

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Use of purchase orders  
(123)

Institute staff send unpriced purchase orders to one contracted supplier who prices and returns them. Neither warehouse nor business office personnel compare the prices from the supplier to the contracted prices.

We tested 25 warehouse items. Documentation for only 2 included purchase orders signed by an appropriate approving official. We also tested 25 pharmacy items. Documentation did not include signed purchase orders. All purchase orders reviewed included the typed name of an approving official. Institute personnel stated that the part of the purchase order sent to the vendor was signed.

We recommend that institute personnel price all purchase orders. We recommend that supervisors sign purchase orders before parts are detached.

Auditee Response:

We essentially agree and will modify our practices accordingly.

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Segregation of duties for representative payee accounts  
(124)

One individual signs withdrawal slips, withdraws cash and reconciles bank statements for approximately 65 patients for whom the institute is representative payee.

In order to prevent misappropriation of patients funds, we recommend that the institute segregate duties so that one person does not keep records and also have access to cash.

Auditee Response:

We agree and will review current staffing levels to determine the most effective way to accomplish a more appropriate separation of duties.

AGENCY/PROGRAM

CONDITION

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Three patients' cleared checks  
held for 2-3 years  
(125)

A bank branch located at the Augusta Mental Health Institute complex provides a check clearing service for institute patients. A patient or authorized staffperson can receive cash for a deposited check drawn on another bank, usually within a week.

Checks totalling \$85 were deposited for three patients on 1/23/87, 2/18/88 and 4/19/88 and have been reconciling items ever since.

We recommend that the institute return cash to the patients as soon as possible. We also recommend that staff members who reconcile accounts investigate those items which remain outstanding for more than one month.

Auditee Response:

Responsible individuals will be advised of this recommendation.

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Variances in patients' cash in  
the wards  
(126)

Cash boxes for 8 out of 15 patients in one ward did not contain the amount recorded in the patients' accounts ledger: 5 were over; 3 were short; and total cash was short by \$13. Occasionally a patient's cash was temporarily used for another patient.

We recommend that the department reconcile patient cash accounts immediately and that no patient's cash be dispensed to or used for any other patient.

Auditee Response:

We agree. The Business Office will be advised to address this issue and to establish a system which will assure compliance.

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Bangor Mental Health Institute

No standard procedures for patient  
petty cash  
(127)

Procedures for handling and recording small amounts of patients' cash vary from ward to ward.

We recommend that the institutes standardize procedures and recordkeeping in accounting for patients' funds kept by ward staff. We also recommend that whenever able to, patients sign transaction records.

Auditee Response:

The Department will explore ways to standardize procedures and recordkeeping; but signing transaction records would be extremely difficult. However, that also will be explored.

## AGENCY/PROGRAM

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Internal control weaknesses in  
warehouse  
(128)

## CONDITION

The following weaknesses exist in the perpetual inventory system of the institute's warehouse:

1. Warehouse staff maintain perpetual inventory on bin cards that include the date of transaction, the number of items received or issued and the balance of items on hand. Neither a requisition slip number nor the signature of the issuer or receiver is included. A cardex file is used to record receipt information only, e.g., the supplier's name and the cost per unit.
2. One individual is responsible for the custody of items in the warehouse. However, the engineering staff can gain unaccompanied access to the warehouse by requesting a key at the switchboard and signing a log. During the fiscal year ended June 30, 1989, there were 20 instances of unsupervised access to the warehouse after standard working hours.

We recommend that warehouse personnel base a perpetual inventory system on the cardex file, and that the system include documentation of issuance. We recommend that personnel requiring after-hours access to the warehouse be accompanied by an individual who will document removal of stock.

### Auditee Response:

The Department agrees with these recommendations. Both will involve more staff time, but are critical to assure proper internal controls.

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Valuation of warehouse inventory  
(129)

Business office personnel value warehouse inventory annually by multiplying the number of items on hand by the item's last purchase price. Old inventory items are appreciated by 300% to adjust to current prices.

We recommend that institute personnel use standard methods to determine the value of inventory.

### Auditee Response:

We will explore alternative "standard methods", but we essentially agree that the current system is inadequate.

AGENCY/PROGRAM

CONDITION

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Food warehouse perpetual inventory  
(130)

The institute's business office maintains computerized perpetual food inventory. Personnel do not make entries as receipts and issuances occur, and make adjustments to the records without the required approval of the business manager. Out of 13 items tested 8 did not agree with actual amounts. The value of one item was recorded as \$163, and the quantity as 0.

We recommend that the institute correct the deficiencies of the automated inventory system or implement a manual system. We also recommend that personnel cease making adjustments to inventory without appropriate approval.

Auditee Response:

We agree and have charged the Director, Food and Nutrition Services to work with the Business Manager to correct this problem.

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Control in food warehouse  
(131)

Refrigerated lockers in the food warehouse were left unlocked and unsupervised. Food warehouse personnel released food prior to receiving requisitions.

We recommend that personnel provide security for items in refrigerated lockers, and release no food prior to receiving an authorized requisition slip.

Auditee Response:

We agree and have asked the Director, FNS, to immediately correct this problem.

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Pharmacy perpetual inventory  
(132)

Subsequent to the fiscal year ended June 30, 1989, the Augusta Mental Health Institute pharmacy discontinued its perpetual inventory except for Schedule 2 drugs. The institute plans to automate inventory transactions in the near future.

We recommend that the institute establish a perpetual inventory system as soon as possible.

Auditee Response:

A computerized system has been implemented and does now maintain a perpetual inventory of all drugs.

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Laundry stock valuation  
(133)

Personnel did not take physical inventory supporting the institute's June 30, 1989 laundry stock valuation until February, 1990.

# AGENCY/PROGRAM

# CONDITION

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Laundry stock valuation (cont'd.)

Auditee Response:

In order to fairly represent inventory values, we recommend that institute personnel perform a physical inventory at the end of the fiscal year.

We agree with the recommendation. Staff vacancies and competing demands often times creates delay.

Department of Mental Health and  
Mental Retardation

Augusta Mental Health Institute

Bangor Mental Health Institute

Segregation of duties  
(134)

At both the Augusta and Bangor Mental Health Institutes one employee in the warehouse is responsible for both receiving goods and maintaining perpetual inventory records. A physical inventory would not detect a loss should an employee receive goods, record a portion of the goods received and retain the balance.

We recommend that the Bangor Mental Health Institute reinstate its practice of verifying that all goods received are posted to inventory records. We recommend that the Augusta Mental Health Institute develop a similar procedure.

Auditee Response:

The Department agrees and will take immediate steps to correct this situation at both facilities.

Department of Mental Health and  
Mental Retardation

Bangor Mental Health Institute

Sheltered Workshop petty cash  
(135)

Auditee Response:

Sheltered Workshop account records did not account for \$206 of the authorized petty cash balance of \$7,500.

We recommend that staff reconcile petty cash funds to the authorized balance.

We of course agree and will reinforce this important reconciliation procedure to all involved.

Department of Mental Health and  
Mental Retardation

Bangor Mental Health Institute

Individual paid by BMHI not employed there  
(136)

One employee who worked as a government intern at the Elizabeth Levinson Center was paid from Bangor Mental Health Institute's appropriation 1355.1.

Legislative appropriations are for approved and budgeted purposes. We recommend that the appropriation accounts be charged only for the institute's authorized positions.

Auditee Response:

The Department agrees with the recommendation and will reinforce same to all business office personnel.

AGENCY/PROGRAM

CONDITION

Department of Mental Health and  
Mental Retardation

Bangor Mental Health Institute

Timekeeping records inadequate  
(137)

Prior Year Finding

Auditee Response:

Department of Mental Health and  
Mental Retardation

Bureau of Mental Retardation

Return of cash advance  
(138)

Auditee Response:

Department of Professional and  
Financial Regulation

Incomplete record of time worked  
(139)

Timekeeping records for most units were inadequate for recording hours of attendance and hours of leave.

In July, 1989 the department began using timecards that include actual time worked, explanations for time not worked, and signatures of the employee, ward charge and ward supervisor. Therefore, there are no recommendations.

We are hopeful that changes implemented in July, 1989 will permit us to maintain adequate records.

The bureau can advance cash to community agencies for start-up costs or cash flow needs. The agency may repay these loans or apply them to a subsequent grant with permission of the bureau; or the bureau may forgive them.

The bureau allows the transfer of state cash directly from one agency to another. Section 1543 of 5 MRSA states that disbursements made by the state must be made by check and authorized by the Controller and Treasurer. Section 130 states that funds payable to the state must be remitted to the Treasurer.

We recommend that the bureau require all agencies to remit repayments of cash loans directly to the Treasurer. We recommend that the bureau only make loans by check authorized by the Controller and Treasurer.

We agree and have implemented procedures which should prevent similar incidences in the future.

Time sheets for 5 of 25 employees did not contain the employee's record of actual time worked.

The State of Maine Civil Service Rules require that each department or division maintain an adequate set of employee records to include attendance or official duty for classified and unclassified employees.

We recommend that all classified and unclassified employees complete and sign their time sheets indicating time worked and leave time taken.

# AGENCY/PROGRAM

# CONDITION

Department of Professional and  
Financial Regulation

Incomplete record of time worked  
(cont'd.)

Auditee Response:

Please be advised that bi-weekly time sheets used in the Department of Professional & Financial Regulation have recently been revised to comply with the MFASIS Human Resources Program and are now being signed as requested.

Department of Professional and  
Financial Regulation

Unauthorized funds transfer  
(140)

Title 32 MRSA §1154 (Electricians' Examining Board) states:

All fees received by the board shall be paid to the Treasurer of State to be used for carrying out this chapter. Any balance of these fees shall not lapse, but shall be carried forward as a continuing account to be expended for the same purposes in the following fiscal years.

Administrative Services Division personnel transferred \$14,200 from the Electricians' Examining Board to the Board of Accountancy. The explanation on the journal stated that transfer was to correct an income statement coding error. There was no error, however and department personnel subsequently indicated that the transfer was made to fund operating requirements of the Board of Accountancy.

We recommend that \$14,200 from the Board of Accountancy be returned to the Electricians' Examining Board.

Auditee Response:

A cash transfer of \$14,200 was made from the dedicated revenue carrying account of the Electrician's Board to the dedicated revenue carrying account of the Board of Accountancy for a six-month period until licensing fees were received. Since the audit report the funds are available in the Accountancy Board and are being transferred to the Electrician's Board.

Department of Professional and  
Financial Regulation

Detail accounts receivable records  
not available  
(141)

A review and reconciliation of other accounts receivable (protested checks) revealed the following condition:

1. Reconciliation variances:
 

Department bureaus, boards, and commissions	\$260
Affiliated boards	( 185)
Net variances	( <u>\$555</u> )



AGENCY/PROGRAM

CONDITION

Department of Professional and  
Financial Regulation

Detail accounts receivable records  
not available (cont'd.)

2. An amount of \$4,986 is included in accounts receivable but represents administrative clerical charges assessed by the department to one of the boards. No entry was made to reflect the board's liability and also to record this liability on the Controller's financial records. As these funds are inter-departmental, they should be reflected as Due from Other Funds and Due to Other Funds for proper reflection on the Controller's records.

We recommend that the department reconcile all receivables with the State Controller's records and that it properly reflect inter-departmental funds.

Auditee Response:

Please be advised that all receivables collected by the bureaus, boards and commissions within the Department of Professional and Financial Regulation are being reconciled on a monthly basis/Affiliated board accounts are not processed through the department and should be treated on a per board basis.

Department of Professional and  
Financial Regulation

Unpaid annual payments of an examination expense allotment  
(142)

Title 24-A, MRSA §228 states:

Except that in lieu of payment of examination expense as required, a domestic insurer shall have the right, at its option, of making an annual payment of an expense allotment to be made on March 1st with the filing of the insurer's annual statement.

As of June 30, 1989, the bureau had not received nor recorded a receivable for two expense allotment annual payments of \$17,862. As a result, receivables and revenues for the 1988-1989 fiscal year were understated.

We recommend that annual payments of examination expense allotment due on March 1 but not paid by April 1 be recorded and recognized as accounts receivable/revenue in order to present fairly the financial position and results of the financial operations of the bureau.

AGENCY/PROGRAM

CONDITION

Department of Professional and  
Financial Regulation

Unpaid annual payments of an examination expense allotment (cont'd.)

Auditee Response:

Since expense allotments are due by March 1 of each year with the filing of the insurers annual statement, balances aged to the extent of 120 days should have been reduced to cash through collection efforts of the bureau. The bureau and the Administrative Services Unit of the Department should take more timely notice of unpaid balances and if the funds are not likely to be collected within 60 days, establish an accounts receivable balance to be carried over to the next fiscal year (as and if necessary).

Department of Professional and  
Financial Regulation

Securities not on deposit with  
Treasurer of State  
(143)

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

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

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

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

Auditee Response:

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

## AGENCY/PROGRAM

## CONDITION

### Department of Professional and Financial Regulation - Manufactured Housing Board

Expenditures not charged to applicable  
program  
(144)

The Department of Professional and Financial Regulation is the administrative agent for the National Manufactured Housing Construction and Safety Standards Act of 1974. Title 10 MRSA §9071 states, "The fees received by the commissioner under the State Administrative Agency Program shall be paid by the Treasurer of State to be used for carrying out the duties of the program."

The Manufactured Housing Board's expenditures for investigating complaints involving federal certified manufactured homes, under the State Administrative Agency (SAA) program, have not been allocated and charged to the Federal Expenditure Fund account. Consequently the account balance in the Other Special Revenue Fund is understated and the balance in the Federal Expenditure Fund is overstated.

We recommend that the Department of Professional and Financial Regulation charge the expenditures to the Federal Expenditure Fund.

### Auditee Response:

Please be advised that the Department of Professional & Financial Regulation has taken corrective action and has charged the Federal account for services provided for the State Administrative Agency Program and will continue to do so in the upcoming fiscal years.

### Public Utilities Commission

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

#### Prior Year Finding

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

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

### Auditee Response:

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

AGENCY/PROGRAM

Maine State Retirement System -  
Group Life Insurance Program

Accrual for life insurance  
premiums  
(146)

CONDITION

At fiscal year end the Group Life Insurance Program did not record the value of premiums due but not received. As a result, revenues and receivables were understated on the June 30, 1989 financial statements.

The Codification of Governmental Accounting and Financial Reporting Standards (GASB) section 1600(d) states that government units should account for expendable trust funds, such as Group Life Insurance, on the modified accrual basis so that revenues are recognized when they become both measurable and available.

We recommend that the Group Life Insurance Program record accrued premiums as of the end of the fiscal year or provide the Controller with the necessary information to record the accrual in the Controller's annual financial report.

Auditee Response:

While GASB 1600.106 states that revenues are to be recognized in the accounting period in which they become susceptible to accrual, 1600.107 suggests that revenues (etal) that usually can and should be recorded on the (modified) accrual basis include...regularly billed charges. The section continues by suggesting use of the modified accrual basis when liability has been established (for example, billing charges).

Under the present system, the insurance liability and premium payment are reported after the month-end close, usually by the middle of the following month by each participating local and teacher district. Group Life is only able, at this time, to estimate the amount of that accrual; no billing of charges is done (as would be suggested by 1600.107). Further, if new lives are added to the insurance roles, that liability is also reported after the fact.

It is the Life Insurance Program's intention to initiate monthly billing to all participating entities in Fiscal Year 1991. Doing so would firmly establish the liability of insurance coverage and further allow an accurate recognition of accrued premiums as a receivable.

AGENCY/PROGRAM

CONDITION

Maine State Retirement System  
Return of investment principal  
incorrectly recorded  
(147)

The Maine State Retirement System (MSRS) incorrectly recorded a \$19,125 return of investment principal as a gain on sale of investments rather than as a reduction of investment cost. Consequently, as of June 30, 1989 both investments and gain on sale of investments were overstated.

We recommend that the MSRS reduce recorded investment cost by \$19,125.

Auditee Response:

A distribution...was incorrectly coded. The accounts were corrected as a result of a (March 23, 1990) journal entry.... A copy of the transaction was provided to the Audit Department.

Maine State Retirement System  
Incorrect valuation of stock  
(148)

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

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

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

Auditee Response:

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

# AGENCY/PROGRAM

# CONDITION

## Maine State Retirement System

Capital equipment inventory not  
current  
(149)

The Maine State Retirement System has not maintained a current inventory of capital equipment. As a result, the basis used for determining depreciation expense is not accurate.

We recommend that the Retirement System update the inventory of capital equipment and prepare adjustments for financial records of equipment and accumulated depreciation.

## Auditee Response:

A large portion of the capital equipment at the Retirement System is related to data processing. Records exist showing the description of all pieces, the grouping as part of computer workstation locations, and tag identification and are available for inspection.

An accompanying schedule of useful life and depreciation does not exist. Retirement expects to begin using a computer-based depreciation schedule and asset management system in Fiscal Year 1991.

## Maine State Retirement System

Trade accounts receivable  
(150)

The Maine State Retirement System has not maintained a current and accurate balance of trade accounts receivable. The Retirement System's accounts receivable ledger contains accounts with credit, noncurrent and long-term balances. In addition, the allowance for uncollectible accounts is not reasonable or current.

We recommend that the Retirement System update its accounts receivable ledger; write off uncollectible accounts; prepare adjustments to reflect current balances; and estimate uncollectible accounts.

## Auditee Response:

The Retirement System's level of trade receivables is small and, based on current operational practices, consists largely of administrative charges billed to participating local districts. Records of amounts charged are maintained and resulting balances at the fiscal year-end are about \$350,000. Any credit balances are minor and reflected in subsequent billings.

The one instance of a long-term receivable (ME-NH Bridge Authority) is expected to be successfully discharged over the next years and Retirement agrees to reflect this long-term asset [GASB 1600.115] apart from other receivables. This item is about ninety percent of the total receivable dollars at June 30, 1990.

AGENCY/PROGRAM

CONDITION

Maine State Retirement System

Trade accounts receivable (cont'd.)

The Retirement System has no meaningful history of uncollectible accounts making it difficult to assign a value for such. The volume of receivables is low as are incidences of default. Given these conditions it is not meaningful to create a receivables net amount. Retirement plans to continue the past practice of periodic review and subsequent adjustment for uncollectible accounts.

Maine State Retirement System

Refunds of contributions  
(151)

Title 5, section 17705 of the Maine Revised Statutes Annotated states that refunds of member contributions shall be processed not less than 22 days nor more than 37 days after receipt of application and receipt of last payroll. In addition, interest may not be added beyond the 5th anniversary of the date of termination.

Of 25 refund transactions which we tested, the Retirement System paid six refunds after and one prior to the statutory processing date. It also included unallowable interest on one refund.

We recommend that the Retirement System follow statutory provisions when processing all refunds of member contributions.

Auditee Response:

[Retirement System detailed response on file at Department of Audit.]

For the instances [individual transactions] noted... the Retirement System's processing of member refunds moved ahead in a normal fashion and we feel the procedures employed were prudent. Given a choice of meeting the apparent statutory time limits and safeguarding of System assets, we tilt in the direction of the latter.

Maine State Retirement System

Incorrect calculation of interest  
to be refunded  
(152)

The Maine State Retirement System refunds those contributions received in error and the interest earned on them. Retirement incorrectly calculated interest refunds from the date of the last incorrect payment received rather than from the date of the initial incorrect payment. In one instance, a member erroneously paid contributions for 14 months. The interest refund should have been \$108.70. Retirement calculated it as \$8.24.

AGENCY/PROGRAM

CONDITION

Maine State Retirement System

Incorrect calculation of interest  
to be refunded (cont'd.)

Auditee Response:

We recommend that the Retirement System calculate interest refunds on incorrect contributions from the date of the initial error.

When all data and financial information for a member seeking a refund is proper and correct, it is the practice of the Retirement System to not only recognize and pay interest through to the date of the refund request but to estimate the refund payment and add the appropriate interest amount. If contributions are made that conflict with statute or rule and may be considered improper, the policy of the Retirement System is not to grant interest on monies so deposited.

In the one instance that has been brought to our attention, should it be determined that the circumstances warrant granting the amount in question, payment will be made.

Department of the Secretary of  
State - Division of Motor Vehicle

Regional Fuel Tax Agreement  
transfers were not timely  
(153)

Prior Year Finding

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

New Hampshire, Vermont and Maine share revenue from the collection of decals issued for fuel use identification. New Hampshire and Vermont made transfers after the time specified in the agreement. Maine transferred revenue within the proper time frame.

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

Auditee Response:

New Hampshire and Vermont have been made aware of the audit findings and corrective action has occurred.

Department of the Secretary of  
State - Division of Motor Vehicle

Incorrect payment and nonpayment  
of fuel user rebates  
(154)

Prior Year Finding

Two State of Maine fuel use decal rebates were paid out of the New Hampshire escrow account. One approved \$160 rebate was not paid.

In order to ensure that fuel users receive any rebates due, and that the rebates are paid out of the correct account we recommend the division take due care throughout the refund process and periodically reconcile the fuel use division rebate and cash office rebate records.



Department of the Secretary of  
State - Division of Motor Vehicle

Incorrect payment and nonpayment  
of fuel user rebates (cont'd.)

Auditee Response:

Department of the Secretary of  
State - Division of Motor Vehicle

Untimely preparation of Income  
Statements  
(155)

Our rebate process has been reviewed by agency staff to address this finding. Increased attention is being given to ensuring correct rebate procedures.

The municipal agent reports indicated several instances where income statements were neither completed nor submitted to the Treasurer's office until two weeks after the Division of Motor Vehicle received the agents' reports.

Timely preparation of income statements ensures that the revenue collected is credited to the Highway Fund during the correct accounting period. It also reduces the number of items on the Treasurer's bank reconciliation.

We recommend the Division of Motor Vehicle ensure the timely preparation and submission of income statements.

Auditee Response:

Several changes have been made in the Cash Office and Municipal Section to address our peak work periods which had been causing a delay regarding timely preparation of income statements.

Department of the Secretary of  
State - Division of Motor Vehicle

Insufficient internal control of  
registrations issued by municipal  
agents  
(156)

There are no control procedures to ensure that registrations issued by municipal agents are reported to the Division of Motor Vehicles. There is no reconciliation of the number of registrations assigned/distributed to agents compared to the number of registrations actually issued by the agents.

We recommend that the division periodically reconcile the number of motor vehicle registrations that the municipal agents report as issued to the number of registrations originally distributed to the municipal agents; or that the division use other verifiable accounting methods, e.g., machine validation.

Auditee Response:

We have improved efforts in this area by increasing the number of municipal coordinators and the frequency of coordinator visits to the municipalities. In addition periodic audits of stickers will provide better control. We anticipate that future computerization will enable us to reach the level of control expected by the Department of Audit which cannot be accomplished given the current system.

AGENCY/PROGRAM

CONDITION

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

Capital equipment records not current  
and depreciation expense not recorded  
(157)

Section 60.3 of the State of Maine - Manual of Financial Procedures states:

The law provides that the Department of Administration, through the Bureau of Public Improvements, shall have authority...to make or require an inventory of all removable equipment belonging to the State Government and keep it current.

Guidance regarding maintenance of capital equipment records is provided in Section 66 of the same manual.

The department has not maintained the Enterprise Funds' capital equipment records on a current basis. In addition, it has not recorded annual depreciation expense in accordance with Codification of Governmental Accounting and Financial Reporting Standards (GASB 1400.115). This overstates net assets on the balance sheet and net income on the operating statement.

We recommend that the department maintain capital equipment records for the Enterprise Funds on a current basis and that it record depreciation expense in the proper period.

Auditee Response:

We acknowledge that depreciation needs to be updated. The Maine State Ferry Service and Ports and Marine depreciation journal was made but through an oversight was not recorded in the appropriate fiscal year. Depreciation for these two accounts is up-to-date.

The depreciation entries for the Augusta State Airport need to be made. Depreciation will be updated prior to June 30, 1990.

Department of Transportation -  
Ferry Service

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

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

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

Prior Year Finding

# AGENCY/PROGRAM

# CONDITION

## Department of Transportation - Ferry Service

Island Ferry Service has not taken physical inventory of maintenance parts and operational supplies (cont'd.)

### Auditee Response:

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

## Department of Transportation - Ports and Marine

Loan receivable not established (159)

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

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

### Auditee Response:

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

## Department of Transportation

### Ports and Marine Transportation Division

Marine Ports Enterprise Fund should be eliminated (160)

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

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

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

## AGENCY PROGRAM

## CONDITION

Department of Transportation

Ports and Marine Transportation  
Division

Marine Ports Enterprise Fund should  
be eliminated (cont'd.)

### Auditee Response:

Department of Transportation -  
Bureau of Finance and Administration

Stated values on Schedule of Federal  
Financial Assistance were incorrect  
(161)

### Auditee Response:

Department of Transportation -  
Motor Transport Services

Work in process inventory not  
reconciled  
(162)

### Prior Year Finding

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

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

The Bureau of Finance and Administration included the state matching funds in the total revenues and expenditures on the Schedule of Federal Financial Assistance for Federal Emergency Management Agency-Disaster Assistance. They also included a reimbursement from the U.S. Postal Service. The AICPA audit guide, Audits of State and Local Governments Units, specifies that only federal assistance revenue and expenditures be shown on the Schedule of Federal Financial Assistance. The schedule for fiscal year 1989 was corrected prior to inclusion in the financial statements.

We recommend that the department instruct the accountant to verify the source of revenues and the amount of federal financial participation in expenditures prior to completion of the Schedule of Federal Financial Assistance.

We concur with the finding and steps will be taken to insure all sources of revenue will be verified prior to completion of the Schedule of Federal Financial Assistance.

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

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

AGENCY/PROGRAM

CONDITION

Department of Transportation -  
Motor Transport Services

Work in process inventory not  
reconciled (cont'd.)

Auditee Response:

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

Department of Transportation -  
Motor Transport Services

Lease-purchase agreement  
(163)

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

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

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

Auditee Response:

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

Department of Transportation -  
Motor Transport Services

Inventory items should be expensed  
(164)

A review of invoices from various garages revealed debits made to the inventory account (72060) for items such as labor, inspection licenses, service charges for waste pick-up, UPS shipping and handling charges, and other miscellaneous expenses. Items not identifiable to a specific job order number should not be debited to inventory but should be expensed immediately. This will prevent carrying unnecessary items in inventory for an indefinite period of time.

We recommend that miscellaneous purchases be charged to account 72600 expenditures and not be carried for an indefinite period in inventory.

AGENCY/PROGRAM

CONDITION

Department of Transportation -  
Motor Transport Services

Inventory items should be expensed  
(cont'd.)

Auditee Response:

Department of Transportation -  
Motor Transport Services

Supply and fuel inventory records  
not accurate  
(165)

We acknowledge this minor problem and suspect that it may be created by non-accounting oriented personnel coding 72060/72602. Nevertheless, we will strengthen our review of these charges to assure appropriate costing of expenditure items. Those capitalized items currently in the system will be identified and appropriate correcting entries made.

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

1. A physical count is taken of selected items on a cyclical basis. Any variances identified are adjusted by the stockroom manager on the computerized perpetual inventory records. These adjustments are made without proper supervisory approval. In addition, causes for the adjustments are not investigated.
2. In March of each year a total inventory valuation is determined based on the perpetual parts inventory and a physical examination of liquid fuels. The value, according to the State Controller's records, is adjusted to the physical count. The net adjustment is not based on an actual count of parts and fuel, but is divided arbitrarily on a 50-50 basis.
3. In March 1989, Motor Transport Services (MTS) personnel prepared a journal entry to adjust the State Controller's inventory valuation to the physical count. The adjustment of \$332,207 was not approved nor submitted to the State Controller for posting.
4. The liquid fuel inventory records do not have adequate cost information to readily identify the valuation of liquid fuel on hand.
5. Site visits to the Bangor and Fairfield garages disclosed that fuel tanks were not locked.

AGENCY/PROGRAM

CONDITION

Department of Transportation -  
Motor Transport Services

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

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

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

Auditee Response:

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

Department of Transportation -  
Motor Transport Services

Petty cash account not reconciled  
(166)

Prior Year Finding

The petty cash fund is not reconciled on a periodic basis to the amount authorized by the State Controller.

We again recommend that the department reconcile the petty cash fund to the amount authorized by the State Controller.

Auditee Response:

Petty cash responsibilities have been reassigned in an effort to improve accountability.

Department of Transportation -  
Bureau of Project Development  
Construction Division

Recording use of stockpile materials  
(167)

Resident engineers do not monitor the use of materials from stockpiles during the construction phase. The result is; the department pays the contractor for an item at the time it is stockpiled and again when it is used in the construction. An adjustment is made on the final payment for use of stockpile materials; however, for varying periods the contractor may receive payment twice for the same item.

We recommend the department implement a written policy that requires the resident engineer to monitor the use of prepaid stockpile materials and ensure they are not included in the request for progress payment totals.

Auditee Response:

The department has a written policy concerning stockpiled materials which states, "Upon completion of a portion of a bid item, with the use of required materials, the stockpiled portion will be reduced with a corresponding increase in the Quantity to Date portion of the item."

AGENCY/PROGRAM

CONDITION

Office of Treasurer of State  
Reconciliation of trust funds  
(168)

Bank records regarding the value of various trust fund holdings and records of the Office of Treasurer of State and the State Controller do not agree.

Prior Year Finding

Intermittent communications between the Treasurer and the Controller concerning receipts, disbursements and changes in holdings result in differences in the value of fund holdings. Differences between the banks' and the Controller's records are:

Trust - Attorney General	\$ 17,569
Land Reserves Trust	143,607
Several Trusts	93,281
Baxter State Park Trust	1,430
Trust - Treasurer's Safekeeping	28,708

We recommend that treasury personnel reconcile the holdings of the various trust funds with the records of the Controller, and make appropriate journal adjustments.

Auditee Response:

It was agreed at the exit audit interview that the values of the Trust Funds do not agree to the banks records due to the manner of the banks reporting of asset changes and the Treasurer's preparing entries.

Entries for earnings on the escrow accounts for the Attorney General are made upon withdrawal and will vary as to earnings between the Bank and Treasury. Entries on the Arbitrage Savings accounts will be made quarterly if not monthly.

Office of Treasurer of State

Interest income not correctly  
accrued  
(169)

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

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

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



AGENCY/PROGRAM

CONDITION

Office of Treasurer of State

Interest income not properly accrued  
(cont'd.)

Auditee Response:

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

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

Office of Treasurer of State

Year end reconciliation of accounts  
(170)

Prior Year Finding

A demand deposit statement of one bank did not coincide with the end of the state fiscal year, June 30, 1989.

In order to reconcile bank statements as of the last day of the state fiscal year, we again recommend that treasury request an activity statement or financial position dated June 30.

Auditee Response:

The Retirement account is reconciled at specific cut-offs; a request for 6/30/90 will be requested of the bank and that date reconciled.

Office of Treasurer of State

Bank reconciliation items not  
adjusted in a timely manner  
(171)

An income statement that represented a reconciling item of \$91,178 was not corrected for a period of eight months.

We recommend that reconciling items be adjusted in a timely fashion.

Auditee Response:

It was reported by the auditors during the exit interview that this item was adjusted already by Treasury and was a clerical error.

Office of Treasurer of State

Collateral for state deposits  
(172)

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

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

AGENCY/PROGRAM

CONDITION

Office of Treasurer of State

Collateral for state deposits (cont'd.)

Auditee Response:

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

Office of Treasurer of State

Miscoding of interest income  
(173)

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

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

Auditee Response:

Item corrected by Treasury during audit.

Office of Treasurer of State -  
Abandoned Property Division

Safeguarding of assets  
(174)

The Abandoned Property Division of the Office of Treasurer kept stocks and bonds in an unlocked file cabinet.

We recommend that the division keep all assets such as stocks and bonds in a locked cabinet or vault to properly safeguard them from loss or theft.

Auditee Response:

Assets such as stock certificates are in the vault.

Office of Treasurer of State

Arbitrage calculations  
(175)

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

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

Auditee Response:

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



# SUMMARY TABLES



STATE OF MAINE  
FISCAL YEAR ENDED JUNE 30, 1989  
LEGEND OF STATE AGENCIES/DEPARTMENTS

Abbreviations

1. ADMIN	ADMINISTRATION
2. AGRI	AGRICULTURE
3. AUDIT	AUDIT
4. CONS	CONSERVATION
5. DECD	ECONOMIC AND COMMUNITY DEVELOPMENT
6. DECS	EDUCATIONAL AND CULTURAL SERVICES
7. DEP	ENVIRONMENTAL PROTECTION
8. DHS	HUMAN SERVICES
9. DOC	CORRECTIONS
10. DOL	LABOR
11. DOT	TRANSPORTATION
12. DSS	SECRETARY OF STATE
13. EXEC	EXECUTIVE
14. FIN	FINANCE
15. IFW	INLAND FISHERIES AND WILDLIFE
16. JD	JUDICIAL
17. MAR	MARINE RESOURCES
18. MH-MR	MENTAL HEALTH AND MENTAL RETARDATION
19. MSRS	RETIREMENT SYSTEM
20. PFR	PROFESSIONAL AND FINANCIAL REGULATION
21. PUC	PUBLIC UTILITIES COMMISSION
22. TREAS	OFFICE OF THE TREASURER OF STATE

STATE OF MAINE  
FISCAL YEAR JUNE 30, 1989  
SUMMARY OF FINDINGS/CONDITIONS  
BY CATEGORY

FINDING/CONDITION NUMBER

<u>Category</u>	<u>Department</u>	<u>(Section D) Reportable Condition</u>	<u>(Section F) Federal Finding</u>	<u>(Section H) Management Letter</u>
ACCOUNTING				
	ADMIN			1,4,5,6,10,14
	AGRI			17,21,22
	AUDIT	2		
	DECS	3		59
	DEP			66
	DHS			95,96,98
	DOC			35,38,40
	DOL	14		107,108,109,110 115
	DOT	30		159,160,161,163 164
	FIN	5,6,7,8,9,11		71,73,77,78,79 81,82,85,88,91
	MH&MR	16		118,119,120
	MSRS	21,22,23,26 27,28		146,147,148,150 152
	PFR	18		140,142,144
	PUC			145
	TREAS	32		169,173,175

Summary of Findings/Conditions  
(Cont'd.)

		FINDING/CONDITION NUMBER		
<u>Category</u>	<u>Department</u>	<u>(Section D) Reportable Condition</u>	<u>(Section F) Federal Finding</u>	<u>(Section H) Management Letter</u>
CASH MANAGEMENT	DECS		13,14,15 20,29	
	DHS		67,74	
	DOC		4	
	DOL		88	
	EXEC		41	
	MH&MR		102	
CONTRACTS	ADMIN			15
	DHS			97
	FIN			83
COST ALLOCATION	DHS		73	
	DOL		85,87,89	
	EXEC		42	
DOCUMENTATION	ADMIN			7,13
	DECS			57,63
	DHS			92,100
	DOL	13		
	EXEC			68
	IFW			101
	MH&MR	17		
	MSRS	24,25		



Summary of Findings/Conditions  
(Cont'd.)

FINDING/CONDITION NUMBER

<u>Category</u>	<u>Department</u>	<u>(Section D) Reportable Condition</u>	<u>(Section F) Federal Finding</u>	<u>(Section H) Management Letter</u>
FIXED ASSETS	ADMIN	1		11
	AGRI			19
	CONS			24
	DOC			32,37,44,45,46 48
	DOT			157
	FIN			84
	IFW			102
	JD			105
	MAR			117
	MSRS			149
INVENTORY	ADMIN			8,9
	DOC			47
	DOT			158,165
	MH&MR			128,129,130,132 133
PAYROLL	AGRI			18
	CONS			25
	DECS			62
	DOC			42,43
	DOL			111,112
	JD			106
	MH&MR			136,137
	PER			139

Summary of Findings/Conditions  
(Cont'd.)

		FINDING/CONDITION NUMBER		
<u>Category</u>	<u>Department</u>	<u>(Section D) Reportable Condition</u>	<u>(Section F) Federal Finding</u>	<u>(Section H) Management Letter</u>
PROCEDURES	ADMIN			2,12
	AGRI			16,20
	AUDIT			23
	DOC			30,31,33,34,36 39,41,49,50,51
	CONS			26,27,28,29
	DECD			52,53,55
	DECS			56,58,60,61
	DEP	4		65
	DHS			93,94,99
	DOL			113,114
	DOT			167
	DSS			153,155,156
	EXEC			67
	FIN	10		69,70,72,74,76 80,86,87,90
	IFW			103
	JD			104
	MAR			116
	MH&MR	15		121,122,123,124 126,127,131,134 138
	MSRS	19,20		151
	TREAS	31,34		172,174

Summary of Findings/Conditions  
(Cont'd.)

FINDING/CONDITION NUMBER				
<u>Category</u>	<u>Department</u>	<u>(Section D) Reportable Condition</u>	<u>(Section F) Federal Finding</u>	<u>(Section H) Management Letter</u>
QUESTIONED COSTS	DECD		8	
	DECS		17,18,19 23,26,30 33	
	DHS		45,47,48 55,56,57 61,62,63 65,71,72 76,77,82	
	EXEC		34,37	
	MAR		93	
	MH&MR		95	
RECONCILIATION	ADMIN			3
	DECD			54
	DEP			64
	DOT	29		166
	DSS			154
	FIN			75
	MH&MR			125,135
	PFR			141,143
	TREAS	30		168,170,171

Summary of Findings/Conditions  
(Cont'd.)

FINDING/CONDITION NUMBER				
<u>Category</u>	<u>Department</u>	<u>(Section D) Reportable Condition</u>	<u>(Section F) Federal Finding</u>	<u>(Section H) Management Letter</u>
REPORTING				
	DECS		10,16,28,31	
	DEP		35	
	DHS		52,53,58,59 60,64,69,70 81	
	DOL		84	
	EXEC		38,39	
	MH&MR		94,100	
SUBRECIPIENT MONITORING				
	DECD		6	
	DECS		12,32,34	
	DHS		75,78,79	
	DOC		2	
	DOL		90,91	
	EXEC		40,43	
	MH&MR		96,97,98,101	
MISCELLANEOUS				
	ADMIN		1	
	DECD		5,7	
	DECS		9,11,21,22,24 25,27	
	DHS		46,49,50,51,54 66,68,80,83	
	DOC		3	
	EXEC		36	
	MH&MR		99	

STATE OF MAINE  
FISCAL YEAR ENDED JUNE 30, 1989  
SUMMARY OF FEDERAL FINDINGS  
BY FEDERAL GRANTOR AGENCY

<u>Federal Agency Grantor</u>	<u>CFDA #</u>	<u>Program</u>	<u>Finding Number (Section F)</u>	<u>State Agency Grantee</u>
Dept. of Agriculture	10.550	Food Distribution	9, 10, 11	DECS
	10.555	National School Lunch Program	12	DECS
	10.557	Special Supplemental Food Program for Women, Infants and Children	75	DHS
	10.558	Child Care Food Program	75	DHS
	10.560	State Administrative Expenses for Child Nutrition	30	DECS
	10.561	State Administrative Matching Grants For Food Stamp Program	45, 46, 47, 71, 72, 81	DHS
	10.568	Temporary Emergency Food Program (Administrative Costs)	39, 42, 43	EXEC
	U.S. Dept. of Commerce	11.405	Anadromous and Great Lakes Fisheries Conservation	93
11.407		Interjurisdictional Fisheries Act of 1986	93	MAR
U.S. Dept. of Education	84.002	Adult Education State Administered Program	31	DECS
	84.004	Civil Rights Technical Assistance and Training	31	DECS
	84.010	Educationally Deprived Children and Local Educational Agencies	14	DECS
	84.011	Migrant Education - Basic State Formula Grant Program	15, 16, 31	DECS
	84.012	Educationally Deprived Children - State Administration	30	DECS
	84.027	Handicapped State Grants	17, 18, 19, 20, 21, 22, 23, 31, 33	DECS
	84.032	Higher Education Act Insured Loans	24, 25, 30	DECS
	84.048	Vocational Education - Basic Grants to States	4	DOC
			26, 27, 28, 29, 30, 33	DECS

Summary of Federal Agency Grantor (cont'd.)

<u>Federal Agency Grantor</u>	<u>CFDA #</u>	<u>Program</u>	<u>Finding Number (Section F)</u>	<u>State Agency Grantee</u>
U.S. Dept. of Education	84.126	Rehabilitation Services - Basic Support	66, 67, 68, 69, 70, 73, 75, 76, 81	DHS
	84.164	State Grants for Strengthening Skills of Teachers	30	DHS
	81.042	Weatherization Assistance for Low Income Persons	37, 38, 39, 40, 41, 42, 43	EXEC
U.S. Environmental Protection Agency	66.454	Water Quality Management Planning Grant	35	DEP
	66.459	Nonpoint Source Reservation	35	DEP
U.S. Dept. of Health and Human Services	13.118	Aids - School Health Education	13	DECS
	13.658	Foster Care - Title IV-E	73, 81	DHS
	13.667	Social Services Block Grant	74, 75, 77	DHS
	13.669	Administration for Children, Youth and Families - Child Abuse and Neglect - State Grants	94, 95, 96, 97, 99, 75	MHMR DHS
	13.714	Medical Assistance Program	49, 50, 51, 52, 53, 72, 81	DHS
	13.780	Family Support Payments to States - Assistance Payments (AFDC)	54, 55, 71, 72, 81	DHS
	13.783	Child Support Enforcement	56, 57	DHS
	13.789	Low Income Home Energy Assistance	36, 40, 41, 42, 43	EXEC
	13.792	Community Services Block Grant	42, 43	EXEC
	13.802	Social Security - Disability Insurance	58, 59, 60	DHS
	13.991	Preventive Health and Health Services Block Grant	75	DHS
	13.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	61, 73, 74, 75, 76, 77	DHS
			95, 96, 97, 98, 99, 100, 101	MHMR
	13.994	Maternal and Child Health Services Block Grant	62, 63, 64, 65, 74, 75, 76	DHS

Summary of Federal Agency Grantor (cont'd.)

<u>Federal Agency Grantor</u>	<u>CFDA #</u>	<u>Program</u>	<u>Finding Number (Section F)</u>	<u>State Agency Grantee</u>
U.S. Dept. of Housing and Urban Development	14.178	Supportive Housing Demonstration Program	5	DECD
	14.228	Community Development Block Grant - States Program	6, 7, 8	DECD
U.S. Dept. of the Interior	15.904	Historic Preservation Fund - Grants in Aid	30	DECS
U.S. Dept. of Justice	16.540	Juvenile Justice and Delinquency Prevention	2	DOC
	16.573	Criminal Justice Block Grant	2	DOC
Dept. of Labor	17.207	Employment Service	84, 85, 86	DOL
	17.225	Unemployment Insurance	84, 85, 86	DOL
	17.250	Job Training Partnership Act	87, 88, 89, 90 91, 92	DOL
National Foundation for the Arts and Humanities	45.001	Promotion of the Arts - Design Arts	34	DECS
	45.003	Promotion of the Arts - Arts in Education	34	DECS
	45.007	Promotion of the Arts - State Program	3 34	DOC DECS
		Various Other Federal Programs	1 31 32 44 78 79 80 82 83 102	ADMIN DECS DECS EXEC DHS DHS DHS DHS DHS MHMR

STATE OF MAINE  
FISCAL YEAR ENDED JUNE 30, 1989  
SUMMARY OF FINDINGS/CONDITIONS  
BY STATE DEPARTMENT

<u>Department</u>	<u>Reportable Condition (Section D)</u>	<u>Federal Finding (Section F)</u>	<u>Management Letter (Section H)</u>	<u>Total</u>
ADMIN	1	1	15	17
AGRI			7	7
AUDIT	1		1	2
CONS			6	6
DECD		4	4	8
DECS	1	26	8	35
DEP	1	1	3	5
DHS		39	9	48
DOC		3	22	25
DOL	2	9	9	20
DOT	2		11	13
DSS			4	4
EXEC		9	2	11
FIN	8		23	31
IFW			3	3
JD			3	3
MAR		1	2	3
MH&MR	3	9	21	33
MSRS	10		7	17
PFR	1		6	7
PUC			1	1
TREAS	<u>4</u>	<u>—</u>	<u>8</u>	<u>12</u>
TOTAL	<u>34</u>	<u>102</u>	<u>175</u>	<u>311</u>