STATE DEPARTMENT OF AUDIT
Augusta, Maine 04333-0066

STATE OF MAINE SINGLE AUDIT REPORT FOR THE YEAR ENDED JUNE 30, 1990

State of Maine

Single Audit Report

Fiscal Year Ended June 30, 1990

Prepared by
State Department of Audit
Rodney L. Scribner, C.P.A., State Auditor

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED
JUNE 30, 1990

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Letter of Transmittal

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

I am pleased to submit the fourth Single Audit of the State of Maine, covering the fiscal year ended June 30, 1990.

We conducted the audit pursuant to Title 5, MRSA, Chapter 11, which authorizes the State Department of Audit:

> To perform a postaudit of all accounts and other financial records of the state government or any department or agency thereof, including the Judiciary and the Executive Department of the Governor, except the Governor's expense account, and to report annually on this audit, and at such other times as the Legislature may require.

The audit was conducted as a condition of the state's receipt of more than $701 million in federal financial assistance and to meet the requirements of the Single Audit Act of 1984, authorized under the United States Code, USC 31, Chapter 75 and the regulations established by the U.S. Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments.

The objectives of our audit were:

- To determine the fairness of the presentation of the state's financial statements in accordance with generally accepted accounting principles;

- To assess the adequacy of the state's system and procedures for financial accounting and internal controls;

- To determine the accountability for revenues, the propriety of expenditures, the extent to which funds have been expended in accordance with prescribed state and federal laws and regulations, and compliance with federal regulations pertaining to financial reports and claims for reimbursements;

- To recommend appropriate actions to correct any deficiencies.

Our review of the system and procedures of the State of Maine related to financial accounting, internal control, and compliance revealed certain weaknesses which are included in the following reports:

- Significant weaknesses are noted in the Schedule of Reportable Conditions and the letters on compliance and internal control.
- Findings on federal compliance matters are included in the Schedule of Compliance Findings and Questioned Costs.
- Other weaknesses are noted in the Management Letter.

We are again rendering a qualified opinion on the state's fiscal year 1990 financial statements. The qualifications contained in the Independent Auditor's Report are as follows:

- The state does not record certain accruals as required by generally accepted accounting principles;
- Revenues, expenses and inventory accounts of the Internal Services Fund are overstated as a result of overhead burden rates being applied to work performed on projects within the fund;
- The state has not recorded an adequate allowance account balance for uncollectible sales tax receivables.

In addition, we do not express an opinion on the General Fixed Assets Account Group because of incomplete financial records.

We would like to express our appreciation to Richard J. Ogden, Regional Inspector General for Audit Services and his staff at the U.S. Department of Health & Human Services, our federal cognizant audit agency. With their invaluable assistance during the past four years, our department has successfully implemented the Statewide Single Audit process.

Also, I appreciate the contributions of the staff of the Department of Audit, whose professionalism and dedication made possible the preparation of this report. Through our efforts and the ongoing cooperation of the Maine Department of Finance and other state agencies, we will continue to provide financial information that serves the needs of governmental decision makers, federal regulators, credit rating agencies and interested citizens of Maine.

We would be pleased to respond to any of your questions or comments about the 1990 Single Audit Report.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 30, 1991

COMPONENT UNIT FINANCIAL STATEMENTS

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

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report

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, 1990, 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 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 that, in our opinion, should be recorded to conform with generally accepted accounting principles. The effects of not recording those accruals on the component unit financial statements are not reasonably determinable.

The state has not recorded an adequate allowance for uncollectible sales tax receivables that, in our opinion, should be recorded to conform with generally accepted accounting principles. If an adequate allowance for uncollectible accounts had been established, in accordance with generally accepted accounting principles, General Fund net assets and fund balance would have been decreased by $20 million, or substantially all of the sales tax receivable balance. The effects of the preceding practice on General Fund revenues, for the year ended June 30, 1990, are not reasonably determinable.

Revenues, expenses and inventory accounts of the Internal Service Fund are overstated as a result of overhead burden rates being applied to work performed on projects within the fund. In our opinion, generally accepted accounting principles do not provide for intrafund profits. The effects of the preceding practices on Internal Service Fund inventories and retained earnings, as of June 30, 1990, and sales and service revenues and operating expenses, for the year ended June 30, 1990, 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 not recording an allowance for uncollectible sales tax receivables 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, 1990 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 20 to the financial statements, certain fund balances have been restated.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1991
(except for Note 21, as
to which the date is
July 17, 1991)

Exhibit 1

State of Maine
Combined Balance Sheet – All Fund Types and Account Groups
(Dollars in Thousands)
June 30, 1990

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund types	Account Groups		
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long–Term Debt	Total (Memorandum Only)
Assets and Other Debits										
Equity in treasurer's cash pool (Note 4)	$ 72,052	$ 91,982	$ 261	$ 30,701	$ 7,982	$ 11,108	$ 101,704	$	$	$ 315,790
Cash with fiscal agent			482							482
Cash other	141	97			378	4	9,209			9,829
Deposits with U.S. Treasury (Note 4)							190,722			190,722
Investments (Note 4)		80		24,811	1		1,859,066			1,883,958
Receivables (net of allowances for uncollectibles)										
Taxes	73,643	10,046					165			83,854
Accounts	18,842	7,700			3,279	98	5,595			35,514
Notes	7				1,387					1,394
Loans	3	5			4,654					4,662
Accrued interest							11,108			11,108
Due from other funds	3,465	7,547		141	95	6,922	42			18,212
Due from other governments (Note 7)	629	67,885								68,514
Working capital advances to other funds	4,766	13,182								17,948
Inventories					7,132	4,498				11,630
Other assets	54	372		2	497	187	51			1,163
Restricted assets (Note 1E)						11,364				11,364
Land, buildings and equipment (Note 9)					43,182	68,254	3,749	315,256		430,441
Accumulated depreciation (Note 9)					(10,618)	(36,206)	(243)			(47,067)
Amount available in debt service funds									261	261
Amount to be provided for retirement of general long–term debt									381,697	381,697
Total Assets and Other Debits	$ 173,602	$ 198,896	$ 743	$ 55,655	$ 57,969	$ 66,229	$ 2,181,168	$ 315,256	$ 381,958	$ 3,431,476
Liabilities, Fund Equity and Other Credits										
Liabilities:										
Accounts payable	$ 41,292	$ 52,330	$	$ 25,317	$ 7,456	$ 3,654	$ 17,300	$	$	$ 147,349
Accrued payroll	18,140	12,984			730	667	179			32,700
Lease purchase payable						25,858			5,466	31,324
Workers' compensation benefits payable					1,242	2,370	454		49,923	53,989
Compensated absences payable					473	562	97		20,294	21,426
Other liabilities	5,666	148			740	1,010	100,818			108,382
Due to other funds	12,376	2,408			3,021	358	49			18,212
Due to other governments		6,041								6,041
Due to program participants and providers							42,484			42,484
Deferred revenue	21,752				284	507				22,543
Working capital advances payable		650			3,935	13,363				17,948
Matured bonds payable			235							235
Matured interest payable			247							247
Bonds payable (Note 15)									306,275	306,275
Total Liabilities	99,226	74,561	482	25,317	17,881	48,349	161,381	–	381,958	809,155

Exhibit 1
(Continued)

State of Maine
Combined Balance Sheet – All Fund Types and Account Groups
(Dollars in Thousands)
June 30, 1990

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund types	Account Groups		
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long–Term Debt	Total (Memorandum Only)
Fund Equity and Other Credits:										
Contributed capital	$	$	$	$	$ 42,779	$ 4,504	$	$	$	$ 47,283
Investment in general fixed assets (Note 9)								315,256		315,256
Retained earnings (deficit) (Note 2)					(2,691)	13,376				10,685
Fund Balances:										
Reserved for encumbrances	17,800	27,490		13,179						58,469
Reserved for retirement contributions							1,771,944			1,771,944
Reserved for working capital advances	4,766	13,182								17,948
Reserved for group life insurance							22,729			22,729
Reserved for Rainy Day Fund	3,596									3,596
Reserved for General Fund operating capital	17,000									17,000
Reserved for other purposes	2,391	572								2,963
Unreserved:										
Designated for subsequent year expenditures	20,428	78,931		17,159						116,518
Designated for debt service			261							261
Undesignated	8,395	4,160					225,114			237,669
Total Fund Equity and Other Credits	74,376	124,335	261	30,338	40,088	17,880	2,019,787	315,256	–	2,622,321
Total Liabilities, Fund Equity and Other Credits	$ 173,602	$ 198,896	$ 743	$ 55,655	$ 57,969	$ 66,229	$ 2,181,168	$ 315,256	$ 381,958	$ 3,431,476

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

Exhibit 2

State of Maine
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – All Governmental Fund Types and Expendable Trust Funds
(Dollars in Thousands)
For the Fiscal Year Ended June 30, 1990

	Governmental Fund Types				Fiduciary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
Revenues:						
Taxes, licenses and fees	$ 1,233,295	$ 288,041	$	$	$ 70,230	$ 1,591,566
Fines, forfeits and penalties	23,239	3,071				26,310
Income from investments	18,482	6,674	25	3,648	20,708	49,537
Intergovernmental revenues	1,315	654,445			6,572	662,332
Revenues from private sources	1,254	39,683				40,937
Service charges for current services	37,418	34,229	2,054		67	73,768
Other	3,043	8,728			1,214	12,985
Total Revenues	1,318,046	1,034,871	2,079	3,648	98,791	2,457,435
Expenditures:						
General government	133,132	121,404		12,253		266,789
Economic development	34,318	39,494				73,812
Education and culture	804,822	73,552		8,402		886,776
Human services	468,414	479,465		4,825	102,816	1,055,520
Manpower	6,407	32,296				38,703
Natural resources	24,609	37,079		12,013	83	73,784
Public protection	22,291	28,903				51,194
Transportation	10,130	235,099		18,442		263,671
Debt service			79,605			79,605
Total Expenditures	1,504,123	1,047,292	79,605	55,935	102,899	2,789,854
Excess of Revenues over (under) Expenditures	(186,077)	(12,421)	(77,526)	(52,287)	(4,108)	(332,419)
Other Financing Sources (Uses):						
Operating transfers (net)	5,514	(12,069)	77,551	(7,250)	(849)	62,897
Bond proceeds				8,500		8,500
Other	22,685	5,423		(3,777)	1,607	25,938
Total Other Financing Sources (Uses)	28,199	(6,646)	77,551	(2,527)	758	97,335
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(157,878)	(19,067)	25	(54,814)	(3,350)	(235,084)
Fund Balances – July 1 (as adjusted) (Note 20)	232,254	143,402	236	85,152	238,497	699,541
Fund Balances – June 30	$ 74,376	$ 124,335	$ 261	$ 30,338	$ 235,147	$ 464,457

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

Exhibit 3

State of Maine
Combined Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Budgetary Basis – General and Special Revenue Fund Types
(Dollars in Thousands)
For the Fiscal Year Ended June 30, 1990

	General Fund			Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Taxes, licenses and fees	$ 1,276,260	$ 1,234,023	$ (42,237)	$ 303,871	$ 288,041	$ (15,830)	$ 1,580,131	$ 1,522,064	$ (58,067)
Fines, forfeits and penalties	22,747	23,239	492	3,737	3,070	(667)	26,484	26,309	(175)
Income from investments	23,160	18,482	(4,678)	2,494	6,674	4,180	25,654	25,156	(498)
Intergovernmental revenues	1,529	978	(551)	774,099	657,538	(116,561)	775,628	658,516	(117,112)
Revenues from private sources	2,706	1,254	(1,452)	39,312	39,683	371	42,018	40,937	(1,081)
Service charges for current services	35,219	39,892	4,673	37,249	34,028	(3,221)	72,468	73,920	1,452
Other	621	3,042	2,421	11,919	8,728	(3,191)	12,540	11,770	(770)
Total Revenues	1,362,242	1,320,910	(41,332)	1,172,681	1,037,762	(134,919)	2,534,923	2,358,672	(176,251)
Expenditures:									
General government	136,581	132,747	3,834	136,723	114,548	22,175	273,304	247,295	26,009
Economic development	37,868	34,318	3,550	69,574	40,156	29,418	107,442	74,474	32,968
Education and culture	808,497	804,822	3,675	91,548	73,552	17,996	900,045	878,374	21,671
Human services	483,536	465,300	18,236	523,818	474,594	49,224	1,007,354	939,894	67,460
Manpower	7,510	6,407	1,103	56,028	31,925	24,103	63,538	38,332	25,206
Natural resources	26,058	24,609	1,449	58,795	37,079	21,716	84,853	61,688	23,165
Public protection	23,779	22,291	1,488	35,768	28,903	6,865	59,547	51,194	8,353
Transportation	17,792	10,130	7,662	277,040	229,433	47,607	294,832	239,563	55,269
Total Expenditures	1,541,621	1,500,624	40,997	1,249,294	1,030,190	219,104	2,790,915	2,530,814	260,101
Excess of Revenues over (under) Expenditures	(179,379)	(179,714)	(335)	(76,613)	7,572	84,185	(255,992)	(172,142)	83,850
Other Financing Sources (Uses):									
Operating transfers (net)	5,635	5,514	(121)	(12,562)	(12,069)	493	(6,927)	(6,555)	372
Other		18,498	18,498		(1,295)	(1,295)		17,203	17,203
Total Other Financing Sources (Uses)	5,635	24,012	18,377	(12,562)	(13,364)	(802)	(6,927)	10,648	17,575
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(173,744)	(155,702)	18,042	(89,175)	(5,792)	83,383	(262,919)	(161,494)	101,425
Fund Balances – July 1 (as adjusted)	290,200	290,200		149,189	149,189		439,389	439,389	
Fund Balances – June 30 (Note 3)	$ 116,456	$ 134,498	$ 18,042	$ 60,014	$ 143,397	$ 83,383	$ 176,470	$ 277,895	$ 101,425

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

Exhibit 4

State of Maine
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types and Similar Trust Funds
(Dollars in Thousands)
For the Fiscal Year Ended June 30, 1990

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Operating Revenues:					
Sales and services	$ 175,476	$ 56,618	$	$	$ 232,094
Fees and licenses	13,235				13,235
Income from investments (net of amortization of premiums)			619	147,084	147,703
Contributions –					
Employer				204,752	204,752
Employee				57,077	57,077
Participating districts				37,211	37,211
Other	442				442
Total Operating Revenues	189,153	56,618	619	446,124	692,514
Operating Expenses:					
Cost of sales and services	106,631	29,140			135,771
Personal services	11,323	11,375		2,746	25,444
General operating expenses	7,089	9,614		5,586	22,289
Depreciation	1,096	5,806		50	6,952
Refunds				9,159	9,159
Health insurance premiums				6,483	6,483
Claim and benefit payments	3,679			169,992	173,671
Total Operating Expenses	129,818	55,935		194,016	379,769
Operating Income (Loss)	59,335	683	619	252,108	312,745
Nonoperating Revenues (Expenses):					
Interest revenue	989	1,235			2,224
Interest expense		(702)			(702)
Other	(1,420)	(2,239)	42	(61)	(3,678)
Total Nonoperating Revenues (Expenses)	(431)	(1,706)	42	(61)	(2,156)
Income before Operating Transfers	58,904	(1,023)	661	252,047	310,589
Operating Transfers In (Out)	(62,786)		(111)		(62,897)
Net Income (Loss)	(3,882)	(1,023)	550	252,047	247,692
Retained Earnings/Fund Balances – July 1 (as adjusted) (Note 20)	1,191	14,399	12,146	1,519,897	1,547,633
Retained Earnings/Fund Balances – June 30 (Note 2)	$ (2,691)	$ 13,376	$ 12,696	$ 1,771,944	$ 1,795,325

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

Exhibit 5

State of Maine
Combined Statement of Changes in Financial Position
All Proprietary Fund Types and Similar Trust Funds
(Dollars in Thousands)
For the Fiscal Year Ended June 30, 1990

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Sources of Working Capital:					
Operations –					
Net income (loss)	$ (3,882)	$ (1,023)	$ 550	$ 252,047	$ 247,692
Items not requiring (providing) working capital:					
Depreciation	1,096	5,806		50	6,952
Working Capital Provided by Operations	(2,786)	4,783	550	252,097	254,644
Proceeds from sale of property, plant and equipment	707			193	900
Other	610	3,914	2,496	1,598	8,618
Total Sources of Working Capital	(1,469)	8,697	3,046	253,888	264,162
Uses of Working Capital:					
Acquisition of property, plant and equipment	307	2,321	2,511	847	5,986
Loss on sale of property, plant and equipment		5,710			5,710
Other	207	287			494
Net Increase (Decrease) in Working Capital	$ (1,983)	$ 379	$ 535	$ 253,041	$ 251,972
Elements of Net Increase (Decrease) in Working Capital:					
Cash	$ (954)	$ (613)	$ 97	$ 10,013	$ 8,543
Receivables (net of allowances for uncollectibles)	2,610	(13)	252	15,088	17,937
Investments			167	243,553	243,720
Inventories	55	(2,515)			(2,460)
Other assets	(1,128)	573	19	(7,921)	(8,457)
Accounts payable	(364)	259		(7,174)	(7,279)
Due to other funds	(2,507)	12		22	(2,473)
Other current liabilities	305	2,676		(540)	2,441
Net Increase (Decrease) in Working Capital	$ (1,983)	$ 379	$ 535	$ 253,041	$ 251,972

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

STATE OF MAINE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1990

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:

- Board of Overseers of the Bar
- Finance Authority of Maine
- Maine Council on Vocational Education
- Maine Health/Higher Education Facilities Authority
- Maine High Risk Insurance Organization
- Maine Insurance Guaranty Association
- Maine Low-Level Radioactive Waste Authority
- Maine Maritime Academy
- Maine Municipal Bond Bank
- Maine School Building Authority
- Maine State Housing Authority
- Maine Turnpike Authority
- Maine Veterans Home
- Maine Vocational Technical College System
- 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 fund categories, fund types, and account groups are utilized by the state.

Governmental Fund Types

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

Special Revenue Funds - Account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures 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.

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.

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.

Proprietary Fund Types

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

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

<u>Fiduciary Fund Types</u>

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.

<u>Account Groups</u>

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.

<u>Total Columns on Combined Statements</u>

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

C. Basis of Accounting

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

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

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

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

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

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

In certain respects, the state's accounting practices do not conform to the requirements of generally accepted accounting principles. At June 30, 1990, 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.

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. Transfers require approval of the Governor and/or the State Budget Officer.

Budgets are prepared on a cash basis, except that sales and income tax revenues 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.

Inventories

Inventories of the governmental funds are recorded by the purchases method. Year-end inventories are not believed to be material and are not reflected on the accompanying financial statements.

Bureau of Alcoholic Beverages Enterprise Fund inventory is stated at current replacement cost. Current replacement cost is not a generally accepted accounting method; however, the effect on inventory valuation is not believed to be material. 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.

Restricted Assets

Cash from issuance of Internal Service Fund certificates of participation is classified as a restricted asset because its use is limited by applicable lease purchase agreements.

Fixed Assets

Fixed assets (including public domain) are recorded at historical cost or estimated fair market 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. The General Fixed Assets Account Group is unaudited. Public domain (infrastructure) general fixed assets consisting of certain improvements other than buildings, are not capitalized. No depreciation has been provided on general fixed assets. Depreciation on Proprietary Fund fixed assets is computed on the straight-line method in a manner intended to amortize the cost of assets over their estimated useful lives. Expenditures/expenses which materially increase values, change capacities or extend useful lives are capitalized. The costs of normal maintenance and repairs are not capitalized.

Due to Inmate/Student Guardianship Accounts

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

Encumbrances and Appropriations Carried

Encumbrance accounting, which requires that 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 that are not available for appropriation or expenditure or that are legally segregated for a specific future use.

Nonmonetary Federal Assistance

Nonmonetary federal financial assistance is not reflected in the financial statements. Inventory valuations of such assistance are approximately $14 million as of June 30, 1990.

F. 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 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 $20 million of accrued vacation benefits at June 30, 1990 has been recorded in the General Long-Term Debt Account Group, 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 $6.2 million at June 30, 1990. These deficits are covered by transfers from the General Fund and Special Revenue Funds. Additional transfers 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, 1990 are:

	General Fund	Special Revenue Fund
Fund Balance (Exhibit 3)	$134,498	$143,397
Accounts payable	(22,159)	
Accrued payroll	(18,140)	(12,984)
Due to other funds	(423)	(239)
Due to other governments		(6,040)
Deferred revenue	(21,752)	
Accounts receivable	2,352	201
Fund Balance (Exhibit 2)	$ 74,376	$124,335

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 Office of the Treasurer 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 State 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 the 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, 1990. At year-end, the carrying amount of the state's deposits was $266,029 and the bank balance was $255,487. The difference was primarily due to timing of transactions.

(Dollar in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Demand & time deposits	$ 7,710	$17,704	$39,351	$ 64,765	$ 75,307
Maine Employment Security Commission deposits with U.S. Government	190,722			190,722	190,722
Total	$198,432	$17,704	$39,351	$255,487	$266,029

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 counterpart's trust department or agent in the state's name. Category 3 includes uninsured and unregistered investments held by the counterpart, 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	$	$ 17,712	$	$ 17,712	$ 17,712
U.S. Government securities		62,182		62,182	62,186
Corporate bonds & notes		2,874		2,874	2,707
Corporate stocks		2,940		2,940	3,112
Money market holdings		1,367		1,367	1,367
Commercial paper		188,419		188,419	188,419
Subtotal		275,494		275,494	275,503
Add amounts for the Maine State Retirement System:					
U.S. Government securities			257,802	257,802	267,944
Corporate bonds & notes			161,612	161,612	162,088
Corporate stocks			396,841	396,841	443,983
Money market holdings			5,000	5,000	4,999
	$ –	$ 275,494	$ 821,255	1,096,749	1,154,517
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				895,017	1,036,064
Real estate				34,028	34,587
Mortgages				48	48
Investment pools in which the deferred compensation plan participates				53,421	53,421
Other investments				45,178	45,178
Total Investments				$2,124,441	$2,323,815

5. **Accounts and Notes Receivable**

Taxes receivable, accounts receivable and loans/notes receivable are stated as net of allowances at June 30, 1990. At June 30, 1990, allowances for uncollectible accounts were approximately $20.6 million, $6.2 million, and $1.8 million, respectively.

6. **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 April 1. 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.

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

Due from other governments is comprised of federal grants receivable, which represent Medicaid claims of $62.9 million and $4.3 million due for Family Support Payments to States - Assistance Payments (AFDC).

8. **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, 1990, the following selected financial information was included in the Balance Sheet and Statement of Revenues, Expenses and Changes in Retained Earnings of the Tri-State Lottery Commission:

(Dollars in Thousands)

Total assets	$119,757
Total liabilities	119,757
Retained earnings	-
Total revenues	91,368
Total expenses	57,621
Allocation of funds to member states	33,389

Included in liabilities is approximately $92 million for prizes payable; these have been provided for primarily through the purchase of annuity contracts.

9. **Fixed Assets**

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

(Dollars in Thousands)

	General Fixed Asset Account Group (Unaudited)	Enterprise Funds	Internal Service Funds
Land	$ 42,960	$ 571	$ 243
Buildings and improvements	163,307	9,752	4,815
Equipment and fixtures	108,989	32,859	63,196
	315,256	43,182	68,254
Less accumulated depreciation	-	(10,618)	(36,206)
	$315,256	$32,564	$32,048

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

Assets	Life (Years)
Buildings and improvements	10-40
Equipment and fixtures	2-5

10. 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. Title 5, MRSA, Chapters 423 and 425 authorizes the stated benefit provisions.

Employees who are member 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 September 1, 1984 may retire at younger ages. Law enforcement personnel employed before September 1, 1984 are entitled to a benefit of 50% of the member's average financial compensation plus 2% for each year of service in excess of 20 years.

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, 1990 the percentage was 19.66%. Title 5, MRSA, Chapters 423 and 425 authorizes the stated contribution rates.

The number of participating employers, active members, and retirees and beneficiaries drawing benefits at June 30, 1990 was as follows:

	MSRS	JRS	LRS	Total
Employers: state and districts	274	1	1	276
Active Members: state	16,223	49	86	16,358
teachers	22,281	-	-	22,281
Local participating districts	9,551	-	-	9,551
Retirees/beneficiaries with benefits	23,212	12	6	23,230

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, 1990. Significant actuarial assumptions used in the valuation include a rate of return on the investment of 8.5% for 1990-91, and 8.0% for year 1992 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, 1990, the unfunded pension benefit obligation in millions of dollars was:

Pension benefit obligation:	
Retirees, beneficiaries, and terminated vested employees	$1,439
Current employees:	
Accumulated employee contributions	607
Employer - financed vested	469
Employer - financed nonvested	813
Total pension benefit obligation	3,328
(Does not include obligations or liabilities for health insurance)	
Net assets available for benefits at cost (market value is $1,927)	(1,135)
Unfunded pension benefit obligation	$2,193

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, 1989. The most recent actuarial valuation was performed as of June 30, 1990. Employer contributions, as a percentage of active member payroll, amounted to 8.24% attributed to normal cost and 11.42% attributed to an annual amortization payment for a total of 19.66%. Employee contributions amounted to 6.5% of total earnings. The annual active member covered payroll for the year ended June 30, 1990 amounted to $923,528,314.

D. Trend Information

Available ten-year historical trend supplementary information, required by Governmental Accounting and Financial Reporting Standards, is as follows for fiscal year 1990 (in millions of dollars):

	Fiscal Year 1990
Net assets available for benefits	$1,135
Pension benefit obligations	$3,328
Percent funded	34.1%
Unfunded pension benefit obligations	$2,193
Annual covered payroll	$ 924
Unfunded pension benefits as a percentage of covered payroll	237.3%

11. 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, 1990, there were 52 payees of the Public Safety plan and 44 payees of the Judicial plan. 1990 pension payments for these two plans were $599,100 and $1,527,000 respectively.

12. 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, substance 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, 1990, there were 8,448 retired state employees and 8,490 retired teachers. During the year, health care expenditures for retirees were approximately $6.5 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, 1990.

Deferred Compensation Plan:

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code § 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.

13. 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, 1990, these commitments totaled approximately $445.5 million payable over 20 years.

14. Lease Commitments

The state has commitments from one to twenty years for various operating 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 operating leases are:

(Dollars in Thousands)

Year Ending June 30	Minimum Operating Lease Payments
1991	$ 9,997
1992	9,979
1993	10,670
1994	9,728
1995	8,966
Thereafter	2,120
Total	$51,460

Rental expense for the year ended June 30, 1990 was approximately $11.3 million.

Capital leases are for acquisition of vehicles, office space, and computer and telecommunications equipment. Future minimum capital lease payments for the next five years are:

(Dollars in Thousands)

Year Ending June 30	Minimum Capital Lease Payments
1991	$ 9,169
1992	8,211
1993	7,532
1994	5,180
1995	2,250
Thereafter	34,766
Total	$67,108

15. **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, 1990 are:

(Dollars in Thousands)

Bond Type (Rate range)	Outstanding July 1	Additions	Reductions	Outstanding June 30
General Purpose (4.0% to 11.2%)	$221,645	$17,500	$36,740	$202,405
Highways & Bridges (1.5% to 11.3%)	98,850		11,240	87,610
College, University and Veterans Home Facilities (3.0% to 11.3%)	17,605		1,345	16,260
Bond Anticipation Notes (4.3% to 4.7%)	9,000		9,000	
Total	$347,100	$17,500	$58,325	$306,275

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

The requirements to amortize all bonds and notes outstanding as of June 30, 1990 are:

Fiscal Year	Principal	Interest
1991	$ 46,055	$19,984
1992 - 1996	182,740	57,172
1997 - 2001	64,025	14,930
2002 - 2006	13,365	1,414
2007 - 2011	90	5
Totals	$306,275	$93,505

At June 30, 1990 the state has approximately $222.8 million of authorized debt not issued. Use of debt is restricted by various authorizing laws.

16. **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 $642 thousand for the fiscal year ended June 30, 1990.

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 estimated liability for workers' compensation in the proprietary funds and the General Long-Term Debt Account Group. These estimates include reported and unreported claims as of June 30, 1990.

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 $7.6 million as of June 30, 1990.

17. Interfund Receivables and Payables

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

18. Segment Information for Enterprise Funds

The state maintains enterprise funds 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

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 businesses, and include the following enterprises:

Prison Industries
Community Industrial Building Fund
Potato Marketing Improvement Fund
Maine Potato Board
State Osteopathic Loan Fund
State Forest Nursery Fund

Financial segment information as of and for the year ended June 30, 1990 for the state's enterprise funds is as follows:

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

	Bureau of Alcoholic Beverages	Maine State Lottery	Department of Transportation Services	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	$87,865	$98,589	$1,302	$ 1,397	$189,153
Depreciation expense	104	36	885	71	1,096
Operating income (loss)	34,200	29,534	(2,830)	(1,569)	59,335
Operating transfers in (out)	(34,194)	(30,548)	1,711	245	(62,786)
Tax revenues	7,455				7,455
Net income (loss)	6	(616)	(2,214)	(1,058)	(3,882)
Capital contributions			(21,142)	(1,385)	(22,527)
Acquisition of property, plant and equipment (net)	(51)	75	4,050	(3,767)	307
Net working capital	3,025	(592)	653	9,898	12,984
Total assets	9,768	4,972	31,276	11,953	57,969
Total equity	185	(717)	31,074	9,546	40,088

19. 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, 1990, 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.

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, 1990, amounts committed pursuant to these authorizations were approximately $47.1 million. In addition, the state has a $75 million reserve fund restoration commitment with FAME. As of June 30, 1990, FAME had committed to $21.8 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, 1990, the total principal amount of outstanding MSBA bonds was $1.05 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. As of June 30, 1990, the total principal amount of outstanding MSHA bonds was $838.2 million. 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, 1990, the total principal amount of outstanding MMBB bonds was $655.5 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, 1990, there were no bonds issued pursuant to these articles.

20. Fund Equity Restatement

Fund Equity at June 30, 1989 has been restated as follows (expressed in thousands):

	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	Totals (Memorandum Only)
Fund Equity at June 30, 1989 as previously reported	$232,254	$143,402	$4,755	$80,633	$43,360	$19,181	$1,749,599	$2,273,184
Reclassification			(4,519)	4,519				
Prior period adjustments							20,941	20,941
Fund Equity as restated July 1	$232,254	$143,402	$ 236	$85,152	$43,360	$19,181	$1,770,540	$2,294,125

Material restatements are explained as follows:

Reclassification

a. Certain Capital Projects Fund accounts were previously reported as Debt Service Fund accounts. Capital Projects and Debt Service Funds Fund Balances at July 1 have been restated by $4.5 million to reflect the reclassification of these account balances.

b. Operating transfers in certain Enterprise Funds were previously reported as additions to Contributed Capital. Enterprise Funds Retained Earnings has been increased and Contributed Capital has been decreased by $23.1 million to reflect the reclassification of these transfers. These reclassifications have no effect on Fund Equity of the Enterprise Fund.

Prior Period Adjustments

Fund Equity in the Trust and Agency Fund has been restated to reflect assets donated to the state and accumulated interest earnings. These assets, held in trust by Boston Safe Deposit and Trust Company, were reported in previous periods in the Notes to the Financial Statements of the Baxter State Park Authority, a component unit of the State of Maine.

21. Subsequent Events

New Bond Issues and Authorizations

On June 1, 1991, the State of Maine issued $136.125 million of general obligation bonds. The bonds carry interest rates from 5.70% to 8.95% and mature on dates from July 1, 1993 to July 1, 2006. The bonds were issued (i) to refund certain bond anticipation notes, which notes were issued by the state to finance the acquisition, construction and improvement of certain public properties and buildings, (ii) to finance the acquisition, construction and improvement of certain public properties and buildings and (iii) for other purposes. The bonds are full faith and credit obligations of the State of Maine.

On November 6, 1990, voters authorized additional bond issues of $21.5 million.

General Obligation Bond Rating

In its June 10, 1991 issue of "Credit Week", Standard & Poor's Corporation lowered its rating of the state's general obligation bonds from "AAA" to "AA+".

Certificates of Participation

On November 1, 1990, the State of Maine entered into an agreement with the Bank of New York to issue $16 million in certificates of participation to finance construction of three buildings for use by three agencies of the State of Maine. The certificates represent proportionate interests in basic lease payments to be paid by the state pursuant to lease agreements for the three buildings. Repayment of the obligations is subject to and dependent upon appropriations being made by the State Legislature for such purposes. Obligations are secured by the buildings constructed. The certificates carry interest rates from 5.7% to 6.6% and mature on various dates from September 1, 1991 to September 1, 2000.

Fiscal Year 1991 Budget-balancing Measures

In November, 1990 and again in April, 1991, the Governor announced that General Fund revenue estimates then in effect for fiscal year 1991 would not be met. To obtain a balanced budget, legislation was enacted to reduce fiscal year 1991 General Fund authorized expenditures from the $1.7 billion initially authorized to $1.5 billion.

General Fund expenditure modifications included reductions in salary expenses through layoffs, employee participation in a voluntary cost savings program, a hiring freeze, and extending payroll payment dates; reductions in operating expenses; temporary or permanent closing of certain facilities; elimination or curtailment of certain programs; assignment of certain programs to other funding sources; and delay or elimination of capital purchases and repair and maintenance expenditures.

Other measures taken to balance the 1991 fiscal year budget included deferring until after July 1, 1991 payments of approximately $68.5 million for aid to local schools; for the General Fund share of teachers retirement contributions to the Maine State Retirement System; and for payments to the Maine Maritime Academy, the Maine Technical College System, and the University of Maine System. Additionally, transfers of certain surplus balances within the Maine State Retirement System allowed the deappropriation of $49.1 million no longer required for teachers' retirement contributions.

Excepting essential and federally funded services, all state departments, agencies and offices closed on May 10 and May 24, 1991, allowing the deappropriation of approximately $2 million.

July 1991 Temporary Closure of State Government

On July 1, 1991, normal operations of Maine state government were suspended due to the failure of the Governor and Legislature to enact a budget for the biennium ending June 30, 1993. The Governor declared a civil emergency and authorized a reduced work force and authorized resources necessary to minimize the risk of harm to persons and their property.

On July 17, 1991, the 1993 biennial budget was enacted and normal operations of state government resumed.

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SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

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

Area Code 207
Tel. 289-2201
FAX 289-2351

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, 1990, and have issued our report thereon dated May 15, 1991. 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

Rodney L. Scribner, CPA
State Auditor

May 15, 1991

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State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Major Federal Programs	
Department of Economic and Community Development			
U.S. Dept. of Housing & Urban Development	14.228	Community Development Block Grants	$ 11,133,573
Department of Educational and Cultural Services			
U.S. Dept. of Agriculture	10.550	Food Distribution (Note 3A)	3,402,128
	10.555	National School Lunch Program	9,712,212
U.S. Dept. of Education	84.010	Educationally Deprived Children – Local Educational Agencies	18,871,592
	84.011	Migrant Education – Basic State Formula Grant Program	3,794,721
	84.027	Handicapped – State Grants	9,029,246
	84.032	Guaranteed Student Loans (Note 3B)	3,014,178
	84.048	Vocational Education – Basic Grants to States	4,815,613
			52,639,690
Executive Department – Division of Community Services			
U.S. Dept. of Health & Human Services	13.789	Low Income Home Energy Assistance	17,554,802
U.S. Dept. of Energy	81.042	Weatherization Assistance for Low–Income Persons	3,604,365
			21,159,167
Department of Human Services			
U.S. Dept. of Agriculture	10.551	Food Stamps (Note 3C)	58,257,026
	10.557	Special Supplemental Food Program for Women, Infants, Children	9,733,107
	10.558	Child and Adult Care Food Program	5,301,635
	10.561	State Administrative Matching Grants for Food Stamp Program	5,197,834
U.S. Dept. of Health & Human Services	13.658	Foster Care – Title IV–E	6,869,559
	13.667	Social Services Block Grant	12,255,542
	13.714	Medical Assistance Program	274,800,885
	13.780	Family Support Payments to States – Assistance Payments	66,502,714
	13.783	Child Support Enforcement	5,844,694
	13.802	Social Security – Disability Insurance	3,038,754
	13.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	4,167,831
U.S. Dept. of Education	84.126	Rehabilitation Services – Basic Support	9,489,434
			461,459,015

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Major Federal Programs	
Department of Labor			
U.S. Dept. of Labor	17.207	Employment Service	4,209,259
	17.225	Unemployment Insurance (Note 3G)	12,867,465
	17.250	Job Training Partnership Act	8,795,048
			25,871,772
Department of Transportation			
U.S. Dept. of Transportation	20.205	Highway Planning and Construction	59,675,677
Total Major Federal Programs			$ 631,938,894

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title		Expenditures 1990
		Nonmajor Federal Programs		
Department of Administration				
General Services Administration	39.003	Donation of Federal Surplus Personal Property (Note 3F)	$	135,997
U.S. Environmental Protection Agency	66.702	Asbestos Hazards Abatement (Schools) Assistance		58,840
				194,837
Department of Agriculture				
U.S. Dept. of Agriculture	10.025	Plant and Animal Disease, Pest Control and Animal Care		27,625
	10.156	Federal – State Marketing Improvement Program		90,157
	10.162	Inspection Grading and Standardization		352,058
	10.950	Agriculture Statistical Reports		9,741
U.S. Environmental Protection Agency	66.700	Consolidated Pesticide Compliance Monitoring		160,158
	---	Androscoggin Lake Dam		9,908
				649,647
Department of the Attorney General				
U.S. Dept. of Health & Human Services	13.775	State Medicaid Fraud Control Units		202,143
Department of Conservation				
U.S. Dept. of Agriculture	10.025	Plant and Animal Disease, Pest Control and Animal Care		2,052
	10.063	Agricultural Conservation Program		14,720
	10.064	Forestry Incentives Program		381
	10.069	Conservation Reserve Account		4,337
	10.652	Forestry Research		1,927
	10.664	Cooperative Forestry Assistance		359,892

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Department of Conservation (continued)			
U.S. Dept. of Agriculture	10.901	Resource Conservation and Development	29,439
U.S. Dept. of Commerce	12.106	Flood Control Projects	4,787
U.S. Dept. of the Interior	15.808	Geological Survey–Research and Data Acquisition	26,254
	15.904	Historic Preservation Fund Grants–In–Aid	460
	15.916	Outdoor Recreation – Acquisition, Development and Planning	35
U.S. Environmental Protection Agency	66.700	Consolidated Pesticides Compliance Monitoring	8,113
U.S. Dept. of Energy	81.065	Nuclear Waste Disposal Siting	5,543
Unknown	---	Unknown	12,638
			470,578
Department of Corrections			
U.S. Dept. of Justice	16.540	Juvenile Justice and Delinquency Prevention – Allocation to States	298,918
	16.601	Corrections – Training and Staff Development	12,013
	16.603	Corrections – Technical Assistance/Clearinghouse	37,498
	---	Cooperative Agreement Plan – Capital Improvement	495,500
U.S. Dept. of Health & Human Services	---	Helping Incarcerated Parents Project	116,802
			960,731

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Department of Defense and Veterans Services			
U.S. Veterans Administration	64.101	Burial Expenses Allowance for Veterans	66,105
	64.203	State Cemetery Grants	276,933
Federal Emergency Management Agency	83.403	Emergency Management Institute – Field Training Program	82,775
	83.501	National Flood Insurance	53,753
	83.503	Civil Defense – State and Local Emergency Management Assistance	621,949
	83.505	State Disaster Preparedness Grants	31,087
	83.509	Facility Survey, Engineering and Development	37,446
	83.514	Population Protection Planning	103,266
	83.516	Disaster Assistance	1,795,402
	83.522	Radiological Defense	77,678
			3,146,394
Department of Economic and Community Development			
U.S. Dept. of the Interior	15.916	Outdoor Recreation–Acquisition, Development and Planning	480,145
U.S. Dept. of Energy	81.041	State Energy Conservation	80,117
	81.050	Energy Extension Service	35,262
	81.052	Energy Conservation for Institutional Buildings	35,046
			630,570
Department of Educational and Cultural Services			
U.S. Dept. of Agriculture	10.553	School Breakfast Program	1,002,762
	10.556	Special Milk Program for Children	169,751
	10.559	Summer Food Service Program for Children	318,310
	10.560	State Administrative Expenses for Child Nutrition	286,130

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Department of Educational and Cultural Services (continued)			
U.S. Dept. of Agriculture	10.564	Nutrition Education and Training Program	54,048
U.S. Dept. of Health & Human Services	13.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	245,082
U.S. Dept. of the Interior	15.904	Historic Preservation Fund – Grants–In–Aid	441,783
Nat'l Foundation for the Arts and Humanities	45.001	Promotion of the Arts – Design Arts	39,900
	45.003	Promotion of the Arts – Arts in Education	100,462
	45.007	Promotion of the Arts – State Program	359,041
	45.011	Promotion of the Arts – Inter–Arts	4,500
	45.015	Promotion of the Arts – Folk Arts	21,869
U.S. Dept. of Education	84.002	Adult Education – State Administered Basic Grant Program	806,312
	84.003	Bilingual Education	66,184
	84.004	Desegregation Assistance and Civil Rights Training	222,108
	84.009	Education of Handicapped Children	550,217
	84.012	Educationally Deprived Children – State Administration	364,894
	84.013	Neglected and Delinquent Children	169,435
	84.029	Special Education Personnel Development	116,647
	84.034	Library Services	465,274
	84.035	Interlibrary Cooperation and Resource Sharing	115,585
	84.049	Vocational Education – Consumer and Homemaking Education	213,022
	84.069	Grants to States for State Student Incentives	257,506
	84.146	Transition Program for Refugee Children	37,179
	84.151	Chapter 2, State Block Grants	2,277,319
	84.154	Public Library Construction	253,712
	84.164	Mathematics and Science Education	605,496
	84.167	Library Literacy	20,768
	84.173	Handicapped – Preschool Incentive Grants	2,469,067
	84.174	Vocational Education – Community Based Organizations	55,000
	84.176	Paul Douglas Teacher Scholarships	94,809
	84.184	National Programs for Drug–Free Schools and Communities	122

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Department of Educational and Cultural Services (continued)			
U.S. Dept. of Education	84.185	Robert C. Byrd Honors Scholarships	49,768
	84.186	Drug-Free Schools and Communities - State Grants	1,187,151
	84.192	Adult Education for the Homeless	118,492
	84.196	State Activities - Education of Homeless Children and Youth	4,166
	84.215	The Secretary's Fund for Innovation in Education	6,204
	84.216	Capital Expenses	71,316
	84.218	State Program Improvement Grants	310
	84.223	English Literacy Program	23,141
	84.224	Technology Assistance Program	354,996
	---	Center for Education Statistics	4,189
			14,024,027
Department of Environmental Protection			
U.S. Environmental Protection Agency	66.001	Air Pollution Control Program Support	879,392
	66.419	Water Pollution Control - State and Interstate Program Support	1,042,285
	66.433	State Underground Water Source Protection	90,404
	66.454	Water Quality Management Planning	291,648
	66.458	Capitalization Grants for State Revolving Funds	695,433
	66.459	Nonpoint Source Reservation	189,138
	66.505	Water Pollution Control - Research, Development and Demonstration	208,104
	66.801	Hazardous Waste Management - State Program Support	383,797
	66.802	Hazardous Substance Response Trust Fund	422,625
	66.804	State Underground Storage Tanks Program	154,966
	66.805	Underground Storage Tank Trust Fund Program	497,923
			4,855,715

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Executive Department – Division of Community Services			
U.S. Dept. of Agriculture	10.568	Temporary Emergency Food Assistance Program – Administration	204,562
	10.569	Temporary Emergency Food Assistance Program – TEFAP (Note 3E)	1,480,648
	10.571	Food Commodities for Soup Kitchens (Note 3E)	403,233
U.S. Dept. of Health & Human Services	13.792	Community Services Block Grant	1,780,559
	13.795	Discretionary Awards – Community Food and Nutrition	6,616
	13.796	Emergency Community Services for the Homeless	117,823
			3,993,441
Executive Department – State Planning Office			
U.S. Dept. of Commerce	11.303	Economic Development – Technical Assistance	22,500
Nat'l Oceanic and Atmospheric Administration	11.419	Coastal Zone Management – Administration	1,677,317
	11.420	Coastal Zone Management – Estuarine Research Reserves	304,950
U.S. Dept. of the Interior	15.612	Endangered Species Conservation	10,708
	15.910	National Natural Landmarks Program	9,064
U.S. Dept. of Energy	---	Petroleum Violation Escrow Funds	2,348,608
			4,373,147
Executive Department – Science & Technology Commission			
National Science Foundation	47.069	Research Initiation and Improvement	287,256

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Department of Human Services			
U.S. Dept. of Agriculture	10.550	Food Distribution (See Note 3D)	622,451
U.S. Dept. of Health & Human Services	13.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	657,831
	13.127	Emergency Medical Services for Children	130,884
	13.130	Primary Care Services – Cooperative Agreements	125,617
	13.141	Alcohol and Drug Abuse Treatment and Rehabilitation Block Grant	674,625
	13.146	Temporary AIDS Drug Reimbursement Program	13,675
	13.165	Grants for State Loan Repayment	33,838
	13.171	Community Youth Activity Program Block Grants	86,941
	13.179	State Data Collection – Alcohol and Drug Abuse	61,053
	13.262	Occupational Safety and Health Research Grants	49,323
	13.268	Childhood Immunization Grants	187,319
	13.283	Centers for Disease Control – Investigations and Technical Assistance	356,667
	13.399	Cancer Control	37,680
	13.633	Special Programs for the Aging – Title III, Part B	1,354,709
	13.635	Special Programs for the Aging – Title III, Part C	2,455,434
	13.641	Special Programs for the Aging – Title III, Part D	27,865
	13.643	Children's Justice Grants to States	16,149
	13.645	Child Welfare Services – State Grants	1,362,855
	13.647	Social Services Research and Demonstration	98,636
	13.659	Adoption Assistance	966,591
	13.668	Special Programs for the Aging–Title IV	151,939
	13.669	Child Abuse and Neglect State Grants	22,791
	13.671	Family Violence Prevention and Services	35,298
	13.672	Child Abuse Challenge Grants	80,365
	13.673	Dependent Care Planning and Development	47,496
	13.674	Independent Living	497,516
	13.766	Health Care Financing Research, Demonstrations and Evaluations	38,493
	13.777	State Survey and Certification of Health Care Providers and Suppliers	1,051,854

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Department of Human Services (continued)			
U.S. Dept. of Health & Human Services	13.787	Refugee and Entrant Assistance – State Administered Programs	600,226
	13.790	Work Incentive Program/WIN Demonstration Program	406,131
	13.977	Sexually Transmitted Diseases Control Grant	106,502
	13.987	Health Programs for Refugees	9,104
	13.988	Coop. Agreements for State Based Diabetes Control Programs	223,504
	13.991	Preventive Health and Health Services Block Grant	763,760
	13.994	Maternal and Child Services Block Grant	2,911,358
U.S. Dept. of Justice	16.575	Crime Victim Assistance	159,848
U.S. Dept. of Labor	17.235	Senior Community Service Employment Program	391,492
U.S. Environmental Protection Agency	66.432	State Public Water System Supervision	363,471
ACTION	72.001	Foster Grandparents Program	202,547
Nuclear Regulatory Commission	77.001	Radiation Control – Training Assistance and Advisory Counseling	1,158
U.S. Dept. of Education	84.129	Rehabilitation Training	36,392
	84.132	Centers for Independent Living	51,865
	84.161	Client Assistance for Handicapped Individuals	61,422
	84.169	Comprehensive Services for Independent Living	160,087
	84.181	Handicapped Infants and Toddlers	328,856
	84.187	Supported Employment Services for Individuals with Severe Handicaps	453,788
U.S. Dept. of Health & Human Services	---	New Vocational Rehabilitation Program – SSA	790,606
Unknown	---	Vital Statistics Cooperative Program	97,849
			19,365,861
Department of Inland Fisheries and Wildlife			
U.S. Dept. of the Interior	15.600	Anadromous Fish Conservation	111,165
	15.605	Sport Fish Restoration	2,304,274

Schedule A

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Department of Inland Fisheries and Wildlife (continued)			
U.S. Dept. of the Interior	15.611	Wildlife Restoration	1,464,344
	15.612	Endangered Species Conservation	57,374
U.S. Dept. of Transportation	20.005	Boating Safety Financial Assistance	294,395
U.S. Dept. of Commerce	---	Cooperative Agreement – National Marine Fisheries	18,386
			4,249,938
Judicial Department			
State Justice Institute	---	Court Security Grant	11,642
	---	Superior Court Law Clerk Automation Project	10,474
			22,116
Department of Labor			
U.S. Dept. of Labor	17.002	Labor Force Statistics	704,543
	17.202	Certification of Foreign Workers for Temporary Employment	424,158
	17.245	Trade Adjustment Assistance – Workers	599,804
	17.246	Employment and Training Assistance – Dislocated Workers	562,862
	17.500	Occupational Safety and Health	80,284
	17.506	7C1 Agreement	207,589
	17.600	Mine Health and Safety Grants	71,988
	17.801	Disabled Veterans Outreach Program	354,992
	17.802	Veterans Employment Program	42,984
	17.804	Local Veterans Employment Representative Program	465,947

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Department of Labor (continued)			
U.S. Dept. of Labor	---	Maine Occupational Information Coordination Committee	91,590
			3,606,741
Maine Committee on Aging			
U.S. Dept. of Health & Human Services	13.668	Special Programs for the Aging – Title IV	53,163
Maine Human Rights Commission			
U.S. Dept. of Housing & Urban Development	14.401	Fair Housing Assistance Program – State and Local	135,538
Equal Employment Opportunity Commission	30.002	State and Local Anti–Discrimination Agency Contracts	101,664
			237,202
Department of Marine Resources			
U.S. Dept. of Commerce	11.405	Anadromous and Great Lakes Fisheries Conservation	107,661
	11.407	Interjurisdictional Fisheries Act of 1986	305,452
U.S. Dept. of the Interior	15.600	Anadromous Fish Conservation	122,719
			535,832

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Schedule A

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Department of Mental Health and Mental Retardation			
U.S. Dept. of Health & Human Services	13.124	Nurse Anesthetist Traineeships	127,773
	13.125	Mental Health Planning and Demonstration Projects	444,976
	13.150	Mental Health Services for the Homeless Block Grant	248,730
	13.158	State Comprehensive Mental Health Service Planning Development Grants	83,399
	13.242	Mental Health Research Grants	232,322
	13.244	Mental Health Clinical or Service Related Training Grants	7,650
	13.630	Administration on Developmental Disabilities – Basic Support & Advocacy Grants	303,975
	13.631	Administration on Developmental Disabilities – Projects of National Significance	(7,588)
U.S. Dept. of Housing & Urban Development	14.178	Supportive Housing Demonstration Program	455,749
U.S. Dept. of Education	84.024	Handicapped Early Childhood Education	114,772
	---	Mental Health Community Services – Training Materials	7,380
			2,019,138
Department of Public Safety			
U.S. Dept. of Justice	16.005	Public Education on Drug Abuse – Information	17,417
	16.550	Criminal Justice Statistics Development	4,704
	16.573	Criminal Justice Block Grants	188,393
	16.579	Drug Control and System Improvement – Formula Grant	285,569
	16.580	Drug Control and System Improvement – Discretionary Grant	599,414
U.S. Dept. of Transportation	20.218	Motor Carrier Safety Assistance Program	231,122
	20.600	State and Community Highway Safety	1,056,737
Federal Emergency Management Agency	83.008	Community–Based Anti–Arson Program	2,299
			2,385,655

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1990

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1990
		Nonmajor Federal Programs	
Public Utilities Commission			
U.S. Dept. of Transportation	20.700	Pipeline Safety	9,243
Department of State			
U.S. Dept. of Transportation	20.218	Motor Carrier Safety Assistance Program	81,899
National Archives and Records Administration	89.003	National Historical Publications and Records Grants	9,786
			91,685
Department of Transportation			
Bureau of Indian Affairs	15.145	Indian Grants – Economic Development	74,813
U.S. Dept. of Transportation	20.106	Airport Improvement Program	189,998
	20.308	Local Rail Service Assistance	34,364
	20.500	Urban Mass Transportation Capital Improvement Grants	1,236,395
	20.505	Urban Mass Transportation Technical Studies Grants	69,312
	20.507	UMTA Capital and Operating Assistance Formula Grants	793,184
	20.509	Public Transportaion for Nonurbanized Areas	776,139
			3,174,205
Total Federal Financial Assistance – Nonmajor Federal Programs			69,539,265
Total Federal Financial Assistance – Major Federal Programs			631,938,894
Total Federal Financial Assistance			$ 701,478,159

See accompanying notes to the Schedule of Federal Financial Assistance

STATE OF MAINE

NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

June 30, 1990

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, 1990. The reporting entity is defined in Note 1A of the component unit financial statements of the State of Maine.

   B. Basis of Presentation - The information in the accompanying schedule of federal financial assistance is presented in accordance with OMB Circular A-128.

      1. Federal Financial Assistance - Pursuant to the Single Audit Act of 1984 (Public Law 98-502) and OMB Circular A-128, federal financial assistance is defined as assistance provided by a federal agency, either directly or indirectly, in the form of grants, contracts, cooperative agreements, loans, loan guarantees, property, interest subsidies, insurance, or direct appropriations. Accordingly, 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.

      2. Major and Nonmajor Programs - The Single Audit Act of 1984 and OMB Circular A-128 establish the levels of expenditures or expenses to be used in defining major and nonmajor federal financial assistance programs. Major programs for the State of Maine were those which exceeded $3 million in expenditures, distributions, or issuances for the fiscal year ended June 30, 1990.

   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. **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, 1990 was $333,738.

B. Department of Educational and Cultural Services (DECS) - Guaranteed Student Loan Program (CFDA #84.032): As of March 31, 1990, the Finance Authority of Maine (FAME) assumed all responsibilities for the program. Whereas FAME is not included in the scope of our audit, total federal financial assistance reported is as of March 31, 1990.

C. 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, 1990 was $13,059,837.

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

E. Executive Department - Division of Community Services - Food Distribution (CFDA #10.569): The reported total of federal financial assistance consists of the value of food commodities distributed under the Temporary Food Assistance Program (TEFAP). The value of inventory at June 30, 1990 was $95,007.

Food Commodities for Soup Kitchens (CFDA #10.571): The reported total of federal financial assistance consists of the value of food commodities distributed under Food Commodities for Soup Kitchens. The value of inventory at June 30, 1990 was $149,421.

F. Department of Administration - Bureau of Purchases - Federal Surplus Property (CFDA #39.003): Distributions are reported at the federally assigned value. The value of inventory at June 30, 1990 was $319,009.

G. Department of Labor - Unemployment Insurance (CFDA #17.225): Reported expenditures are comprised of the following:

U.I. Administrative Grant	$10,103,012
Trade Readjustment Act (FUBA)	1,044,124
Unemployment Compensation for Federal Employees	712,157
Unemployment Compensation for Ex-service Personnel	929,440
Unemployment Compensation for Ex-postal Workers	93,206
Federal Supplemental Compensation	(12,391)
Employment & Training Assistance/Public Services Employment	(1,340)
Disaster Unemployment Assistance	150
Extended Benefits	(893)
Total	$12,867,465

REPORTS ON INTERNAL CONTROL

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

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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on the Internal Control Structure 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, 1990, and have issued our report thereon dated May 15, 1991.

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, 1990, 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
- Expenditures/expenses for goods and services and accounts payable
- Payroll and related liabilities
- Inventories
- Property, equipment, and capital expenditures
- Debt and debt service expenditures/expenses

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.

Reportable conditions other than material weaknesses 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 of Maine does not have sufficient accounting and administrative policies and procedures to prepare financial statements fully in accordance with generally accepted accounting principles (GAAP).

State agencies initiate accounting transactions while the Bureau of Accounts and Control processes them for payment or otherwise enters them into the state accounting records. Due to the large volume, bureau personnel perform only a minimal review of transactions and rely on the originating agencies to properly analyze and record them. Accounting knowledge varies among personnel of different agencies and errors may not always be detected. Although routine transactions may be appropriately recorded, certain accruals and adjustments remain necessary to prepare GAAP financial statements. The bureau does not have a complete year-end financial closing package to accomplish this.

As a consequence of reporting errors and omissions attributable to insufficient accounting policies and procedures, financial information presented in the State Controller's Annual Financial Report has not agreed with that in audited financial statements. Departures from generally accepted accounting principles have resulted in qualified audit opinions.

We believe this condition to be a material weakness but recognize the bureau's ongoing commitment to improving accounting and internal control systems and the many worthy features of these systems.

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 May 15, 1991.

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

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1991

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State of Maine
Schedule of Reportable Conditions
For the Year Ended June 30, 1990

Schedule B

Department of Administration

Office of Information Services

(1) Finding: Accounts payable incorrectly recorded

Due to a misunderstanding of accounting principles, the Office of Information Services Telecommunication supervisory accounting personnel did not record expenditures and accounts payable for goods and services received but not paid for prior to June 30, 1990. As a result, we estimate that OIS Telecommunication Internal Service Fund recorded fiscal 1990 expenditures and accounts payable are understated and retained earnings overstated by $1,695,702.

Recommendation:
We recommend that OIS accounting personnel record expenditures and accounts payable in the period to which they apply.

Auditee Response:
The OIS Telecommunication Division business office has made procedural changes to ensure the proper recording of expenditures and accounts payable in the fiscal period to which they apply.

****

Bureau of Public Improvements

(2) Finding: Incomplete General Fixed Assets Account Group (GFAAG) records (Prior Year Finding)

GFAAG records are incomplete because various state agencies' reports of their general fixed assets to BPI are incomplete and inaccurate.

Recommendation:
We again recommend that BPI conform to the requirements of the State of Maine Manual of Financial Procedures, §66 to ensure that general fixed assets 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 Educational and Cultural Services

Division of Finance

(3) Finding: Loans not recorded as receivables (Prior Year Finding)

The Department of Education did not record receivables

Recommendation:
We make no recommendation since the department no

for loans made to Post Graduate Health Professional Program students until they entered repayment status nor did it record receivables for certain Blaine House Scholars' loans. General Fund appropriations supported these programs.

The department maintained individual loan records but maintained no control log showing totals of loans granted or repayments made. As of June 30, 1990 the Controller's records show that the Department of Education loaned $12.4 million and received cash repayments of $603,000. Based on available records, we estimate that Special Revenue Fund receivables were understated by approximately $11.8 million at the time programs were transferred to the Finance Authority of Maine in March of 1990.

longer administers these programs and they are no longer reflected on the Controller's records.

Auditee Response:

No corrective action by the department is necessary.

****

Department of Finance

Bureau of Accounts and Control

(4) Finding: Incorrect use of prepaid expense account (Prior Year Finding)

The Bureau of Accounts and Control incorrectly used the prepaid expense account to offset interfund payables and receivables, to alleviate deficit account balances, and to generate post dated Aid to Families with Dependent Children (AFDC) payroll checks. This resulted in a total overstatement of $10,655,033.

Interfund payables/receivables	$ 1,882,539
Deficit balances	29,670
AFDC	8,562,726
Other	180,098
Total	$10,655,033

Correct use of prepaid expense is to account for current outlays to benefit a future period. Interfund payables and receivables should be offset to expenditures or revenue, respectively. Expenditures should be recognized in the period in which they are incurred. In addition, AFDC payroll checks should be reported as of the check date, rather than the date generated.

Recommendation:

We recommend that the Bureau of Accounts and Control use prepaid expense only for those current outlays that benefit a future period. In addition, we recommend that A&C make the appropriate adjustments to correctly reflect the above types of transactions on future financial statements.

Auditee Response:

For budgetary purposes, we will continue our current practices; for GAAP statements, we will adjust accounts to properly reflect account balances.

****

Bureau of Accounts and Control

(5) Finding: Wire transfers incorrectly recorded as accounts payable (Prior Year Finding)

The Bureau of Accounts and Control recorded wire transfers from state demand deposit accounts during fiscal year 1990 as accounts payable rather than cash reductions. As a result, cash and accounts payable were overstated in the Treasurer's Agency Fund by $3,601,725.

Recommendation:
We recommend that the Bureau of Accounts and Control record wire transfers from state demand deposit accounts as cash reductions in the fiscal period in which they occur.

Auditee Response:
It is the responsibility of the Department of Treasury to record activity generated by wire transfers they initiate.

****

Bureau of Accounts and Control

(6) Finding: Cash reconciliation not performed

The Bureau of Accounts and Control is responsible for maintaining the state's official accounting records. Since December 1989 A&C has not reconciled the cash balance. As a result, at June 30, 1990 there was a discrepancy between the Treasurer's and Controller's records in excess of $10 million.

Recommendation:
We recommend that Accounts and Control reconcile the variance and make appropriate adjustments. In addition, we recommend that each month A&C reconcile the state's official accounting records with the Treasurer's ledger and make corrections as necessary.

Auditee Response:
We agree. The cash account has been reconciled and will be reconciled on a monthly basis in the future.

****

Bureau of Accounts and Control

(7) Finding: Deferred Compensation Plan assets/liabilities not recorded (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 Controller's Annual Financial Report and not on the accounting records. Consequently, as of June 30, 1990 the bureau had not recorded Deferred Compensation Plan assets/liabilities of $53,421,199 on the state accounting records.

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

Auditee Response:
The bureau will establish a fund and record transactions reported by the carriers.

****

Bureau of Taxation

(8) Finding: Special Fuel payments refunded without supporting documentation

Title 36, MRSA, §3208 authorizes the State Tax Assessor to refund Special Fuel overpayments and to require such supporting documentation for refunds as he believes necessary. In fiscal year 1990 the Bureau of Taxation refunded $8.2 million from its special revenue fund without requiring any supporting documentation. Taxpayer audits done by the Audit Division of the Bureau of Taxation provide some assurance as to the validity of those refunds tested. However, there is no control to prevent unwarranted refunds and there is no documentation available at the Bureau of Taxation to examine for the propriety of refunds paid.

Recommendation:

Although refund procedures comply with legal requirements, we recommend that the Bureau of Taxation strengthen internal controls over Special Fuel refunds. We recommend that the State Tax Assessor assign responsibility to a specific individual to monitor and analyze Special Fuel payment/refund patterns and to target unusual patterns for further review. We further recommend that the bureau minimally request, and on a test basis check, supporting documentation for a sample of taxpayer refund requests.

Auditee Response:

The refunds authorized under 36 MRSA §3208 are claimed on returns required to be filed by 9,000 users, 7,000 quarterly and 2,000 annually, under 36 MRSA §3209. The returns contain information on fuel used and miles traveled within and without Maine. The net results of the information required to be supplied on the return is either additional tax due by the user or a refund of tax due to the user. Verification of the net results reflected on the return is dependent on audits conducted by the field staff. Audit results in this area are minimal, indicating that the current procedure is cost effective.

****

Bureau of Taxation

(9) Finding: Revenue recognition cut off procedures

The Bureau of Taxation does not have written procedures to ensure that all, and only, revenues that are available and measurable in the fiscal period are recorded. Business Services Section personnel do not consistently date stamp or otherwise segregate end of fiscal period receipts. The bureau does not cut off revenues based on cash received by the last day of the fiscal period but allows time for receipts that may have been mailed by the last day of the reporting period; revenue figures may therefore be subject to manipulation. Clearly established, consistently applied revenue cut off procedures are essential to provide reliable information to users of the financial data.

Governmental Accounting and Financial Reporting Standards (GASB 1600.110) state that: "It is neither necessary nor practical to attempt to accrue taxpayer

Recommendation:

We recommend that bureau personnel cut off revenues based on cash received by the last day of the fiscal period; document and advise appropriate bureau personnel of this policy; and establish verifiable cut off procedures to segregate end of fiscal year receipts.

Auditee Response:

We are developing a written policy which will be made clear to bureau staff. A copy will be provided to you.

assessed income and gross receipts taxes unless taxpayer liability and collectibility have been clearly established - as when tax returns have been filed but collection, while assured, is delayed beyond the normal time of receipt. Such items are best recognized as cash is received." The same criteria apply to taxpayer-assessed sales taxes (GASB S10.102). Fiscal year 1990 taxpayer - assessed tax revenues include $17.6 million for which the corresponding cash receipts statements and bank deposits were not recorded until the 1991 fiscal year. Senior bureau personnel indicated that, for most of the recorded revenue, payments had been received in June but not deposited until July.

****

Bureau of Taxation

(10) Finding: Independence of Audit Division's revenue agents

There is presently no written policy concerning independence of revenue agents conducting field audits, and no disclosures of circumstances or relationships that might impair agents' objectivity. Agents influence audit selection and make recommendations for cash refunds to businesses they audit. While refunds must be approved, the approval process would not disclose nor prevent approval of a refund to a friend or acquaintance of an agent.

Recommendation:
We recommend that the Audit Division establish a written policy concerning independence and require disclosure of relationships that may impair the objectivity of its revenue agents.

Auditee Response:
The bureau is preparing a written policy on conflicts of interest which will be provided to all Audit personnel and incorporated in the audit manuals.

****

Bureau of Taxation

(11) Finding: Allowance for estimated uncollectible taxes receivable

The Bureau of Taxation has not provided the Bureau of Accounts and Control with accurate information so that reasonable allowance accounts for estimated uncollectible taxes receivable can be established. Because of the inaccurate information, June 30, 1990 allowance account balances are insufficient to reasonably allow for the amount of recorded revenues that may not be collected. General Fund revenues/fund balance available for appropriation have been overstated by the amount of adjustment necessary to establish reasonable allowance account balances.

The Bureau of Accounts and Control determines allowance account balances by the sum of 100% of the accounts over

Recommendation:
We recommend that the Bureau of Taxation accumulate complete and accurate data to properly age and report all taxes receivable to the Bureau of Accounts and Control so that adequate allowances for estimated uncollectible accounts can be established.

Auditee Response:
The bureau will develop a procedure for providing the detail for aging accounts receivables as MATS progresses. Each tax will be handled as it is converted to MATS. The standards to be used in aging accounts will be reviewed with the State Controller.

one year past due; 50% of accounts over six months past due; 25% of accounts over ninety days past due and none of current accounts.

Sales taxes:

For sales taxes receivable, the Business Services Section of the Bureau of Taxation reports as delinquent for over one year only those accounts that the Enforcement Division has attempted to recover and has determined to be uncollectible. All other sales tax accounts are reported as current, regardless of age or collectibility. Write-off of the uncollectible accounts eliminates the sales tax allowance account. All of the 1990 sales taxes written off that we examined were between seven and seventeen years old. At June 30, 1990 recorded sales taxes receivable totaled $21,288,000. The associated allowance account for estimated uncollectible sales taxes had a zero balance.

Individual Income Taxes:

Individual income taxes receivable are aged at the end of March for the current fiscal year. Since the due date of the tax is April 15, the present aging schedule allows at 50% those receivables aged over one year that should be allowed at 100%. All current receivables are excluded from the allowance; there is no estimate of uncollectibility of current income taxes due as of June 30, 1990. The Bureau of Taxation maintains three other individual income taxes receivable systems (FEDEX, CP2000, and R.A.R.). They do not report balances from these other systems on the aging report to the Bureau of Accounts and Control. At June 30, 1990 receivable balances on these three systems totaled $2,961,800. No allowance was established. There is no allowance account established for individual income withholding taxes receivable. Like sales tax, accounts that the Enforcement Division has attempted to recover and has determined to be uncollectible are reported as delinquent for over one year. All other accounts, regardless of age, are reported as current. An allowance is established for the uncollectible accounts, but they are written off before year end, thus reducing the allowance to zero. At June 30 withholding taxes receivables were $17,259,655. Additionally, no allowance was established for estimated uncollectible corporate taxes receivable.

****

Bureau of Taxation

(12) Finding: No reconciliation of individual and corporate income taxes (Prior Year Finding)

Bureau of Taxation personnel have not reconciled individual and corporate income taxes since the new state accounting package (MFASIS) was implemented in January of 1990. Net revenues for these taxes were in excess of $6 million for the 1990 fiscal year. Bureau of Taxation and Bureau of Accounts and Control personnel are working to develop MFASIS reports that will provide information necessary for reconciliation.

Recommendation:
We recommend that the bureau assign responsibility for coordinating efforts between the bureaus so that all necessary information for a complete reconciliation is available.

Auditee Response:
Due to the complexity of reconciling individual and corporate income taxes since the implementation of MFASIS, we have only been able to reconcile through April 1991. The Controller's Office has been reminded of our need for improvements in MFASIS reports. They indicate that an attempt will be made to make the improvements. Until the improvements occur, the likelihood of not being able to reconcile remains high.

****

Department of Human Services

Office of Management and Budget - Division of Audit

(13) Finding: Noncompliance with state law audit requirements

Title 5, MRSA, §1653 (9) requires that financial and compliance audits of all state and federal funds passed through the state to community agencies be conducted no less frequently than every two years. For over two years the division has not audited federal and state funds amounting to $5,195,199 and $3,082,094, respectively, that were disbursed by DHS.

MAAP §.04 (B)(a)(xvii) requires that single audits be completed and reports issued within 12 months following receipt of the financial statements. It should be noted that of the 34 unaudited community agencies 32 had not submitted financial statements when due. DHS had not audited 17 community agencies with federal and state funds totaling $2,520,904 and $1,531,586 in the year following the receipt of the financial statements.

Recommendation:
We recommend that the division ensure that audits are completed within the required time frame following receipt of the financial statements.

Auditee Response:
We agree DHS had not audited the subrecipients because 32 of 34 subrecipients had either not submitted any financial statements at all or they were very late in filing their statements. Obviously, subrecipient noncompliance has a significant impact on DHS audit planning capabilities. There are no current sanctions to prohibit this type of occurrence.

****

Department of Labor

Office of Administrative Services

(14) Finding: Allowance for uncollectible accounts not correctly stated

MDOL records all accounts receivable as uncollectible. This procedure results in understating net accounts receivable and revenues.

Recommendation:
We recommend that MDOL establish the allowance for uncollectible accounts offset based on historical collection data of both accounts and taxes receivable. The accounting offset for the amount established in the allowance account should be charged against revenue.

Auditee Response:
This procedure has been reviewed with the Bureau of Accounts and Control and proper accounts are now established on the Controller's records to record the accounts receivable, allowance for doubtful and deferred revenue accounts as part of the fund balance.

****

Bureau of Employment Security

(15) Finding: Detail and control accounts receivable records do not agree (Prior Year Finding)

Our review of the accounts receivable records for unemployment compensation payroll tax and benefit overpayments revealed a difference of $1,199,838 between the total of the detail listing and the control total as of June 30, 1990.

Recommendation:
We recommend that MDOL maintain appropriate detail accounts and taxes receivable records for unemployment compensation payroll tax and benefit overpayment; and we recommend that each month it reconcile the detail to the control total.

Auditee Response:
MDOL attempted to use a PC solution to maintain appropriate detail accounts and taxes receivable records for unemployment compensation payroll taxes. This solution did not prove successful. We are including the correction of the problem of aging of accounts in the automation revision currently in progress. We will put into our procedures requests for a detailed listing to be run at the same time as the control total in order to correct the benefit overpayment problems.

****

Maine State Retirement System

Group Life Insurance Program

(16) Finding: Liability for anticipated claims (Prior Year Finding)

Title 5, MRSA, §18059 states that payment of premiums shall be based as determined by the board to be actuarially sufficient to pay anticipated claims. Title 5, MRSA,

Recommendation:
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

§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 ended June 30, 1990. Consequently, there was a decrease in assets available for future benefits due.

should adjust premium rates to accommodate actuarial recommendations.

Auditee Response:

The Retirement System has requested Milliman & Robertson (the System's 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 is currently underway and a report, with recommendations, is expected in the fall of 1991.

****

Group Life Insurance Program

(17) Finding: Inconsistencies in group life insurance coverage and premiums

Title 5, MRSA, §18056 states that the amount of life insurance benefits to be paid "....shall be equal to the participant's annual earnable compensation...." Title 5, MRSA, §17001, defines earnable compensation.

Chapter 710 of Public Laws 1989 changed 5, MRSA, §18056 by replacing the term "earnable compensation" with "annual base compensation"; and revised 5, MRSA, §17001 by defining "annual base compensation" to mean "earnable compensation." These revisions became effective July 14, 1990.

However, unlike the current procedure, the definition of "earnable compensation" does not clearly indicate whether longevity, shift differential and direct care payments, etc., should be included when calculating the annual base compensation. Group life insurance premiums and the amount of individual coverage are based solely on the calculated compensation base.

The ambiguity of the definition, together with the Bureau of Human Resources recommendation to calculate base compensation on payroll components different from those now used, suggests a need to clarify which payroll components should be included or excluded.

The following payroll components are currently used to determine the level of life insurance coverage:

1. Regular wages
2. Shift differential pay
3. Medication premium
4. Divers/Teachers stipend

Recommendation:

We recommend that the Maine State Retirement System compile and approve a specific listing of payroll components to be used in calculating annual base compensation; and that it establish procedures and controls to ensure it accurately determines the amount of life insurance coverage and premiums to be paid.

Auditee Response:

Action taken by the Maine State Retirement System Board of Trustees in the spring of 1991 has done much to alleviate the ambiguity of earnable compensation with respect to group life insurance coverage.

After hearing comments on proposed changes in rule, it was decided that the amount of gross pay that appears on a member's W-2 Statement of Wages for a given year will be the basis on which coverage will be provided in the following year.

This will become effective with amounts indicated for calendar year 1991 and be carried into 1992. We feel this approach will do much to clear up the inconsistencies cited in the finding.

5. Recruitment/Retention stipend
6. Non-standard differential
7. Longevity pay
8. 5% in lieu of retirement pay

Using this component list, we tested life insurance coverage and associated premiums paid for twenty-seven individuals. In five cases both the level of insurance coverage and amount of premiums paid were incorrect.

****

Maine State Retirement System

(18) Finding: Interest calculations on refund payments are inconsistent with policy

The MSRS Board of Trustees determined that interest on member contributions would be earned at the rate of 7%, compounded annually. Our review disclosed that interest compounding occurs on a bi-weekly basis for state employees and, generally, on a quarterly basis for teachers and participating district employees. Neither method agrees with the policy established by the Board of Trustees. During fiscal year 1990, interest included in contributions refunded totalled $2,070,271. We estimate that $793,328 less interest would have been paid had MSRS followed the trustees' policy.

Recommendation:

We recommend that the MSRS undertake corrective action to ensure compliance with the Board of Trustees' policy.

Auditee Response:

Retirement System management has confirmed with the Board of Trustees that the current procedure of paying interest up to the refund date is to continue. The seven percent annual compounding applies to member contributions that continue on deposit for members that do not apply for a refund.

****

Maine State Retirement System

(19) Finding: Pending transactions incorrectly recorded (Prior Year Finding)

The Maine State Retirement System recorded pending investment purchases as decreases, and recorded 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 recorded as accounts receivable. As a result, the following accounts were understated at fiscal year end.

Cash	$ 905,350
Accounts receivable	4,773,721
Accounts payable	5,747,303

Recommendation:

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

Auditee Response:

Extra journal entry transactions are needed to maintain the accounts payable/receivable for investment trade date items and past practice has dictated that all purchases and sales be netted against Fiduciary Cash. Until such time as an automated General Ledger accounting system is available at the Retirement System, to post these manually invites the introduction of error in the process.

An audit trail is clearly available in the Boston Safe Deposit Company reports to the Retirement System and the trade date items are reconciled monthly.

Maine State Retirement System

(20) Finding: Documentation of internal control inadequate (Prior Year Finding)

The Maine State Retirement System must maintain records of participant data. Out of twenty-five recipient files that we sampled, one could not be located. In addition, we noted other problems related to inadequate documentation:

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;
5. Authorizations endorsed with facsimile signature stamp;
6. Missing documents on microfiche.

Recommendation:

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

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

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 MSRS 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.

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Maine State Retirement System

(21) Finding: Accrued dividend income not recorded (Prior Year Finding)

The Maine State Retirement System did not record accrued dividend income of $1,024,670. As a result, assets and operating revenue were understated.

Recommendation:

We recommend that the MSRS record all dividends receivable at fiscal year-end.

Auditee Response:

Accrued dividends have not been recorded as income by the Retirement System for almost the last twenty years. No effort is made to do this because unlike accrued interest, accrued dividends are not measurable until paid. While unlikely, it is possible for a company to reverse its decision to pay a dividend at any time prior to payment.

Accrued Dividends amount to less than one percent of total annual income for the Retirement System.

****

Maine State Retirement System

(22) Finding: Insufficient methods used to calculate retirement benefits

During our examination of the benefit calculation process we noted inconsistencies in MSRS determination of earned compensation, the basis of benefit payments, as well as errors in its computation of benefit amounts.

Inconsistencies result from vagaries in the definition of earned compensation which, depending upon the interpretation of the person calculating, causes variances in the amount of the benefit payment.

Calculation errors are due to human error which result from insufficient supervisory review of benefits calculated. In our sample, we found that six of twenty-five calculations for individuals who retired during FY 1990 were incorrect.

Recommendation:

We recommend that MSRS clearly define earned compensation to eliminate the need for individuals preparing benefit payments to interpret what should or should not be included in the calculation process. We also recommend that it strengthen controls over benefit calculation review by using procedural manuals, the assembly of benefit calculation data on a calculation worksheet, and supervisory review for accuracy of all data and computations.

Auditee Response:

An examination of the benefit calculations process applicable for members who retired from 1976 through 1989 revealed some inconsistencies in determining earnable compensation and errors in computing benefit amounts. A review of the accounts visited by audit resulted in no changes in two of the six questioned. The other four were in error and the result of incorrect payroll information on hand at the time of calculation and inconsistent clerical interpretation of earnable compensation. The Retirement System has introduced legislation in this session that would allow for more consistent definition of earnable compensation.

All documents that are used in calculating a member's retirement benefit must now be thoroughly reviewed and the results independently verified prior to passing the *information to benefits payroll. As the process of automating the benefit calculation moves forward, the necessary procedure manuals will be developed to complement the procedure.*

****

Maine State Retirement System

(23) Finding: Transaction detail unavailable

MSRS records income from investment transactions, retirement contributions, benefit payments, refunds, etc., directly to the various trust reserve accounts rather than to operating accounts. As a result of this and a flaw in the MFASIS computer system, no transaction detail summaries are available from the Controller's records. For audit purposes, we examined and tested for reasonableness detail information that MSRS provided.

Using MSRS data, we compared the net effect of operations on trust reserve balances to the Controller's year-end balances. These appear to have been accurately stated. Therefore, we believe that the net results of operations have been appropriately recorded on the state's records although we cannot verify that individual transactions were recorded correctly.

Recommendation:

We recommend that MSRS record transactions using income and expense reporting codes rather than record transactions directly to trust reserve accounts. By segregating income and expense items when recorded, auditable figures will be available at year-end without the need for reconstruction of records.

Auditee Response:

Examination of retirement system records and reporting of that result by the Audit Department would indicate that the balances reported by the system have been accurately stated. The unavailability of detail to support income records is an acknowledged shortcoming of the MFASIS computer system.

The Retirement System's recordkeeping procedures and protocols appear to be in order and we see no need to change in order to accommodate an inadequacy on the part of the state's new system. We urge the Audit Department to address the shortcoming with the appropriate party, the State Controller.

****

Maine State Retirement System

(24) Finding: Accrual of refunds (Prior Year Finding)

According to Governmental Accounting and Financial Reporting Standards (GASB), §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.

Recommendation:

We recommend that the MSRS 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 as suggested by the Audit Department 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.

****

Department of Transportation

Bureau of Maintenance and Operations - Motor Transport Service

(25) Finding: Incorrect accounting for lease-purchase agreement (Prior Year Finding)

The MDOT Motor Transport Service used legislatively authorized Certificates of Participation to finance $25 million in equipment lease-purchases. MTS personnel did not make appropriate accounting entries to record the transactions. At June 30, 1990 the following MTS Internal Service Fund accounts were understated:

1.Cash	$11,363,834
2.Lease-purchases payable	12,329,317
3.Interest expense	692,385

Recommendation:

We recommend that MTS personnel make necessary accounting entries to reflect accurate account balances.

Auditee Response:

A review of lease purchase accounting transactions is currently being performed. The Internal Service Fund will reflect appropriate accounting entries prior to June 30, 1991.

****

Bureau of Transportation Services - Ports & Marine Transportation Division, Maine State Ferry Service; and Air Transportation Division

(26) Finding: Operating transfers from General Fund not correctly classified (Prior Year Finding)

Each of the department's enterprise funds receives an appropriation from the General Fund to defray operating costs.

Recommendation:

We recommend that the department account for additional General Fund subsidies as operating transfers. We also recommend that the department adjust accounts of prior periods for the cumulative effect to the donated surplus and unappropriated surplus.

The appropriations made in fiscal year 1990 were:

Aeronautics	$ 66,208
Ferry Service	1,524,042
Ports and Marine	120,322

The department by-passed the enterprise funds' operating statements by crediting $672,388 of the appropriations for Ferry Service, and $47,420 for Ports and Marine to donated surplus (contributed capital).

In prior years the department accounted for General Fund subsidies for all enterprise funds as contributed capital which resulted in overstatements of donated surplus by amounts that could not be determined. This treatment of General Fund appropriations 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 the department should treat appropriations as operating transfers.

Auditee Response:

....Procedures have been changed to properly record operating subsidies. We will review and adjust the enterprise accounts to appropriately reflect donated surplus and unappropriated surplus for prior periods.

The adjustments set forth in the audit finding do not reflect entries made in June 30, 1990. $990,764 was adjusted at that time. The remaining $719,808 will be adjusted prior to the end of Fiscal Year 1991....

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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, 1990, and have issued our report thereon dated May 15, 1991. 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
- Expenditures/expenses for goods and services and accounts payable
- Payroll and related liabilities
- Inventories
- Property, equipment, and capital expenditures
- Debt and debt service expenditures/expenses

Administrative Controls

General Requirements
- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace

Specific Requirements

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

We did not make a study and evaluation of those internal administrative controls established by United Student Aid Funds, Inc. (USA Funds), a servicing agent with responsibility to administer and account for a significant portion of the State of Maine's involvement with the Guaranteed Student Loans Program. A study and evaluation of those internal administrative controls, for the years ended September 30, 1990 and 1989, was made by other auditors whose report has been furnished to us, and our report, insofar as it relates to those controls, is based solely on the report of the other auditors.

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

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

Our study included all of the applicable control categories listed above. During the year ended June 30, 1990, the State of Maine, expended 90% of its total federal financial assistance under major federal financial assistance programs. With respect to internal control systems used in administering major federal financial assistance programs, our study and evaluation included considering the types of errors and irregularities that could occur, determining the internal control procedures that should prevent or detect such errors and irregularities, determining whether the necessary procedures are prescribed and are being followed satisfactorily, and evaluating any weaknesses.

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

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

Further, we do not express an opinion on the internal control systems used in administering the major federal financial assistance programs of the State of Maine.

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

However, our study and evaluation and the study and evaluation of other auditors 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.

Subgrantee Monitoring

The State of Maine Executive Department - Division of Community Services did not have adequate controls established to ensure subgrantees were properly monitored in accordance with federal regulations for the Low Income Home Energy Assistance Program (CFDA #13.789) and Temporary Emergency Food Assistance Program (CFDA #10.569).

Subrecipient Audits

The State of Maine Department of Labor, which administers the Job Training Partnership Act (CFDA #17.250), did not have adequate controls established to ensure that subrecipient audits are performed or properly monitored in accordance with federal regulations.

The State of Maine Department of Mental Health and Mental Retardation's subrecipient audits did not satisfy the requirements of Office of Management and Budget (OMB) Circular A-110 for the Social Services Block Grant (CFDA #13.667) and the Alcohol and Drug Abuse and Mental Health Services Block Grant (CFDA #13.992).

The State of Maine Department of Human Services has not performed subrecipient audits for the following federal programs within the two year requirement of Office of Management and Budget (OMB) Circular A-110.

Special Supplemental Food Program for Women, Infants and Children
CFDA #10.557

Alcohol and Drug Abuse Treatment and Rehabilitation Block Grant
CFDA #13.141

Childhood Immunization Grants
CFDA #13.268

Social Services Block Grant
CFDA #13.667

Child Abuse and Neglect State Grants
CFDA #13.669

Dependent Care Planning and Development
CFDA #13.673

Sexually Transmitted Diseases Control Grant
CFDA #13.977

Preventive Health and Health Services Block Grant
CFDA #13.991

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

We also noted other matters involving the internal control systems used in administering federal financial assistance programs that we have reported to the management of the State of Maine, in a separate letter dated May 15, 1991.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in (1) our audit of the 1990 component unit financial statements and (2) our audit and review of the State of Maine'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 of Maine's compliance with laws and regulations dated May 15, 1991.

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

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1991

REPORTS ON COMPLIANCE

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Independent Auditor's Compliance Report Based on an Audit of Component Unit Financial Statements Performed 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, 1990, and have issued our report thereon dated May 15, 1991.

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.

The results of our tests indicate that, with respect to the items tested, the State of Maine complied, in all material respects, with the provisions referred to in the preceding paragraph. 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 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 May 15, 1991.

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

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1991

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Independent Auditor's Single Audit 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, 1990; as discussed in Note 3B to the schedule of federal financial assistance we have audited the Guaranteed Student Loans Program for the nine months ended March 31, 1990.

- Political activity
- Davis-Bacon Act
- Civil rights
- Cash management
- Relocation assistance and real property acquisition
- Federal financial reports
- Allowable costs/cost principles
- Drug-free workplace

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

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
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May 15, 1991

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Independent Auditor's Single Audit Opinion 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, 1990; as discussed in Note 3B to the schedule of federal financial assistance we have audited the Guaranteed Student Loans Program for the nine months ended March 31, 1990. The management of the State of Maine is responsible for the State of Maine's compliance with those requirements. Our responsibility is to express an opinion on compliance with those requirements based on our audit. We did not audit United Student Aid Funds, Inc.'s (USA Funds) compliance with specific program requirements applicable to the Guaranteed Student Loans Program. USA Funds acts as servicing agent with responsibility to administer and account for a significant portion of the State of Maine's involvement with the program. Compliance with those requirements, for the years ended September 30, 1990 and 1989, was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to compliance with those requirements, is based solely on the report of the other auditors.

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 of Management and Budget Circular A-128, Audits of State and Local Governments. Those standards and Office of Management and Budget 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 and the report of other auditors provide a reasonable basis for our opinion.

The results of our audit procedures for the major federal financial assistance programs noted below disclosed that the State of Maine 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 of Maine must establish such systems to comply with the requirements of those major federal financial assistance programs.

Subgrantee Monitoring

The State of Maine Executive Department - Division of Community Services did not have adequate controls established to ensure subgrantees were properly monitored in accordance with federal regulations for the Low Income Home Energy Assistance Program (CFDA #13.789) and Temporary Emergency Food Assistance Program (CFDA #10.569).

Subrecipient Audits

The State of Maine Department of Labor, which administers the Job Training Partnership Act (CFDA #17.250), did not have adequate controls established to ensure that subrecipient audits are performed or properly monitored in accordance with federal regulations.

The State of Maine Department of Mental Health and Mental Retardation's subrecipient audits did not satisfy the requirements of Office of Management and Budget (OMB) Circular A-110 for the Social Services Block Grant (CFDA #13.667) and the Alcohol and Drug Abuse and Mental Health Services Block Grant (CFDA #13.992).

The State of Maine Department of Human Services has not performed subrecipient audits for the following federal programs within the two year requirement of Office of Management and Budget (OMB) Circular A-110.

Special Supplemental Food Program for Women, Infants and Children
CFDA #10.557

Alcohol and Drug Abuse Treatment and Rehabilitation Block Grant
CFDA #13.141

Childhood Immunization Grants
CFDA #13.268

Social Services Block Grant
CFDA #13.667

Child Abuse and Neglect State Grants
CFDA #13.669

Dependent Care Planning and Development
CFDA #13.673

Sexually Transmitted Diseases Control Grant
CFDA #13.977

Preventive Health and Health Services Block Grant
CFDA #13.991

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

The opinion of the auditors on USA Funds' compliance with Guaranteed Student Loans Program specific program requirements, for the years ended September 30, 1990 and 1989, was qualified because the auditors were unable to test compliance with the following regulations regarding the conditions of reinsurance coverage and the repayment by lenders of interest benefits and special allowance where a loan did not meet the conditions of reinsurance coverage:

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

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

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

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, based on our audit and the report of other auditors, except for the effects, if any, of such noncompliance with the requirements for subrecipient audits and subrecipient monitoring referred to in the third paragraph of this report; and except for the effects of such noncompliance, if any, as might have been determined had the auditors been able to examine sufficient evidence regarding compliance with the regulations as discussed in the fifth preceding paragraph of this report, 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, 1990.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1991

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Independent Auditor's Single Audit Report on Compliance With Requirements Applicable to Nonmajor Federal Financial Assistance Program Transactions

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

In connection with our audit of the 1990 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, 1990.

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; and eligibility 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 no material instances of noncompliance with the requirements listed in the preceding paragraph. 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 for the information of management, the legislature, and the Office of Inspector General - U.S. Department of Health & Human Services. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1991

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SCHEDULE OF FINDINGS & QUESTIONED COSTS

Department of Administration

Bureau of Public Improvements

Various Federal Programs

Questioned Costs:

None

(27) Finding: Required clauses not contained in procurement records (Prior Year Finding)

Contract procurement policies of the Bureau of Public Improvements do not comply with the implementing regulations of federal statutes and executive orders.

Title 5, MRSA, Chapter 153 states that BPI is responsible for reviewing plans, inspecting construction, and approving the expenditure of funds involving state appropriations for all public improvements. Therefore, its policies should meet all relevant procurement standards.

Procurement standards for the expenditures of federal grant funds are set forth in Attachment "O" of the Office of Management and Budget (OMB) Circular A-102 and in the OMB Common Rule.

The bureau's contract documents do not include six of the thirteen procurement provisions indicated in the federal documents.

Recommendation:
We again recommend that BPI incorporate all relevant procurement provisions.

Auditee Response:
We agree with the finding and recommendation and will ensure the Chief Engineer is in compliance by August 1, 1991.

****

Department of Economic and Community Development

Office of Community Development

Community Development Block Grant
CFDA #14.228

Questioned Costs:

None

(28) Finding: Subrecipient monitoring requirements not fulfilled

Recommendation:
We recommend that DECD communicate the results of all subrecipient monitoring reviews in writing and ensure that

The Department of Economic and Community Development is responsible for ensuring that subrecipient activities are carried out in accordance with Code of Federal Regulations, 24 CFR Part 570.

Of twenty-five subrecipient monitoring reviews reviewed:

1. Two did not include written communication of the results of the review to the subrecipient;

2. One did not include an environmental certification review.

all monitoring requirements are met.

Auditee Response:

1. *In both cases, the monitoring did not uncover any problems, and the positive results were communicated verbally at the conclusion of the on-site visits. The letters confirming that information were not prepared. Over the past year, a tracking system has been developed to ensure that required monitoring is conducted and letters are written in a timely manner.*

2. *This project spanned two grant years, and an environmental review encompassing both grant years was completed in the first grant year. The results were not included in the second grant year's file.*

In the future, documentation of the combined environmental review will be required at the beginning of the second year and will be filed in the second grant year file to indicate the environmental review has been completed and the results will be found in the first grant file.

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Office of Community Development

Community Development Block Grant
CFDA #14.228

(29) Finding: Costs not distributed based on benefit to grant program (Prior Year Finding)

The Department of Economic and Community Development charges certain positions directly to the Community Development Block Grant (CDBG) account and the CDBG state match account. Individuals in these positions also work on non-CDBG activities. In addition, DECD charged various operating expenses to the CDBG account which were attributable to other programs. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, 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."

DECD has begun the process of devloping a cost allocation plan.

Questioned Costs:

Payroll	$94,150
Other	$ 549

Recommendation:

We recommend that DECD continue to develop a cost allocation plan to ensure that costs are charged to each federal program based on the benefit received by those programs, and that it document the relationship of the charges to the CDBG program.

Auditee Response:

Due to a similar finding in last year's audit report, the staff have been completing time distribution records in order to document the time spent on projects other than CDBG. in addition, the office has requested that the Department of Housing and Urban Development (HUD) evaluate program activities such as job opportunity zones, homeless, and affordable housing to determine if they are related closely enough to CDBG goals so that staff time spent on those activities can be legitimately charged to CDBG administration funds. HUD is still reviewing the *information at this time. However, based on discussions with HUD, we feel they will agree.*

DECD continues to recognize that program costs should be shared whenever possible. A transfer of one CDBG federally funded position to a state General Fund position is being proposed in fiscal year 1992.

The department also plans to develop a cost allocation plan to account for the time spent by the central service staff on CDBG programs. The use of the plan will allow any time spent on projects other than CDBG by the CDBG staff to be offset. Currently, several staff people in the business office spend a portion of their time on CDBG, but are paid from the General Fund. It is estimated that three people in the business office spend an average of 25% of their time while a fourth person averages 10% of their time on CDBG.

****

Office of Community Development

Community Development Block Grant
CFDA #14.228

(30) Finding: Subrecipient audit requirements not met (Prior Year Finding)

The Department of Economic and Community Development is responsible for ensuring that subrecipient audits are in accordance with Office of Management and Budget (OMB) Circular A-128, Single Audits of State and Local Governments.

Of twenty-five subrecipient audit files reviewed:

1. Three were not received within thirteen months of the subrecipient's fiscal year end;

2. Eleven did not contain all required reports for a single audit;

3. One failed to submit an audit report.

Questioned Costs:

None

Recommendation:

We recommend that DECD accept only those audits which meet the OMB standards and require revision of deficient audits.

Auditee Response:

1. *Over the years that Maine has administered the Small Cities CDBG Program, the Research Associate has developed an affective system of tracking compliance with audit requirements. The associate contacts a community three months after the end of its fiscal year to establish which audit firm has been hired and to remind them that CDBG must be a part of the audit. Also at this time, the community is asked whether an audit timetable has been developed. The associate follows-up with the community as necessary. Despite all of the associate's efforts, responsibility for actually meeting the audit requirements ultimately rests with each community, and some still do not comply with the requirement.*

2. *The audits were reviewed prior to the arrival of the American Institute of Certified Public Accountants*

(AICPA) training material. The AICPA guide has been reviewed and incorporated in audit reviews done as of December, 1990.

3. *The funds for this project were never deposited into the town's account, instead, the check, issued to the town, was signed over to the business at the loan closing. The town file contains documentation describing why this event occurred.*

****

Department of Educational and Cultural Services

Bureau of Adult and Secondary Vocational Education (BASVE)

Title II - Basic State Programs for Vocational Education
CFDA #84.048

(31) Finding: Monitoring of subrecipient cash balance and subrecipient reporting practices not adequate (Prior Year Finding)

A review of twenty-five Local Educational Agencies' (LEA) applications and related reports revealed:

1) At year-end, four of the subrecipients had cash balances in excess of ten percent of the award amount;

2) Five year-end financial reports were submitted late and one LEA did not submit its report to the State Educational Agency (SEA);

3) Quarterly project progress reports for fifteen subgrants were submitted late and, as of the date of audit, one LEA had not submitted any progress reports to the SEA;

4) Three year-end financial reports had no signatures to indicate that the SEA had reviewed or approved them.

Questioned Costs:

None

Recommendation:
We recommend that the BASVE monitor advances and payment requests by subrecipients to ensure that only their immediate cash requirements are met. We further recommend that BASVE strictly enforce the subrecipients' reporting requirements.

Auditee Response:
We concur. The Bureau of Adult and Secondary Vocational Education has proposed that all subrecipients be required to submit cash-on-hand forecast reports on a monthly basis as a precondition to the release of grant payments. In addition, the U.S. Treasury has contacted the Department of Education, Division of Finance, to offer guidance in implementing adequate subrecipient cash monitoring procedures that will be consistent for all Federal programs. The Department will work to implement these procedures in Fiscal Year 1992. Treasury officials have indicated that further guidance will be provided with implementation of P.L. 101-453, Cash Management Improvement Act of 1990.

****

Bureau of Adult and Vocational Secondary Education/Education Finance Division

Title II - Basic State Programs for Vocational Education
CFDA #84.048

Questioned Costs:

None

(32) Finding: Underreporting of program outlays

The State Educational Agency (SEA) underreported the following program outlays on its year-end financial report:

Functions/Activities	Amount
Administration	$ 977
Program Improvement	$43,760

Recommendation:
We recommend that the department exercise more care when preparing federal financial reports. We also recommend that the SEA submit to the federal agency a revised year-end financial report which reflects the underreported amounts.

Auditee Response:
We concur. The underreporting represented a clerical error. A revised report has been submitted to the Office of Vocational and Adult Education.

****

Bureau of Adult and Secondary Vocational Education

Title II - Basic State Programs for Vocational Education
CFDA #84.048

Questioned Costs:

None

(33) Finding: Annual performance report submitted late

The division submitted the Annual Performance Report to the federal government 22 days after the required due date.

According to the Code of Federal Regulations, 34 CFR, §74.82 subparagraph (b), "Annual reports shall be due 90 days after the grant year...."

Recommendation:
We recommend that the division submit the Annual Performance Report on time.

Auditee Response:
We concur. The decision to postpone submission of the most recent performance report was made at the last minute by the former division director in order to provide an opportunity for in-depth review of certain sections of the report. This decision represented a one-time anomaly which will not be repeated.

****

Bureau of Adult and Vocational Secondary Education/Education Finance Division

Title II - Basic State Grants for Vocational Education
CFDA #84.048

Questioned Costs:

None

(34) Finding: Inaccurate reporting of state and local matching funds

According to the financial reports for 1988 funds expended during the period July 1, 1987 through September 30, 1989, the Department of Education did not meet the 50% matching requirement for the cost of projects, services and activities essential to assist handicapped individuals. The state should have claimed an additional $38,894. We did not develop a questioned cost since the agency identified $41,290 in funded services during fiscal year 1988 that provided for handicapped students at the four campuses of the Maine Technical College System.

Recommendation:
We recommend that the department develop procedures to ensure that state monies for handicapped individuals be claimed and reflected in federal financial reports. In order to meet the cost sharing requirement we further recommend that the department submit to the federal grantor agency a revised year-end financial report which reflects unclaimed non-federal expenditures from sources not originally considered.

Auditee Response:
We concur. The changeover from the Department of Education to Maine Technical College System, administration of the six postsecondary technical colleges resulted in certain temporary lapses in the reporting of match after the Technical College System suspended contact with the Department of Education Student Information System without implementing a new management information system with comparable capabilities. A revised match report has been forwarded to the Office of Vocational and Adult Education.

****

Bureau of Instruction - Division of Compensatory Education

Educationally Deprived Children - Local Educational Agencies (LEA)
CFDA #84.010

Questioned Costs:

None

(35) Finding: Inadequate monitoring of LEAs' compliance with fiscal requirements

We reviewed financial operations and cash needs of the division's Local Educational Agencies and tested twenty-five programs.

1. Sixteen LEAs did not submit annual financial reports on time: submission dates ranged from one to eighty-eight days late.

Recommendation:
We recommend that the SEA ensure that the LEAs comply with reporting requirements and that payments to subrecipients be based on their immediate cash needs. We further recommend that the division consider extending the required due date for the annual financial reports.

Auditee Response:
The Division has extended its required due date for annual

2. Fourteen LEAs did not submit carryover requests on time: eight of the fourteen had not submitted request forms as of the date of audit; of the six reports received by the State Education Agency (SEA), submission dates ranged from four to forty-one days late.

3. Four LEAs reported cash on hand in excess of fifteen percent of their allocations.

financial reports. In addition, L.E.A.'s have been instructed to submit requests for monthly drawdown of funds that reflect their immediate cash needs.

****

Bureau of Instruction - Division of Compensatory Education

Migrant Education
CFDA #84.011

Questioned Costs:

Not known

(36) Finding: Employee time records do not coincide with approved payroll allocation

According to subpart 10(b) of Attachment B of the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments:

> Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records. The method used should produce an equitable distribution of time and effort.

The director and technical specialists of the Department of Education's Division of Compensatory Education work concurrently on the Chapter I and Migrant Education programs. A review of employee time distribution records covering six months of Fiscal Year 1990 revealed that, in most cases, actual time worked varied significantly from the allocation percentages given in the Migrant Education Program's annual application to the Secretary of Education. In addition, some employees completed time distribution records a week in advance and did not revise them if their schedules varied. We were therefore unable to develop a questioned cost.

Recommendation:

We recommend that the Division of Compensatory Education maintain accurate time distribution records and allocate salaries accordingly.

Auditee Response:

Effective July 1, 1991, Chapter I employees will complete quarterly time distribution records and their salaries will be allocated accordingly by the Division of Finance.

****

Bureau of Instruction - Division of Compensatory Education

Migrant Education
CFDA #84.011

Questioned Costs:

None

(37) Finding: Noncompliance of Local Educational Agencies (LEA) applications and updates

The LEAs' project applications do not include the following requirements:

1. The applications do not contain descriptions of the projects to be conducted as required by the Code of Federal Regulations, 34 CFR, §200.12(a);

2. The applications do not set forth all the assurances required under §556 (b) of Chapter I;

3. The applications do not reflect data showing that the LEAs maintained the fiscal effort required by §558 (a) of Chapter I.

Recommendation:

We recommend that the contents of LEAs' applications reflect the required current data, descriptions and assurances.

Auditee Response:

1. *Program narrative, community profile, and other desired outcomes were submitted and critiqued. Feedback letters were sent to L.E.A.'s which gave recommendations to be included in the application for Fiscal Year 1992.*

2. *Assurances were added and the application revised.*

3. *Maintenance of fiscal effort is checked yearly. Comparison figures are provided by the Division of Management Information.*

****

Bureau of Instruction - Division of Compensatory Education

Migrant Education
CFDA #84.011

Questioned Costs:

None

(38) Finding: Inadequate subgrantee cash management procedures and noncompliance with reporting requirements (Prior Year Finding)

A review of twenty-five subgrant financial reports revealed the following:

1. Five Local Educational Agencies (LEAs) submitted annual financial reports showing federal cash on hand at the end of the project period in excess of ten percent of the amount allocated.

2. Nineteen of the LEAs did not submit annual financial reports in a timely manner.

Recommendation:

We recommend that the department make payments according to the LEA's immediate cash needs and ensure that subgrantees submit financial reports on time.

Auditee Response:

The Director of Compensatory Education has met with members of the Office of Compensatory Education, Grants and Program Assistance Branch, to discuss the issue of cash management monitoring procedures. Further meetings are also scheduled with the regional office. In addition, the U.S. Treasury has contacted the Division of Finance to offer guidance in implementing adequate subrecipient cash monitoring procedures that will be consistent for all federal programs. The Department will work to implement these *procedures in Fiscal Year 1992. Treasury officials have indicated that further guidance will be provided with implementation of P.L. 101-453, Cash Management Improvement Act of 1990.*

****

Bureau of Instruction - Division of Compensatory Education/Education Finance Division

Migrant Education
CFDA #84.011

Questioned Costs:

None

(39) Finding: Incorrect processing of invoices

Our review of 60 program transactions revealed:

1. A duplicate vendor payment of $112;
2. No signatures verifying purchase of two capital equipment items;
3. No signature indicating approval of a journal entry prepared by the Bureau of Accounts and Control;
4. Travel costs of $334 incorrectly charged to the program;
5. Technical assistance costs of $1,150 incorrectly charged to the program.

Recommendation:

The department took immediate corrective action. However, we do recommend that it take greater care when processing invoices.

Auditee Response:

The Department took immediate corrective action and will take greater care when processing invoices.

****

Bureau of Instruction - Division of Compensatory Education/Education Finance Division

Questioned Costs:

Educationally Deprived Children - Local Educational Agencies
CFDA #84.010

None

Migrant Education
CFDA #84.011

None

(40) Finding: Incorrect allocation of payroll costs

The division does not allocate compensation costs for program support staff according to approved percentages in the annual application.

As a result, the grant programs were overcharged $10,066 and $24,345, respectively. We did not develop questioned costs since the Department of Education prepared adjusting journal entries to correctly charge the appropriate cost centers.

Recommendation:

We recommend that the division allocate compensation costs for program support staff according to the approved percentages.

Auditee Response:

The Department prepared adjusting journal entries to correctly charge the appropriate cost centers. Effective July 1, 1991, Chapter I employees will complete quarterly time distribution records and their salaries will be allocated accordingly by the Division of Finance.

****

Bureau of Instruction - Division of Special Education

Handicapped - State Grants
CFDA #84.027

Questioned Costs:

None

(41) Finding: Advisory panel not active

The Maine Advisory Panel on the Education of Exceptional Children (MAPEEC) was not active during the audit period.

The Code of Federal Regulations, 34 CFR, §300.652 and §300.653 says that the State Advisory panel shall:

1. Advise the State Educational Agency (SEA) of the state's unmet needs in educating handicapped children;
2. Comment publicly on the state annual program plan and proposed rules or regulations for educating handicapped children and procedures for distributing funds;
3. Assist the state in developing and reporting information and evaluations;
4. Meet as often as necessary to conduct business;
5. Submit an annual report to the SEA by July 1 of each year of its activities and

Recommendation:

We recommend that MAPEEC meet as often as is necessary to enhance the education of handicapped children in the State of Maine.

Auditee Response:

The Maine Advisory Panel on the Education of Exceptional Children (MAPEEC), intends to meet as often as necessary to enhance the education of handicapped children in the State of Maine. The meeting scheduled for June 20, 1991, will address revisions to personnel standards, the Maine State Plan to be submitted July 1, 1991, and other issues pertinent to serving Maine's students.

suggestions and make it available to the public;

6. Keep official minutes on all panel meetings and make these be available to the public;

7. Publicly announce all advisory panel meetings and agenda prior to the meeting, which must be open to the public.

****

Bureau of Instruction - Division of Special Education

Handicapped - State Grants
CFDA #84.027

Questioned Costs:

$402

(42) Finding: Incorrect reimbursement of travel expense

State of Maine Manual of Financial Procedures §40.7 states that travel expenses between official headquarters and personal residence will not be reimbursed. Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments states that costs allowed under a grant program must not be allocated to or included as a cost of any other federally financed program.

During fiscal year 1990 the division reimbursed $389 in unallowable costs for travel expenses between official headquarters and a personal residence; and charged $13, representing reimbursement of travel expenses, to two federally financed programs.

Recommendation:
We recommend that the Division of Special Education monitor the travel expense voucher reimbursements for allowable costs to federally financed programs.

Auditee Response:
Repayment in the amount of $13.20 has been made by one of the employees questioned.

The Department is working to resolve the remaining amount of $338 in questioned costs.

****

Bureau of Instruction - Division of Special Education

Handicapped - State Grants
CFDA #84.027

Questioned Costs:

None

(43) Finding: Inadequate financial and cash management practices (Prior Year Finding)

Office of Management and Budget (OMB) Uniform Administrative Requirements for Grants and Cooperative

Recommendation:
We recommend that the Division of Special Education require timely financial reports from subrecipients; and that it make payments according to the subrecipient's immediate cash needs.

Agreements to State and Local Governments (Common Rule) states that the grantee must draw down funds as close as possible to the time of disbursements. The grantees must monitor cash drawdowns by subgrantees to assure that they conform substantially to the same standards as apply to advances to the grantees.

OMB Common Rule also states that an awarding agency may review the adequacy of the financial management system of any applicant for financial assistance as a part of a pre-award review or at any time after an award.

The Division of Special Education does not adequately monitor the financial operations and cash needs of subrecipient Local Educational Agencies (LEA) and subrecipient support services. Of the thirty-six subrecipients reviewed:

1. Sixteen submitted requests to carry unexpended cash balances forward to the next year; six of these had carryover amounts exceeding fifteen percent of the grant award;

2. Nineteen did not file the annual financial report of federal program expenditures by the due date of July 31, 1990.

Auditee Response:

The Division of Special Education has replaced the current system of quarterly payments with a monthly request for cash advances from subrecipients.

In addition, the U.S. Treasury has contacted the Department of Education, Division of Finance, to offer guidance in implementing adequate subrecipient cash monitoring procedures that will be consistent for all federal programs. The Department will work to implement these procedures in Fiscal Year 1992. Treasury officials have indicated that further guidance will be provided with implementation of P.L. 101-453, Cash Management Improvement Act of 1990.

****

Bureau of Instruction - Division of Special Education

Handicapped - State Grants
CFDA #84.027

(44) Finding: Incorrect use of funds for education of handicapped children (Prior Year Finding)

According to the Code of Federal Regulations, 34CFR, §300.621, subparagraph 1, a state may expend federal funds only for "...programs or projects for the education of handicapped children."

The department awarded $12,000 to a post-secondary institution for a scholars' program for Maine high school students. The program did not serve handicapped students.

The division took immediate corrective action to charge the

Questioned Costs:

None

Recommendation:

We recommend that the Division of Special Education closely monitor the allowable use of funds by subrecipients.

Auditee Response:

The Department took immediate corrective action. Greater care will be taken to more closely monitor the allowable use of funds by subrecipients.

expenditure to another cost objective. Therefore, no questioned costs were developed.

****

Bureau of Instruction - Division of Special Education/Education Finance Division

Handicapped - State Grants
CFDA #84.027

Questioned Costs:

$4,322

(45) Finding: Incorrect allocation of payroll costs

Under the provisions of the Office of Management and Budget (OMB) Circular A-87, Attachment A, Paragraph (2), "...a cost is allocable to a particular cost objective to the extent of benefits received by such objective."

The department did not allocate personal services compensation for a support staff member according to the approved distribution percentages in the state plan.

Recommendation:
We recommend that the department allocate compensation costs for program staff according to the distribution percentages in the state plan.

Auditee Response:
The Division of Special Education is requesting authorization from the Office of Special Education and Rehabilitative Services to amend the State Plan to charge more than the percentage of payroll costs indicated in the Plan, for the position questioned. It is important to note that the State Plan only asks for the percent of salary paid under 300.370 and 300.620. There is no indication that we are held to this percentage.

****

Bureau of School Management - Division of Higher Education Services

Guaranteed Student Loans
CFDA #84.032

Questioned Costs:

None

(46) Finding: Administrative cost incorrectly returned to the federal grantor agency (Prior Year Finding)

As a result of a review of the Maine Department of Education, by the U.S. Department of Education, Region I Office of Student Financial Assistance, questioned costs of $1,695,391 for administrative cost allowances were repaid to the federal government.

During our audit of fiscal year ended June 30, 1986, we examined the federal review report and determined that,

Recommendation:
None

Auditee Response:
The Department of Education has appealed the decision of the District Court. The matter remains in litigation.

except for a small portion of the questioned amount, the monies repaid represented legitimate expenses of the state. At that time we recommended that the repayment should be recovered from the U.S. Department of Education. On March 1, 1989 the department filed a suit against the Secretary of Education in an attempt to recover the repayment. The matter remains in litigation.

****

Bureau of School Management - Division of Higher Education Services

Guaranteed Student Loans
<u>CFDA #84.032</u>

(47) <u>Finding</u>: Inadequate accounting system (Prior Year Finding)

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 State Department of Education regarding the Maine Guaranteed Student Loan Program (MGSLP). During the audit of fiscal year ended June 30, 1986 we noted the inadequate accounting system for the MGSLP. In order to improve the accounting system for the MGSLP the department engaged a private firm which finished the study and made recommendations.

The Stafford Loan (MGSLP) personnel did not implement the recommended changes in the accounting system because legislative changes transferred the program to the Finance Authority of Maine as of March 16, 1990.

<u>Questioned Costs</u>:

None

<u>Recommendation</u>:

None

<u>Auditee Response</u>:

No corrective action is necessary. All functions relative to the Stafford Loan Program were transferred to F.A.M.E. as of April 1, 1990.

****

Bureau of School Management - Division of Higher Education Services

Guaranteed Student Loans
<u>CFDA #84.032</u>

The report of other auditors regarding United States Aid Funds, Inc., a servicing agent for the Guaranteed Student Loans Program, for the period October 1, 1988 through September 30, 1990 disclosed the following instances of noncompliance.

Interest Portion on Claim Payments to Lenders

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

Current Status: During 1988, USA funds conducted a test of lender calculated interest-paid-through dates, finding the lender's calculated dates to be accurate within an acceptable statistical precision. To continue to monitor the accuracy of lender calculations, USA Funds designed and implemented on-going sampling technique on interest-paid-through dates as reported by lenders and servicers.

USA Funds is currently undertaking a system upgrade which will allow the computer to calculate the interest payment for approximately 95% of its claims. It is expected that this enhancement will greatly improve the accuracy of interest payment calculations.

Claim Payments to Lenders

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

Current Status: During 1988, USA Funds temporarily changed the prioritization of claim processing from a system based on claim receipt date to one based on the date of delinquency in order to reduce the overall amount of delinquent interest paid to lenders. The change was only temporary and USA Funds has since reverted to using the date of claim receipt.

The software was designed to purchase the default claim on the Friday of the week following the 90 days. The program logic has been corrected, with the claim purchase on the Friday preceding the 90th day.

In July, USA Funds' Internal Audit department developed and ran a computer assisted audit technique (CAAT) to search the data base for claims paid over 90 days. The time period covered was October 1, 1989 through July 18, 1990. Of the 86,824 claims purchased for all agencies during this period, only eight were purchased more than 90 days after the claim was received by USA Funds. USA Funds believes this rate to be well within quality specifications.

****

Bureau of School Management - Division of School Nutrition and Food Distribution

National School Lunch Program
CFDA #10.555

Questioned Costs:

None

(50) Finding: Overstatement on Financial Status Report

For the period April 1, 1990 to June 30, 1990 the division reported total program expenditures on the accrual basis on the Financial Status Report. This included a June manifest paid in the subsequent accounting period. Since expenditures for this program should be reported on a cash basis, the division overstated expenditures by $507,373.

Recommendations:

To correct the overreported expenditures we recommend that the department make the necessary adjustment to a subsequent financial report.

Auditee Response:

The Division of School Nutrition and Food Distribution is amending the Financial Status Reports to reflect correct expenditures. Greater care will be taken to assure these errors do not recur.

****

Bureau of School Management - Division of School Nutrition and Food Distribution

Food Distribution
CFDA #10.550

Questioned Costs:

None

(51) Finding: Lack of review procedures

The Code of Federal Regulations, 7CFR, §250.19 (b)(i) requires that at least once every four years there be an on-site review of all charitable institutions, nutrition programs for the elderly, and nonprofit summer camps for children. It also requires an annual review of at least twenty-five percent of each of these recipient agency categories.

Recommendation:

We recommend that the division establish procedures for reviewing all recipients of donated commodities.

Auditee Response:

Federal funds for staff to perform on site reviews was provided for fiscal years 1986 and 1987. Since then, federal funding for this activity has not been available.

Maine's Food Distribution program has no procedures to ensure that recipients of commodities, other than schools, are reviewed.

The Division does not administer the commodity distribution program for the nutrition programs for the elderly.

When the Division of Donated Commodities was combined with the Division of School Nutrition, one state funded position was eliminated. State funding now provides for two (2) clerical positions. Federal funding provides for one-third of a staff position to compile the monthly processing reports required by federal regulations. There are no funds available to staff the position of sanitarian nor travel funds provided for on site reviews of institutions or summer camps.

The Division did perform the on site review requirement for 87.3% of the $3,402,127 value of commodities distributed by its review program for schools during the 1990 fiscal year but did not review 25% of the 192 charitable institutions nor 25% of the summer camps that represent the 12.7% balance of the commodities distributed.

****

Bureau of School Management - Division of School Nutrition and Food Distribution

Food Distribution
CFDA #10.550

Questioned Costs:

None

(52) Finding: Monthly reports submitted late

The Division of School Nutrition, which prepares monthly reports of receipts and distribution of donated foods, did not submit four of the twelve reports within the prescribed time frame. The Code of Federal Regulations, 7CFR, §250.17 states, "The report, (FNS-155) shall be submitted no later than 30 calendar days after the end of the reporting month."

Recommendation:

We recommend that the division prepare and submit monthly reports according to program reporting requirements.

Auditee Response:

The Division of School Nutrition and Food Distribution has developed procedures to ensure the monthly report of receipt and distribution of donated foods will be submitted by the end of each month.

****

Bureau of School Management - Division of School Nutrition and Food Distribution

National School Lunch Program
CFDA #10.555

Questioned Costs:

None

(53) Finding: AIMS review not conducted (Prior Year Finding)

The Division of School Nutrition did not complete an Assessment, Improvement and Monitoring System (AIMS) review within the required time period. Of the twenty-five school lunch programs audited, we noted one AIMS review that was not completed within the four year period, i.e., sixteen months beyond the allowable time period as required by the Code of Federal Regulations, 7CFR, §210.18.

Recommendation:

We recommend that the Division of School Nutrition and Food Distribution conduct all reviews within the required time period.

Auditee Response:

The Division of School Nutrition and Food Distribution has developed an Assessment, Improvement and Monitoring System based on a four year review cycle. The review cycle will be monitored annually to ensure compliance with current regulations.

****

Bureau of School Management - Division of School Nutrition and Food Distribution

Food Distribution
CFDA #10.550

Questioned Costs:

None

(54) Finding: Performance reports submitted late

There were seventy-two processor performance reports due in fiscal year 1990. The distributing agency received three of them over two weeks late. The Code of Federal Regulations, 7CFR, §250.30 (n) stipulates that the distributing agency assure that processors submit performance reports no later than the final day of the month following the reporting period.

Recommendation:

We recommend that the distributing agency assure that processors submit performance reports by the required due date.

Auditee Response:

Federal funds for staff to monitor the timeliness of the receipt of processor performance reports was provided for fiscal years 1986 and 1987. Since then, federal funding for this activity has not been available.

The Department is meeting it's regulatory requirement to submit inventory reports within the sixty day requirement (250.30(o)).

Although one contractor did not submit reports by the last day of the month, all performance reports were received in sufficient time to submit the inventory report to FNSRO within the 60 days following the close of each fiscal quarter.

The Division did notify the offending processing contractor that subsequent violation of contract terms would result in contract termination.

The Division believes it is in compliance with the *requirements of Title 7, Code of Federal Regulations, section 250.30(n).*

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Bureau of School Management - Division of School Nutrition and Food Distribution

National School Lunch Program
CFDA #10.555

Questioned Costs:

None

(55) Finding: State match overstated

The division overstated revenues counted toward the state matching requirement by $10,863. However, it did achieve the required match for the period of October 1, 1989 to September 30, 1990. The division also overstated the amount of state match on the Controller's records by $699,466 due to an adjusting entry. This did not affect the fund total.

Recommendation:

We recommend that the division correctly match amounts that it reports on the Annual Report of State Revenue Matching.

Auditee Response:

Greater care will be taken when preparing the annual report of State Revenue Matching.

****

Education Finance Division

Various Federal Programs

Questioned Costs:

None

(56) Finding: Incorrect reporting of program outlays

The department reported the federal share of disbursements incorrectly on the ED-PMS - 272 report for the quarter ending June 30, 1990. According to department personnel, the division used preliminary accounting documents in order to submit the report on time. In addition, it charged expenditures to the wrong report categories on the accounting records due to accounting system conversion problems.

Recommendation:

We recommend that the department file a revised ED-PMS-272 report with the federal grantor agency which reflects final program expenditures for the quarter ended June 30, 1990. In addition, we recommend that it make adjustments to the accounting records in order to compensate for expenditures charged to the wrong report categories.

Auditee Response:

In the ensuing six months, we will revise all reports beginning with June 30, 1990 to reflect actual expenditures in the report period.

****

Education Finance Division

Various Federal Programs

(57) Finding: Excess federal cash on hand

Paragraph A of Treasury Circular 1075 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...."

Our cash management analysis showed that the Department of Education had excess federal cash on hand:

Period	Avg. Daily Expenditures	Avg. Daily Balance	Number of Days Cash on Hand
9/89	$118,715	$456,679	3.85
10/89	$87,143	$302,505	3.47
11/89	$279,516	$1,647,615	5.89

Questioned Costs:

None

Recommendation:

We recommend that the department reevaluate and revise cash forecasting procedures so that it limits U.S. Treasury funds to the immediate cash needs of the program.

Auditee Response:

Every effort is being made to request funds as needed for immediate disbursement, whenever possible, and disburse those funds within three working days (Treasury Circular #1084, TFM Volume I, Ch. 6-8000, Cash Management).

****

Education Finance Division

Various Federal Programs

(58) Finding: Noncompliance with subrecipient audit resolution requirements

According to Paragraph 9 of the Office of Management and Budget (OMB) Circular A-128, "...state or local governments that receive federal financial assistance and provide $25,000 or more of it in a fiscal year to a subrecipient shall...ensure that appropriate corrective action is taken within 6 months after the receipt of the audit report in instances of noncompliance with Federal laws and regulations...."

Our review of twenty-five subrecipient audit reports revealed the following:

1. The recipient organization asked for corrective action plans by certain due dates for two reports which had findings and/or questioned costs but the department had not received responses more than six months after the report receipt date;

Questioned Costs:

None

Recommendation:

We recommend that the Department of Education ensure corrective action within six months after receiving subrecipient audit reports that cite instances of noncompliance with federal laws and regulations.

Auditee Response:

The audit review of the two reports in question received immediate attention by the Division of Finance, however, resolution to the finding required extensive follow-up by program staff in order to adequately address the corrective action that needed to be implemented by the L.E.A., and this took longer than anticipated. Program directors are aware of Federal audit regulations and will work to ensure that resolution is made within six months after the report is received and corrective action proceeds as rapidly as possible.

The three audit reports in question have received follow-up and subrecipients have provided corrective action to address the material weaknesses in their internal controls.

2. Three audit reports disclosed three material weaknesses in internal control but the department did not request any corrective action plans.

****

Education Finance Division

Title II - Basic State Grants for Vocational Education
CFDA #84.048

(59) Finding: Program funds not used as intended

As a recipient of federal financial assistance, the Maine Department of Education is responsible for using federal financial assistance for the program's intended purposes.

Our review of department records revealed that an $11,000 drawdown against a U.S. Department of Education letter of credit was transferred and used to support a U.S. Department of Agriculture program. When this was brought to the its attention, the division made an accounting entry to reimburse the correct account.

Questioned Costs:

None

Recommendation:

We recommend that the department use all funds obtained through letters of credit for their intended purposes.

Auditee Response:

The Department will take care to ensure funds are used for their intended purposes.

****

Education Finance Division

Various Federal Programs

(60) Finding: Untimely submission of Payment Management System (PMS) reports

The U.S. Department of Education's Financial Management Service uses the Payment Management System to monitor, on a grant by grant basis, all federal cash outlays to recipients. The Department of Education did not submit two of the quarterly PMS reports on time.

Quarter Ended	Due Date	Submission Date	No. of Days Late
3/31/90	2/16/90	2/27/90	11
6/30/90	5/15/90	6/07/90	23

Questioned Costs:

None

Recommendation:

We recommend that the department prepare and submit the quarterly Payment Management System reports within the required time frame.

Auditee Response:

The reports in question were late due to the new on-line MFASIS system and the reports generated by the system not providing accurate information.

****

Maine State Library/Education Finance Division

Questioned Costs:

Library Services (LSCA - Title I)
CFDA #84.034

$5

(61) Finding: Noncompliance with state travel and expense account requirements

According to §40.9 of the State of Maine Manual of Financial Procedures, "Actual meal expenses shall be reimbursed only when... the expenses are incurred while an employee is traveling on state business and lodging is required." In addition, according to Attachment A, Subparagraph C1, of the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, "...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."

Our review of travel vouchers revealed the following instances of noncompliance with state financial procedures:

1. Reimbursement of $5 for an unallowable meal expense;

2. Payment for a conference banquet activity fee as well as $18 for meal expenses were both charged to Bilingual Education (CFDA #84.003). We did not develop a questioned cost since the agency took immediate corrective action and recovered the overpayment.

Recommendation:
We recommend that program personnel claim reimbursement for only allowable, unduplicated travel related expenses.

Auditee Response:
Twice a year, a trip must be made to Vermont to do a block exchange of films. There are several states that participate in this Block Exchange.

Normally, this is an all day plus process. On this particular occasion, our employee had every intention of staying overnight. However, his duties were completed much sooner than anticipated and he felt he could make it back home at a reasonable time, therefore, avoiding the cost of an overnight stay and returning to work the next day at his regular time. He actually saved the cost of overnight lodging, breakfast the next morning and lunch. I agree that this noon meal should have been a non allowable expense due to the fact that the employee came home rather than stay overnight, and in the future we will make sure we claim reimbursement for only allowable travel related expenses.

****

Executive Department

Division of Community Services

Questioned Costs:

Various Federal Programs

None

(62) Finding: No system to assure subrecipient audits meet federal requirements/Noncompliance with audit resolution requirements (Prior Year Finding)

The Division of Community Services does not have an established system to assure that audits of the subrecipients meet the requirements of the Office of Management and Budget (OMB) Circular A-128, Paragraph 9 which says that state or local governments receiving and providing $25,000 or more per fiscal year to subrecipients shall a) determine state and local subrecipients have met the Circular A-128 or Circular A-110 if covered by that, and audit requirements of this Circular and whether subrecipients covered by Circular A-110, Uniform Requirements for Grants to Universities, Hospitals, and Other Nonprofit Organizations, have met that requirement...; c. ensure that appropriate corrective action within six months after receiving the audit report if the subrecipient has not complied with Federal laws and regulations.

Recommendation:

We recommend that DCS establish a system to assure that audits of the subrecipients meet the OMB requirements, including OMB Circular A-133, Audits of Institutions of Higher Education and Other Non-Profit Institutions. We further recommend that the division ensure timely corrective action on subrecipient audit findings where there is noncompliance with federal laws and regulations.

Auditee Response:

Agency did not respond.

****

Division of Community Services

Various Federal Programs

(63) Finding: Payroll distribution inequitable

Correct distribution of payroll costs to the various federal programs has been affected by data entry errors for time and attendance records.

Our examination revealed eight data entry errors that resulted in the following grant overcharges/undercharges:

Program/CFDA #	Amount
Temporary Emergency Food Assistance (Administrative costs) CFDA #10.568	($6)
Low Income Home Energy Assistance Program CFDA #13.789	($46)
Weatherization Assistance Program for Low Income Persons CFDA #81.042	$24

Questioned Costs:

$24

Recommendation:

We recommend that the division make the necessary adjustments to equitably allocate these costs to the various federal programs. We also recommend that it implement controls so that the data entries can be verified, and that it correctly prepare time, attendance and travel records.

Auditee Response:

Agency did not respond.

In addition, the state administration account was undercharged by $42 and the state supported Head Start Program was overcharged by $70.

Division of Community Services

Low-Income Home Energy Assistance Program
CFDA #13.789

(64) Finding: Noncompliance with program and fiscal monitoring procedures (Prior Year Finding)

Section 10 of the 1989-1990 Home Energy Assistance Program Final Rules states that the division will:

1. Conduct program and fiscal monitoring for compliance with federal and state rules and regulations;
2. Conduct on-site monitoring during the program year and include an entrance and exit interview;
3. Conduct on-site monitoring of energy suppliers;
4. Issue a written report to the subgrantee on all findings following each visit; establish a reasonable time period for comment by the subgrantee; establish a reasonable time period for any corrective actions, and notify the sub-grantee in writing of any corrective action and the time period for conformance;
5. Provide technical assistance, if requested, to help take corrective action;
6. Failure to take corrective action will result in a Notice of Termination, stating the cause and effective date of the termination.

During state fiscal year 1990, the Division of Community Services contracted with sixteen subgrantees. Our review for compliance with these monitoring procedures revealed:

1. The division did not conduct any fiscal monitoring for five subgrantees /municipalities;
2. The division did not conduct any program monitoring for four subgrantees;

Questioned Costs:
None

Recommendation:
We recommend that the Division of Community Services conduct program and fiscal monitoring for compliance with federal and state rules/regulations; issue written reports after each visit; and monitor for timely corrective action.

Auditee Response:
Agency did not respond.

3. The division issued only six written fiscal monitoring reports;
4. The division issued no written reports to those subgrantees subject to program monitoring visits;
5. In several instances, the subgrantee comment period for issued findings was not met;
6. Of six written fiscal monitoring reports issued we could find no evidence at DCS that it had initiated corrective action on behalf of those subgrantees.

****

Division of Community Services

Questioned Costs:

Low-Income Home Energy Assistance Program
CFDA #13.789

None

Weatherization Assistance Program for Low-Income Persons
CFDA #81.042

None

****

Division of Communiy Services

Questioned Costs:
None

(65) Finding: Excess federal cash (Prior Year Finding)

Cash management analysis revealed excess federal cash on hand for the following programs:

CFDA #	Period	Number Days Cash on Hand
13.789	7/89	87.5
	8/89	74.6
	9/89	38.2
	10/89	17.7
	11/89	4.6
81.042	7/89	190.7
	8/89	60.5
	9/89	32.4
	10/89	31.2
	11/89	32.2
	12/89	44.7

Recommendation:
We recommend that DCS draw down federal funds according to each program's immediate cash needs.

Auditee Response:
Agency did not respond.

****

Division of Community Services

Questioned Costs:

Low Income Home Energy Assistance Program
CFDA #13.789

None

Weatherization Assistance for Low-Income Persons
CFDA #81.042

None

(66) Finding: Fair hearings costs not charged to program accounts

The Department of Human Services (DHS) Administrative Hearings Unit currently conducts fair hearings on behalf of these programs. Our review for compliance with fair hearings procedures revealed that the costs associated with these hearings are charged to a DHS General Fund account. During fiscal year 1990 DHS conducted six hearings on behalf of the Low-Income Home Energy Assistance Program at an approximate cost of $1,620. During the same time frame DHS conducted several hearings on behalf of the Weatherization Assistance Program.

Recommendation:
We recommend that the department charge hearings costs associated with these programs to the program accounts of those grants that directly benefit from the hearings.

Auditee Response:
Agency did not respond.

****

Division of Community Services

Questioned Costs:

Low Income Home Energy Assistance Program
CFDA #13.789

None

(67) Finding: Program subrecipients have excess cash on hand

Our review of selected subrecipient financial reports revealed the following excessive cash balances:

	Reporting Period		Cash on Hand	
SubGrantee	From	To	Program Funds	Administrative Funds
PROP	12/01/89	12/30/89	$552,247	$19,664
Penquis CAP	01/01/90	01/31/90	321,566	2,643
Washington-Hancock Community Agency	03/16/90	03/31/90	251,107	39,990

Provision V A [PAYMENT] of the contract rider (A) that DCS uses when subcontracting HEAP monies states: "Upon encumbrance of the Agreement, the Division shall promptly make to the contractor a cash advance. Subsequent payments will be made on an as needed basis...."

Recommendation:
We recommend that the DCS implement the cash management procedures contained in their program contracts.

Auditee Response:
Agency did not respond.

****

Division of Community Services

Weatherization Assistance for Low Income Persons (WAP)
CFDA #81.042

Questioned Costs:

None

(68) Finding: Deficiencies in the monitoring instrument

The Code of Federal Regulations, 10 CFR, 440 requires certain verifications. The WAP monitoring instrument used to evaluate subgrantee performance does not include verifying subgrantee compliance such as:

1. Establishing priority for weatherization assistance to the elderly;

2. Determining that WAP funds are not used for dwellings scheduled for acquisition or clearance.

Recommendation:
We recommend that DCS modify the WAP monitoring instrument to include checking the required verifications.

Auditee Response:
Agency did not respond.

****

Division of Community Services

Weatherization Assistance for Low Income Persons (WAP)
CFDA #81.042

Questioned Costs:

$184,770

(69) Finding: Excessive administrative expenditures

The Code of Federal Regulations, 10 CFR, 440.18(d) limits grantee administrative expenditures for the Weatherization Assistance Program to 5% of total grant year expenditures. Additionally, grantee and subgrantee administrative expenditures jointly cannot exceed 10% of total grant year expenditures. For grant year 1990, grantee administrative expenditures were 8% of total expenditures;

Recommendation:
We recommend that DCS establish management controls so that administrative expenditures do not exceed allowable limits.

Auditee Response:
Agency did not respond.

grantee and subgrantee administrative expenditures jointly were 12.69% of total expenditures.

****

Division of Community Services

Weatherization Assistance for Low Income Persons (WAP)
CFDA #81.042

Questioned Costs:

None

(70) Finding: Non-segregation of Training and Technical Assistance expenditures in accounting records

The Code of Federal Regulations, 10 CFR, §440 requires that no more than 10% of Weatherization Assistance Program funds for any grant year may be expended for Training and Technical Assistance. Therefore, expenditures must be identifiable in the grantee's accounting records.

As of January of 1990 the state implemented a new computerized accounting system which did not segregate and identify these costs.

Recommendation:
We recommend that Training and Technical Assistance expenses be segregated in the accounting records.

Auditee Response:
Agency did not respond.

****

Division of Community Services

Weatherization Assistance for Low Income Persons (WAP)
CFDA #81.042

Questioned Costs:

$117,217

(71) Finding: Incorrect charge to the Petroleum Violation Escrow (PVE-Exxon Funds) account

The Department of Energy's Weatherization Assistance Program guide states that "no administrative expenditures can be charged to Exxon funds." During grant year 1990, $39,312 of administrative and/or training expenditures were charged to the PVE account; and a post grant year 1990 adjusting entry transferred $77,905 from the WAP federal account to the PVE account. Administrative versus training expenditures cannot be determined from account numbers or division work papers.

Recommendation:
We recommend that the division (a) not charge administrative expenditures to the PVE account; (b) develop documentation to identify administrative versus training expenditures; and (c) remove grant year 1990 administrative expenditures from the PVE account.

Auditee Response:
Agency did not respond.

****

Division of Community Services

Weatherization Assistance for Low Income Persons (WAP)
CFDA #81.042

Questioned Costs:

$1,499

(72) Finding: Unallowable program charges

The division charged the following unallowable expenditures to the program:

1. Telephone and copying costs that were not accordingto the Department of Energy's approved cost allocation plan; $ 263
2. Finance charges that were not permitted by the Office of Management and Budget (OMB) Circular A-87; $ 1
3. Gifts to vendors, conference attendees, employees; $ 761

4. Automobile repair charges for a vehicle purchased with Low Income Home Energy Assistance Program funds; $ 138

5. Furniture charge that was not according to the division's cost allocation plan. $ 336

Total Questioned Costs $1,499

Recommendation:
We recommend that DCS correctly allow and allocate charges to the WAP.

Auditee Response:
Agency did not respond.

****

Division of Community Services

Weatherization Assistance for Low Income Persons (WAP)
CFDA #81.042

Questioned Costs:

None

(73) Finding: Overreporting of program outlays (Prior Year Finding)

Weatherization Assistance Program expenditures, as reported on the final Financial Status Report for grant year 1990, exceeded the total indicated in the state's accounting records by $93,803.

Recommendation:
We recommend that the Division of Community Services prepare federal financial reports more carefully. In addition, we recommend that it prepare a revised Financial Status Report for program year 1990.

Auditee Response:
Agency did not respond.

****

Division of Community Services

Weatherization Assistance for Low Income Persons (WAP)
CFDA #81.042

Questioned Costs:

None

(74) Finding: Late submission of federal financial reports (Prior Year Finding)

The division did not submit federal financial reports on time, i.e., within 30 days after the end of each quarter of the grant year.

Report	Report Period	Due Date	Submission Date	No of Days Late
Financial Status Report	10/1/89-12/31/89	1/31/90	4/9/90	68
Financial Status Report	1/1/90-3/31/90	4/30/90	5/18/90	18
Federal Assistance Management	7/1/89-9/30/89	10/31/89	9/10/90	284
Summary Reports and Federal	10/1/89-12/31/89	1/31/90	9/10/90	192
Assistance Program/Project Status Reports	1/1/90-3/31/90	4/30/90	9/10/90	133

We also noted that DCS submitted reports to the oversight agency several times before they were accepted.

Recommendation:
We recommend that DCS submit required federal financial reports on time.

Auditee Response:
Agency did not respond.

****

Division of Community Services

Questioned Costs:

Various Nonmajor Federal Programs

None

(75) Finding: Failure to monitor and/or report nonmajor federal programs

Grantees must monitor the day-to-day operations of subgrantee activities to assure compliance with federal laws and regulations. The monitoring and reporting procedures that the division established but did not perform were:

Nonmajor Program/ Storage Facility	Subrecipient Monitoring	Recipient Organization Reporting to Subrecipient	Other Monitoring
Community Services Block Grant CFDA #13.792		Not Performed for 6 of 11 Subrecipients	
Temporary Emergency Food Assistance Program - (Food Commodities) CFDA #10.569	Not Performed for 7 of 11 Subrecipients	Not Performed for 7 of 11 Subrecipients	
Food Commodities for Soup Kitchens CFDA #10.571			Not Performed on-site

Recommendation:
We recommend that DCS monitor and report as required by federal and/or division policies and procedures.

Auditee Response:
Agency did not respond.

****

Department of Human Services

Office of Alcoholism and Drug Abuse Prevention (OADAP)

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

Questioned Costs:

None

(76) Finding: Inadequate fiscal control

Section 300x-2(a)(1) of the Code states, "For each fiscal year, the secretary shall make payments...to each state...from amounts appropriated for that fiscal year."

The United States Code, 42 USC, §300x-5(b)(1) states, "Each State shall establish fiscal control and fund accounting procedures as may be necessary to assure the proper disbursal of and accounting for Federal funds paid to the State under §300x-2 of this title and funds

Recommendation:
We recommend the Office of Alcoholism and Drug Abuse Prevention implement fiscal control procedures necessary to identify expenditures by grant award.

Auditee Response:
We concur with the finding. It is the intent of the Department of Human Services to devolop and implement formal fiscal controls and procedures to verify expenditures based on each federal award period.

transferred for use under this part."

Each grant award for the Alcohol and Drug Abuse and Mental Health Services Block Grant has administrative and programmatic spending limitations. The office does not maintain records which identify the use of grant award funds. Therefore it is not possible to monitor spending limitations according to the grant award.

The Division of Financial Services maintains the Bureau of Accounts and Control's Fiscal Analysis Sheets/Analysis Report and Detail Listings/Appropriation Account Transaction Listing for the Alcohol, Drug Abuse and Mental Health Services Block Grant programs. These records constitute the official state record of expenditures by account/appropriation/allotment organization and activity/reporting organization. These records clearly identify the use of grant award funds and assures compliance with the federal funding criteria. With these records and internal departmental accounting records, the department can monitor spending limitations according to the grant award. It is the intent of the Department of Human Services to use this system in the development and implementation of policies to verify expenditure uses.

****

Bureau of Elder and Adult Services

Special Programs for the Aging, Title III, Part C, Nutrition Services
CFDA #13.635

Questioned Costs:

$1,081

(77) Finding: Costs charged to grant program not sufficiently documented

Ten of nineteen travel expenditures which we tested did not describe the purpose of travel. We were therefore unable to determine if the expenditures were related to the grant program.

The Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, Attachment A(B,28) states, "Travel costs are allowable for expenses...incurred by employees who are in travel status on official business incident to a grant program."

Recommendation:

We recommend that the bureau ensure that employees adequately describe the purpose of travel on travel vouchers.

Auditee Response:

The Bureau will instruct employees to detail the purpose of travel costs and not approve any expense accounts until the purpose of travel is sufficiently detailed.

****

Bureau of Elder and Adult Services

Special Programs for the Aging, Title III, Part C, Nutrition Services
CFDA #13.635

Questioned Costs:

None

(78) Finding: Inadequate monitoring of subrecipients

Recommendation:

We recommend that the bureau adhere to procedures

The Bureau of Elder and Adult Services is not monitoring subrecipients according to its procedural manuals:

1. The area agencies did not submit three of twenty-five fiscal reports;

2. The receipt dates of two out of twenty program reports were not evident since they were not date stamped;

3. The bureau did not perform twelve out of twenty on-site assessments.

The Code of Federal Regulations, 45 CFR, § 1321.11(A) states:

> ...the state agency on aging shall develop policies governing all aspects of programs...the state agency is responsible for enforcement of these policies.

Section 92.40 of the Code states, "Grantees must monitor grant and subgrant supported activities to assure compliance with applicable federal requirements."

outlined in its manuals.

Auditee Response:

The Bureau is monitoring subrecipients as frequently and as closely to requirements as possible while operating within the constraints of this State's personnel freeze restrictions.

****

Bureau of Elder and Adult Services

Special Programs for the Aging, Title III, Part C, Nutrition Services
CFDA #13.635

Questioned Costs:

$86,112

(79) Finding: Expenditures reported incorrectly

The bureau expended $86,112 with 1989 grant funds but reported the expenditures under 1990 grant funds on the Financial Status Report.

The Office of Management and Budget (OMB) Circular A-87, Cost Principles for State & Local Governments, Attachment A states:

> ...any cost allocable to a particular grant under the principles provided for in this circular may not be shifted to other federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.

Recommendation:

We recommend that the bureau adjust the Financial Status Report to correctly reflect expenditures for grant years 1989 and 1990.

Auditee Response:

The Administration on Aging requires states to report on a first-in first-out basis. Fiscal year 1989 funds were reported as totally expended in December 31, 1989 report. Any revision to prior reports are handled in the current quarter. The report from one agency was over two months late, which resulted in this audit finding. We are developing procedures for receiving reports on a more timely basis.

****

Bureau of Elder and Adult Services

Questioned Costs:

Special Programs for the Aging, Title III, Part C, Nutrition Services
CFDA #13.635

None

(80) Finding: Inadequate monitoring of meals
The Code of Federal Regulations, 45 CFR, §92.40 states, "...grantees must monitor subgrant supported activities to ensure compliance with applicable federal requirements."

The United States Code, 42 U.S.C., §3030(e)(f) requires meals served to meet at least one-third of the minimum daily recommended dietary allowances for the elderly.

The Bureau of Elder and Adult Services' system for monitoring menus submitted by area agencies is not sufficiently adequate to ensure compliance with federal meal requirements. We reviewed 25 menus and noted the following deficiencies:

1. One menu did not have a review signature;

2. One menu had to be obtained from the area agency.

Recommendation:
We recommend that the bureau improve its monitoring of menus to ensure compliance with federal meal requirements.

Auditee Response:
The responsibility for the nutrition program has been reassigned. Staff now responsible for the nutrition program area is reviewing and updating monitoring procedures as well as conducting monitoring visits.

****

Bureau of Elder and Adult Services

Questioned Costs:

Special Programs for the Aging, Title III, Part C, Nutrition Services
CFDA #13.635

None

(81) Finding: Inadequate cash management practices

The Bureau of Elder and Adult Services is not monitoring the cash balances of subrecipient area agencies. Fiscal reports submitted by area agencies to the bureau do not provide federal cash balances. The Code of Federal Regulations, 45 CFR, §74.61(e) states, "Procedures shall be established to minimize the time elapsing between the advance of federal grant or subgrant funds and their

Recommendation:
We recommend that the bureau ensure that payments to subrecipients be made as close as possible to the date the funds are disbursed.

Auditee Response:
The Bureau of Elder and Adult Services will continue to monitor income and expense reports submitted by grantees.

disbursement by the recipient."

We will tie the approval of cash requests to the information from income and expense reports.

****

Bureau of Elder and Adult Services

Special Programs for the Aging, Title III, Part C, Nutrition Services
CFDA #13.635

Questioned Costs:

None

(82) Finding: Quarterly financial reports inadequately supported

The state accounting records do not agree with the federal and state matching expenditures reported on the Financial Status Report.

The Code of Federal Regulations, 45 CFR §74.61(b) states that grantees must maintain "...records which identify adequately the source and application of funds for grant supported activities...."

Recommendation:
We recommend that the bureau adjust its accounting records to properly support those amounts reported on the Financial Status Report.

Auditee Response:
Administration on Aging (AOA) requires fiscal reporting on an accrual basis at the local level. It is impossible for state accounting records (which are on a cash basis at state level) to reconcile with the reports file to Administration on Aging.

****

Bureau of Elder and Adult Services

Special Programs for the Aging, Title III, Part C, Nutrition Services
CFDA #13.635

Questioned Costs:

$12

(83) Finding: Supporting documents not located

We reviewed 36 travel expense vouchers. One employee was reimbursed for a postage charge of $12.00 without a receipt to support the expense.

The State of Maine Manual of Financial Procedures, §40.11 states that "...original receipts must be attached to expense vouchers for... items over $3.00."

According to Attachment A of the Office of Management

Recommendation:
We recommend that the bureau require that all receipts be attached to travel expense vouchers.

Auditee Response:
The Bureau does require all receipts to be attached to travel expense vouchers. The Bureau's fiscal employee does not forward expense vouchers for payment without the

& Budget (OMB) Circular A-87, Cost Principles for State & Local Governments, "...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 which the grantee is a part."

proper supporting documentation. This has always been the Bureau's practice. In the situation cited in the audit report, the documentation, we believe, was lost at a point after it left the Bureau.

****

Bureau of Health

Maternal and Child Health Block Grant
CFDA #13.994

Questioned Costs:

$234,389

(84) Finding: Block grant positions not related to objectives (Prior Year Finding)

We noted eight positions funded by the Maternal and Child Health Block Grant where the duties performed under these positions did not entirely relate to the objectives of the grant.

Recommendation:
Legislation was enacted effective July 1, 1990 to correct this situation. Thus we do not recommend additional corrective action.

Auditee Response:
This matter has been resolved (in the subsequent fiscal year).

****

Bureau of Income Maintenance

State Administrative Matching Grants for Food Stamp Program
CFDA #10.561

Questioned Costs:

None

(85) Finding: Lack of segregation of duties

One individual who maintains the accounts receivable system also receives cash.

The Code of Federal Regulations, 7 CFR §3015.61(c) states, "Effective control over and accountability for all USDA grant or subgrant funds, real and personal property assets shall be maintained."

Recommendation:
The individual maintaining the accounts receivable system should not have possession of cash receipts.

Auditee Response:
Effective July 1, 1991, all cash receipts will be received by the supervisor of the Food Stamp Issuance Unit.

****

Bureau of Income Maintenance

(AFDC) Aid to Families with Dependent Children
CFDA #13.780

Questioned Costs:

None

(86) Finding: Underreporting of federal expenditures

The Department of Human Services had authorized subrecipient administrative expenditures of $1,370,032 for the period August 4, 1988 to September 30, 1990. These expenditures were eligible for 50% federal participation. DHS has no procedures for subrecipient reporting of administrative expenditures nor for subsequent inclusion of these expenditures on federal reports. DHS neglected to report or request federal reimbursement of $398,667.

Recommendation:

We recommend that DHS claim the $398,667 identified by our audit. We further recommend that DHS determine the amount subrecipient organizations and the Department of Labor claim as actual expenses and report these amounts promptly to ensure receipt of federal funds.

Auditee Response:

...The agency has claimed these expenditures to the Department of Health and Human Services, Family Support Administration on Form FSA-231, Part 1 (page 3), dated March 11, 1991.

****

Bureau of Income Maintenance

State Administrative Matching Grants for Food Stamp Program
CFDA #10.561

Questioned Costs:

$1,467

(87) Finding: Unallowable charge

A charge of $3,069 for the printing of applications for Food Stamps and/or Aid to Families with Dependent Children (AFDC) was charged solely to the Food Stamp Program. If the AFDC factor of 47.8 percent had been applied, the correct amount chargeable to the Food Stamp Program would have been $1,602. The costs should have been allocated accordingly.

The Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, Attachment A (C,2,a) states, "A cost is allocable to a particular cost objective to the extent of benefits received by such objective."

Recommendation:

We recommend that approving officials thoroughly review the accounts charged before approving vouchers.

Auditee Response:

The Department concurs with the finding that a charge of $3,069 was incorrectly charged to the Food Stamp Program. The finding has been corrected by the agency during State Fiscal Year 1991...which transfers these charges from the Food Stamp account to the AFDC and Food Stamp account.

****

Bureau of Income Maintenance

Child Support Enforcement
CFDA #13.783

(88) Finding: No contract with a private attorney who represents the department (Prior Year Finding)

The department does not have a contract with a private attorney who represents it in certain paternity cases. The attorney fees for $141,174 were charged to the program during the audit period.

The State of Maine Manual of Financial Procedures requires agencies to use contracts when hiring outside service providers. Under the guidelines of §48 of the manual, the amount that DHS expended for this attorney requires that a contract for special services be in place. According to subparagraph C1, Attachment A of the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, "...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."

Questioned Costs:

$141,174

Recommendation:
We again recommend that, when procuring additional services under its grant, the department comply with requirements for using outside firms or individuals.

Auditee Response:
Legal Services are contracted for by the Attorney General's Office. They are exempt from following the procedures listed above.

A contract has now been developed and signed.

****

Bureau of Income Maintenance

State Administrative Matching Grants for Food Stamp Program
CFDA #10.561

(89) Finding: Inadequate supporting documents

We reviewed thirty-three travel expenditures and found that expenditures of $71 were charged by three employees who were absent during the time period when the costs were incurred. In addition, five travel vouchers had no description of the purpose of travel. Consequently, we were unable to determine whether the expenditures were allowable.

According to Office of Management and Budget (OMB)

Questioned Costs:

$633

Recommendation:
We recommend that employees adequately describe the purpose of travel on travel vouchers. We also recommend that approving officials verify whether employees were working on the days when travel was claimed.

Auditee Response:
These were Quality Control personnel who were interviewing in client's houses when clients were available; therefore, this is an allowable charge.

Circular A-87, Cost Principles for State and Local Governments, Attachment A, (c,2,a), "A cost is allocable to a particular cost objective to the extent of benefits received by such objective." Attachment A, (B,28) states, "Travel costs are allowable for expenses...incurred by employees who are in travel status on official business incident to a grant program."

In the future, we will have employees make this clear on their reports.

****

Bureau of Income Maintenance

Various Federal Programs

(90) Finding: Incorrect compensation charges (Prior Year Finding)

We reviewed personal services costs of eleven employees for the Medicaid Program and six for the Aid to Families with Dependent Children (AFDC)/Food Stamp Program. Of the seventeen reviewed, eight were charged to the incorrect program for all or a portion of fiscal year 1990. We question costs of the following programs:

Program/CFDA #	Amount
State Administrative Matching Grants for Food Stamp Program CFDA #10.561	$8,175
Medicaid Assistance Program CFDA #13.714	$12,908
Assistance payments - Maintenance Assistance (AFDC Maintenance Assistance - State Aid) CFDA #13.780	$8,175

According to the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, Attachment A, (c,2,a), "A cost is allocable to a particular cost objective to the extent of benefits received by such objective."

Questioned Costs:

$29,258

Recommendation:

We recommend that the department allocate personal services costs to the correct federal programs and adjust costs which, to date, have been incorrectly charged.

Auditee Response:

The Department agrees with this finding. The net result is an undercharge in the amount of $6,884 to the Medicaid Assistance Program and an overcharge in the amount of $6,884 to the Food Stamp/AFDC Programs. The federal share of these costs equal $3,442.

This finding has been corrected by the agency during state fiscal year 1991...which transfers these personnel costs from the Food Stamp/AFDC Programs to the Medicaid Assistance Program. All personnel in this finding are currently charged to the proper account.

****

Bureau of Income Maintenance

State Administrative Matching Grants for Food Stamp Program
CFDA #10.561

(91) Finding: Untimely claims against households (Prior Year Finding)

The Code of Federal Regulations, 7 CFR §273.18(a) states that each state agency "...shall establish a claim against any household that has received more food stamp benefits than it is entitled to receive." In order to detail activities relating to any claims against households each state agency must submit a quarterly Status of Claims Against Households.

Based on inquiry and observation, we found that the department does not promptly report all claims against households. If a current claim is 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. Therefore some claims are not reported during the correct quarter.

According to the Food and Nutrition Services Report 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 one.

Questioned Costs:

None

Recommendation:
We recommend that the department promptly report to the Food and Nutrition Services all claims received by the Food Stamp Issuance Unit.

Auditee Response:
Effective December 1990 subsequent claims for overpayment have been reported on the quarterly status of claims.

****

Bureau of Income Maintenance

State Administrative Matching Grants for Food Stamp Program
CFDA #10.561

(92) Finding: Case file insufficiently documented

We reviewed twenty-five cases and noted that one did not have sufficient documentation to support eligibility and benefit level determination.

Questioned Costs:

$1,810

Recommendation:
We recommend that case workers provide detailed documentation in the case files to support eligibility, ineligibility, and benefit level determination.

The Code of Federal Regulations, 7 CFR §273.2 (f,6) states:

> ...case files must be documented to support eligibility, ineligibility, and benefit level determinations. Documentation shall be in sufficient detail to permit a reviewer to determine the reasonableness and accuracy of the determination.

Auditee Response:

We concur. However, one case in twenty-five represent a four percent deficiency and federal tolerances are presently in excess of ten percent.

As always, the Department will continue to work towards a zero percent deficiency.

Bureau of Medical Services

Medical Assistance Program
CFDA #13.714

Questioned Costs:

None

(93) Finding: Durable medical equipment (Prior Year Finding)

In accordance with 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 recovered for reuse when no longer needed as originally required. The department previously responded that they would resolve the matter, with HCFA's approval, by amending the current policy to allow recipient ownership of this equipment. The department has drafted a proposed policy change but it has not been formally adopted via the legislative process and incorporated into its manual.

The Code of Federal Regulations, 45 CFR, Subpart G. §95.707(a) specifically requires that equipment be totally claimed in the period acquired; be accepted for federal participation as a direct cost under a single program or program activity; and, according to Subpart O of part 74, be subject to property rules.

Recommendation:

We recommend that the Bureau of Medical Services either: (a) adopt the proposed policy change to entitle recipients to durable medical equipment, or (b) develop and maintain an inventory system in accordance with 45 CFR §74.

Auditee Response:

A proposed policy has been drafted to respond to this previous audit finding. Because of the problems we are experiencing in the payment for purchase and repairs of wheelchairs, we are proposing to change the policy regarding wheelchair reimbursement. However, that issue has become much more complex than originally anticipated. Therefore, the Division of Medicaid Policy and programs is going to go ahead with the rule-making for the disposal of DME when no longer needed by the recipient. The target date for having that policy in effect is November 1, 1991. It should also be noted that...Rules are adopted in accordance with the Administrative Procedures Act, and no legislative action is required.

****

Bureau of Medical Services

Medical Assistance Program
CFDA #13.714

Questioned Costs:

None

(94) Finding: Incorrect reporting procedures used to prepare the Quarterly Medicaid Statement of Expenditures (Prior Year Finding)

Subparagraph (a)(1) and (2) of the Code of Federal

Recommendation:

We recommend that the department promptly refund the federal share of all provider overpayments to HCFA, and that it adhere to procedures for recording overpayments on the HCFA-64 report. In addition, we recommend that

Regulations, 42 CFR, 433.320 states:

> ...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.

Refunds to HCFA must be made whether or not the state Medicaid agency recovered overpayments from providers.

Our test of financial records revealed:

1. Out of the twenty-five overpayments to providers of Medicaid services that we tested, twenty-three were not recorded on the HFCA-64 report within the proper time period;

2. During the 1990 fiscal year, DHS personnel were netting overpayments made to hospitals and intermediate care facilities (mental retardation) against expenditures, rather than reporting the overpayments as a credit in a separate line item on the HFCA-64 reports;

3. Out of the twenty-five overpayments tested, six made to hospitals had not been established on the accounts receivable records; according to DHS personnel the department's accounting personnel responsible for posting the accounts receivable records do not always receive the Final Decision and Order Overpayment notifications.

DHS record all overpayments on the accounts receivable records.

Auditee Response:

As soon as BMS is notified of an overpayment to hospitals, ICF's/MR or any other provider, it is reported in the same week to Financial Services, by way of the Provider Account history noting receivable accounts. Likewise, as soon as BMS staff receive the Final Decision and Order from MHCFC, they notify Financial Services. The adjustments in the HCFA-64 are made by Financial Services. The audit report cites...not promptly reporting the Federal share of these overpayments to the HCFA-64. Our concern is that once we report these overpayments, the total amount is deducted from the FFP that we claim. In reality, we often negotiate agreements with providers to pay back the overpayments as an offset against future payments for services. The amount that is then reported as an expenditure is the net amount after the offset. The impact of this system is that in fact we never get the FFP for these services, since the FFP is deducted in total initially, and then the expenditure is not subsequently reported, as it has been reduced by the amount the provider owes us, which includes, both the federal and state share of the payment. This system needs to be reviewed to assure that the amount that is reported as an expenditure for these providers is the full amount prior to the offset. This could present a significant system change in the claims processing system. If it is not possible to do this at the present time due to the bare bones staff with which everyone is operating, it may be necessary to require providers to pay back the full overpayment when identified. This would present some serious cash flow problems, particularly to ICF-MR providers. Staff has been requested to come up with a plan by August 1st for addressing this issue.

****

Bureau of Medical Services

Medical Assistance Program
CFDA #13.714

(95) Finding: Late submission of required reports (Prior Year Finding)

On June 14, 1990 and January 14, 1991 the Department of Human Services submitted summary reports on eligibility systems for the periods ended September 1989 and March 1990. A regulation change proposed extending the due

Questioned Costs:

None

Recommendation:

We recommend that the department establish procedures to ensure compliance with the revised reporting requirements.

Auditee Response:

The department will take steps to comply with the revised reporting requirements.

dates to June 30 and December 31. Although the final regulation established July 31 and December 31 as the due date, the deadlines contained in the Code of Federal Regulations, 42 CFR, 431.800 (f)(4) were May 31 and November 30.

****

Bureau of Rehabilitation

Rehabilitation Services - Basic Support
CFDA #84.126

(96) Finding: Untimely submission of Payment Management System (PMS) reports (Prior Year Finding)

The U.S. Department of Education (USDE) monitors all federal cash outlays to recipients on a grant-by-grant basis under PMS. For cash accountability, USDE prepares certain basic reports quarterly which are then forwarded to each recipient who must compare the PMS reports to his or her own cash and disbursement records, note any differences, and return the reports to USDE before the required due date.

We tested PMS reports for four quarters and noted that the bureau submitted the report for the period July 1, 1989 - September 30, 1989 two days after the due date of November 17, 1989.

Questioned Costs:

None

Recommendation:
We recommend that the department prepare and submit quarterly Payment Management System reports within the required time frame.

Auditee Response:
The Department will attempt to meet deadlines as required.

****

Bureau of Rehabilitation

Rehabilitation Services - Basic Support
CFDA #84.126

(97) Finding: Lack of written procedures for services and processing of referrals and applications (Prior Year Finding)

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.

Questioned Costs:

None

Recommendation:
We again recommend that the Bureau of Rehabilitation establish and maintain written policies regarding conditions, criteria, and procedures in providing vocational rehabilitation services, as stated in the state plan. We further recommend that the bureau establish written standards and procedures for processing referrals and applications.

Auditee Response:
The Bureau has had ongoing discussions...regarding the

The Code of Federal Regulations, 34 CFR, § 361.42(b) 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.

In addition, § 361.30 of 34 CFR says that the state must "...ensure expeditious and equitable handling of referrals and applications for vocational rehabilitation services."

lack of specific policies and procedures. An agreement has been reached...that the Bureau will be revising its policies to address the issue of thorough diagnostic study and rehabilitation engineering services. The Bureau is in the process of revising its policy to define thorough diagnostic study and rehabilitation engineering services. These revisions will be adopted through the State's Administrative Procedure Act which provides an opportunity for the public to review and comment on proposed changes. It is our understanding with these revisions our policy will be in compliance with federal regulations.

****

Bureau of Rehabilitation

Rehabilitation Services - Basic Support
CFDA #84.126

Questioned Costs:

$1,460

(98) Finding: Authorized client expenditures were not according to state plan

The Vocational Rehabilitation Services policy manual states that "...services provided to individuals with handicaps must be necessary to overcome the vocational handicap.,.." It also states, "Maine Vocational Rehabilitation will not contribute to the purchase of a vehicle."

The Code of Federal Regulations, 34 CFR, §361.41 states, "The state plan must also assure that vocational rehabilitation services are provided in accordance with the written program." Our review of case expenditures revealed that in four instances payments were authorized for benefits that were similar to those already received, or were not included on the individual's written program, or were not allowable under the state plan.

Recommendation:

We recommend that the bureau only authorize expenditures according to the state plan, and only provide services that are included on the individual's written rehabilitation program.

Auditee Response:

VR Policy (Item 5.0) states: "VR goods and services may only be provided in accordance with the IWRP".

The Bureau will take steps to remind staff that there is a policy requiring that authorization must be made prior to payment.

****

Bureau of Rehabilitation

Rehabilitation Services - Basic Support
CFDA #84.126

Questioned Costs:

None

(99) Finding: Required assurance for set-aside funds not included in state plan (Prior Year Finding)

Recommendation:

To achieve compliance with program regulations, we again recommend that the state plan include the required

Our review of the 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.

The Code of Federal Regulations, 34 CFR, § 361.50 (c) 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.

assurances on set-aside funds generated from the Small Business Enterprise Program.

Auditee Response:

The state unit maintains a description of the methods used in setting aside funds and the purposes for which funds are set side. They are contained in the rules of the Business Enterprise Program which were developed according to the procedures of the State's Administrative Procedures Act (APA) and have been approved by the RSA.

****

Bureau of Rehabilitation

Social Security - Disability Insurance
CFDA #13.802

Questioned Costs:

None

(100) Finding: Late submission of required financial report and Cost Effectiveness Measurement System (CEMS) data (Prior Year Finding)

One quarterly report was submitted fifteen days late to the Social Security Administration (SSA) while the data entered into CEMS was late for two quarters. The SSA uses employee time and medical expenditure information to evaluate the unit's productivity in disability determinations.

Recommendation:

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

Auditee Response:

Our accountant will make every effort to submit financial reports and CEMS data on time.

****

Bureau of Social Services - Division of Child and Family Services

Child Care Food Program
CFDA #10.558

Questioned Costs:

$18,101

(101) Finding: Incorrect allocation of employee compensation (Prior Year Finding)

According to the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, "...a cost is allocable to a particular cost

Recommendation:

We again recommend that the bureau base the salary and fringe benefits charged to the Child Care food Program on the time and effort provided specifically to the program.

objective to the extent of benefits received by such objective."

The bureau used Child Care Food Program funds entirely to support a nutrition consultant position which was to be placed organizationally within the Child Nutrition Unit of the Bureau of Health. However, since the consultant provided no direct services to the program we question all salary and fringe benefits paid for this position in fiscal year 1990.

Auditee Response:

The Nutrition Consultant is responsible for developing systems for assessing the nutritional status and needs of Maine's children, especially those served by the Child and Adult Care Food Program (CACFP); as well as planning, organizing, managing, coordinating promoting and evaluating public health nutrition programs designed to promote the well-being and nutritional health of children. The Nutrition consultant is responsible for assessing the nutritional needs of children served by the CACFP and consulting with State and Local CACFP administrators to develop appropriate strategies to meet the identified needs. The Nutrition Consultant initiates and develops plans and strategies to reduce nutrition problems among the CACFP population and the pediatric population statewide. Following approval of the plans by the Unit Director, the Nutrition Consultant is responsible for securing adequate resources to implement the plans. The nutrition consultant assists in determining the education/training needs of CACFP provider personnel. The position also monitors CACFP menu plans and determines if they meet the identified nutritional needs of the child, and makes appropriate revisions.

Therefore, we taken exception to the audit conclusions and believe the Department is in full compliance with the program and justified in funding the essential position.

****

Office of Management and Budget - Division of Audit

Various Federal Programs

(102) Finding: Noncompliance with federal requirements

The Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments requires that a state that provides more than $25,000 to a subrecipient shall determine that subrecipients have met the audit requirements of OMB Circular A-110, if applicable. Until late in the fiscal year procedures were not in place for DHS to determine that subrecipient audits conformed to the requirements of Circular A-110.

Questioned Costs:

None

Recommendation:

We recommend that the department ensure that audits are performed on an organization wide basis in accordance with OMB Circular A-110, as applicable.

Auditee Response:

...Effective for MAAP II or Community Agencies fiscal years beginning on or after July 1, 1989 this condition has been corrected.

****

Office of Management and Budget - Division of Audit

Medical Assistance Program
CFDA #13.714

Questioned Costs:

None

(103) Finding: Medicaid provider audits/cost settlements are not performed in a timely manner (Prior Year Finding)

Our review of Medicaid provider audits revealed the following:

Provider/Facility Type:	Final Audits/Settlements not Completed for Those Facilities with Operating-Periods Ending During the Following Calendar Years: 1984 to 1987	1988	1989	(Approximate) Total Number of Provider/ Facility Types:
Intermediate Care Facilities (Nursing Homes)	9	11	48	143
Intermediate Care Facilities For the Mentally Retarded	5	6	15	41
Hospitals	64	43	43	43
Rural Health Centers		10	12	22
Home Health Centers	Log not maintained; status undetermined			
Totals	78	70	118	249

Recommendation:

We recommend that the Department of Human Services complete annual audits of Medicaid providers to ensure correct billings and use of program resources, recoupment of funds, and investigations of any deviations in provider performance.

Auditee Response:

Hospitals - All of 1987 and 1988 audits have since been completed with the exception of MAMC for 1989 for which we haven't yet received the BCBS cost report. We are *currently working on the 1989 audits, however, 17 of these can't be done as we haven't yet received the BCBS cost audit reports.*

Rural Health Centers the 1988 and 1989 audit... We will be undertaking as soon as the Hospital 1989 audits are completed.

Home Health Centers ...We do have a log. It does however need updating. We will shortly be updating the log and a strong effort will be made to get the HHC cost settlements audits completed thru 1989.

ICF, ICF/MR ...Both the 1989 and the 1990 audits of (ICF, ICF/MR facilities) are under control and are presently being worked on. (Audits not completed) for 1989 are...of facilities that we have had trouble getting proper information on or that we are doing two years at once.

There are a few stragglers from 1987 and 1988 which are unusual situations and there are very few of them compared to the entire number of audits that we have to do per year. We are presently working on these and hope to get them cleaned up before the calendar year 1991 comes to an end.

****

Office of Management and Budget - Division of Audit

Various Federal Programs

Questioned Costs:
None

(104) Finding: Unaudited federal funds (Prior Year Finding)

The Office of Management and Budget (OMB) Circular A-110, Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-profit Organizations, Attachment F, subparagraph 2h requires that an audit be performed "usually annually, but not less frequently than every two years."

A review of the subrecipient audit status records at the department's Audit Division revealed that, for agency fiscal years which ended prior to July 1, 1988, the division had not met the audit requirements for 37 subrecipient organizations. Unaudited federal funds totaled $5,878,385 on June 30, 1990. The individual programs and amounts of unaudited funds are:

Program/CFDA #	
Special Supplemental Food Program for Women, Infants and Children CFDA #10.557	$2,857,142
Acquired Immunodeficiency Syndrome (AIDS) Activity CFDA #13.118	14,694
Alcohol, Drug Abuse and Rehabilitation Block Grant CFDA #13.141	122,476
Childhood Immunization Grant CFDA #13.268	27,400
Foster Care IV E CFDA #13.658	13,846
Social Services Block Grant CFDA #13.667	1,861,590
Administration for Children, Youth and Families-Child Abuse and Neglect State Grants CFDA #13.669	37,112
Dependent Care Planning CFDA #13.658	8,883
Medical Assistance Program CFDA #13.714	2,527
Sexually Transmitted Disease Control Grant CFDA #13.977	41,603
Preventive Health and Health Services Block Grant CFDA #13.991	133,314
Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA #13.992	484,977

Maternal and Child Health Services Block Grant CFDA #13.994	140,975
Crime Victim Assistance CFDA #16.575	3,000
Rehabilitation Services-Basic Support CFDA #84.126	28,846

Recommendation:
In order to achieve compliance with federal audit requirements, we recommend that the division complete on time those audits of subrecipients who receive more than $25,000 in financial assistance.

Auditee Response:
We agree.

****

Office of Management and Budget - Division of Financial Services

Various Federal Programs

(105) Finding: Physical inventory of capital equipment not conducted as required (Prior Year Finding)

The department has not conducted a physical inventory in each location during the last two years. The Office of Management and Budget(OMB) Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule) states, "...a physical inventory of the property must be taken and the results reconciled with the property records at least once every two years."

We also found that capital equipment records did not sufficiently identify items purchased with federal funds nor did they include the federal financial participation rate. The Common Rule requires that the "percentage of federal participation in the cost of the property..." be included in the records.

Questioned Costs:

None

Recommendation:
We again recommend that the department take a physical inventory at each location every two years and that it reconcile the results to property records. We also recommend that property records include the required identifying information.

Auditee Response:
The department has not conducted a physical inventory due to manpower shortage.

The department's capital equipment inventory records do identify items purchased with federal funds. The Maine Human Services Department List of Assets Report and the C.A.A.S. System Reports provides for the identification of capital equipment purchased with federal funds. The "percentage of federal participation in the cost of the property..." is also available and can be made available upon request.

****

Office of Management and Budget - Division of Financial Services

Questioned Costs:

Maternal and Child Health Services Block Grant
CFDA #13.994

$6,125

(106) Finding: Incorrect allocation of federal funds (Prior Year Finding)

The division incorrectly charged the block grant account with workers' compensation benefits which had been paid to one recipient. It should have charged the $6,125 in payments to the General Fund.

Recommendation:
We recommend that the division implement guidelines in order to discourage use of federal funds for covering state liabilities.

Auditee Response:
The Department will take the necessary steps to prevent this from occurring again. Workers' Compensation charges should be made against the same account that is used for the individual's payroll.

****

Office of Management and Budget - Division of Financial Services

Questioned Costs:

Various Federal Programs

None

(107) Finding: Excess cash balance

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 eleven major federal programs administered by DHS revealed the following programs with excess cash on hand:

Program/CFDA #	Avg. Daily Balance (3 Mo. Avg.)	Avg. Daily Cash Needed (3 Mo. Avg.)
State Administrative Matching Grants for the Food Stamp Program CFDA #10.561	$340,165	$2,183

Foster Care - Title IV-E CFDA #13.658	$190,556	$19,220
Social Services Block Grant CFDA #13.667	$445,074	$28,295
Assistance Payments - Maintenance Assistance CFDA #13.780	$771,387	$193,902
Social Security - Disability Insurance CFDA #13.802	$82,183	$7,480
Alcohol and Drug Abuse and Mental Health Block Grant CFDA #13.992	$73,229	$11,401
Rehabilitation Services - Basic Support CFDA #84.126	$936,224	$32,856

Inadequate forecasting methods to determine the amount of cash required to meet the immediate cash needs of the programs resulted in the department maintaining an excessive amount of federal cash.

Recommendation:

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

Auditee Response:

The Department continues to make a concerted effort to meet federal requirements.

The MFASIS System requires that cash be in the account when the bill is entered, unless there is an override. The bill does not get paid for 10 days after entry. We have been working with Accounts and Controls, using the override and preestablished check dates in order to minimize the time frame between receipt of federal cash and check issuance.

We expect to continue refining this process in order to meet federal guidelines.

****

Various Federal Programs

Questioned Costs:
None

(108) Finding: Late submission of quarterly federal financial reports (Prior Year Finding)

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

Of the 35 financial reports tested, 21 were submitted beyond the required due date.

Program Name/CFDA #	CFR Citation	No. of Quarterly Reports Late	Average No. of Days Late
Child and Adult Care Food Program CFDA #10.558	7CFR §226.7(d)	2	1.5
Food Stamp Program CFDA #10.561	7CFR §277.11(c)(4)	4	6.75
Foster Care - Title IV-E CFDA #13.658	45CFR §74.73	3	8.3
Medical Assistance Program CFDA #13.714	42CFR §430.30(c)(1)	4	14.5
Rehabilitation Services - Basic Support CFDA #84.126	34CFR §80.41(b)(4)	4	9
Special Programs for the Aging- Title III, Part C CFDA #13.635	45CFR §74.73	4	10

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

Auditee Response:
It is the Department's intent to file reports on time. Occasionally, there are delays. When necessary, we will request extensions.

****

Various Bureaus

(109) Finding: Noncompliance with subrecipient audit resolution requirements

The Single Audit Act of 1984 requires that an agency receiving and providing $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 in cases of noncompliance with federal program requirements. A draft of policies and procedures for correcting this situation was available but had not been implemented at the time of the current audit.

Questioned Costs:
None

Recommendation:
We again recommend that the department implement a system to resolve subrecipient audit findings within the required six month period.

Auditee Response:
The draft is currently being worked on. We continue working towards meeting this requirement.

****

Various Bureaus

Various Federal Programs

(110) Finding: Employee time records do not reflect attendance and leave activity

Attachment B of the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State & Local Governments, states:

> Amounts charged to grant programs for personal services... will be based on payrolls documented and provided in accordance with generally accepted practices of the State... Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records.

The State of Maine Civil Service Rules states that employee records "...shall include...attendance on official duty; vacation leave earned, used and accrued; sick leave earned, used and accrued; and any other leave with or without pay...."

Several programs which we tested had incomplete time sheets. Those tested and incomplete are:

Questioned Costs:
None

Department of Human Services (cont.)

Program/CFDA #	Number of Time Sheets Tested	Number of Incomplete Time Sheets
State Matching Grants for Food Stamp Program CFDA #10.561	33	28
Special Programs for the Aging - Nutrition Services CFDA #13.635	20	8
Foster Care - Title IV-E CFDA #13.658	15	6
Medical Assistance Program CFDA #13.714	36	26
Assistance Payments - Maintenance Assistance CFDA #13.780	21	15

Recommendation:
We recommend that the Department of Human Services require all employees to record hours worked and not worked on their individual time sheets.

Auditee Response:
The Department has issued directives detailing the proper method of filling out time sheets showing both time worked and not worked.

****

Department of Labor

Office of Administrative Services

Questioned Costs:

Unemployment Insurance
CFDA #17.207 — None

Employment Services
CFDA #17.225 — None

(111) Finding: Financial reports submitted late (Prior Year Finding)

The U.S. Department of Labor, Employment and Training Administration Handbook No. 336, Chapter II, requires submission of the Unemployment Insurance Operations Quarterly Financial Report and the Financial Status Report within 30 days after the end of the reporting quarter.

The MDOL did not submit the following report on time:

Form	Required Submission Date	Date of Submission	Number of Days Late
UI-3	10/30/89	11/7/89	5 days
UI-3	1/30/90	1/31/90	1 day
SF 269	7/31/90	8/10/90	10 days

In addition, Form SF 269 was not on file for the quarter ending September 30, 1989.

Recommendation:

We recommend that the office prepare federal financial reports on a timely basis, submit reports to the U.S. Department of Labor within the required time frame, and maintain them on file at the Maine Department of Labor.

Auditee Response:

Procedures have been established to ensure copies of federal financial reports are maintained on file. Binders in which copies of all reports are filed have been set up. A review of submission of the SF269 reports show that these reports subsequent to the date of the audit have been timely as outlined below:

Quarter ending 09/30/90 submitted on 10/30/90 (on due date)
Quarter ending 12/31/90 submitted on 01/22/91 (8 days early)
Quarter ending 03/31/91 submitted on 04/29/91 (1 day early)

****

Office of Administrative Services/Bureau of Employment & Training Programs

Various Federal Programs

(112) Finding: Incomplete capital equipment records (Prior Year Finding)

The Office of Management & Budget (OMB) Common Rule requires states to comply with state laws and

Questioned Costs:

None

Recommendation:

We recommend that both Office of Administrative Services and BETP reconcile the detail equipment records to the control record and submit an annual capital equipment reconciliation report to the Bureau of Public Improvements.

procedures for the acquisition, management and disposal of equipment. Both the Office of Administrative Services and the Bureau of Employment and Training Programs have not reconciled the detail equipment records to the control record. Neither section has completed the annual capital equipment reconciliation report for the 1990 fiscal year that should be submitted to the Bureau of Public Improvements. The programs affected are:

Program/CFDA #

Employment Service
CFDA #17.207

Unemployment Insurance
CFDA #17.225

Job Training Partnership Act
CFDA #17.250

Auditee Response:

Detailed equipment records will be reconciled with the Bureau of Public Improvements System for quarter ending June 30, 1991. Staff from BPI have reviewed our working papers and agree with the reconciliation format and will accept the quarterly report adjustment to bring the annual report into agreement with our property detail equipment listing report.

****

Bureau of Employment & Training Programs

Job Training Partnership Act (JTPA)
CFDA #17.250

(113) Finding: No equitable basis for distributing indirect costs (Prior Year Finding)

The Office of Management and Budget (OMB) Circular A-87, Attachment A, F(1) states that a cost is allocable to an objective to the extent of benefits received.

The delivery staff of the Bureau of Employment and Training Programs provides services to various state and federal programs. We could not determine that BETP considered the extent of benefits received when it distributed joint costs incurred by both state and federal programs.

Questioned Costs:

None

Recommendation:

We recommend that BETP develop a cost allocation plan that provides for an equitable distribution of indirect costs to both federal and state programs based on the benefits received.

Auditee Response:

The BETP pooled administrative resources and distributed costs among the programs based on a range of factors.

The JTPA Federal Register, dated March 15, 1983, states that:

> *"the detailed administrative requirements of OMB Circulars A-87 and A-102 and implementing regulations in 41 CFR Part 29-70 do not apply to JTPA programs administered by the governors and their subrecipients."*

The BETP will work with the U.S. Department of Labor Regional Office to develop a methodology that is acceptable for allocating costs incurred by both state and federal programs in the future.

****

Bureau of Employment & Training Programs

Job Training Partnership Act (JTPA)
<u>CFDA #17.250</u>

(114) <u>Finding</u>: Subrecipients' audits do not meet federal requirements (Prior Year Finding)

The Office of Management and Budget (OMB) Circular A-128 states that any state government providing $25,000 or more in federal financial assistance to a subrecipient must determine whether the subrecipient has met the audit requirements of A-128 and Circular A-110.

During our audit we found that BETP did not have a system to assure that subrecipient audits met the requirements of OMB Circulars A-128 and A-110; and that of five subrecipients receiving JTPA funds one did not have an audit performed within the time required.

<u>Questioned Costs</u>:

None

<u>Recommendation</u>:

We recommend that BETP develop a system which assures that audits of the subrecipients meet the requirements of OMB Circular A-128 and A-110.

<u>Auditee Response</u>:

BETP has developed policies requiring that subrecipient audits be conducted in compliance with OMB Circular A-128 and A-110. Four of the five subrecipient agency audits are reviewed for compliance by the cognizant agency assigned by the Maine Department of Finance. These are:

Subrecipient	*Cognizant Agency*
Training and Development Corporation	*Department of Human Services*
Western Maine Community Action	*Division of Community Services*
Coastal Economic Development	*Division of Community Services*
Aroostook County Action Program	*Division of Community Services*

As cognizant agencies, they review the Single Audit report for compliance with OMB Circulars A-128 and A-110. BETP is notified as non-lead agency if these requirements are not met.

Department of Labor is designated as cognizant agency for the remaining subrecipient, Training Resource Center; however, we do not have an auditor on staff.

Efforts are being made at this point to acquire either audit review services, or technical assistance and training, in this area. This is expected to be resolved by September 30, 1991.

****

Bureau of Employment & Training Programs

Job Training Partnership Act (JTPA)
CFDA #17.250

Questioned Costs:

None

(115) Finding: Lack of documentation for application reviews

The JTPA Administrative Systems Manual requires that 30 day reviews of all new participant applications be documented by eligibility verification records. Four of fifteen names tested on the Direct Delivery system had no documentation in their files. The same field office serviced all four participants.

Recommendation:
We recommend that BETP require their Direct Delivery field offices to perform 30 day reviews of all new participant applications and to document the reviews with eligibility verification records.

Auditee Response:
BETP will work with the Jobs Training Administrative Office to develop a corrective action plan for the Direct Delivery offices to comply with the procedures for review of applications. The plan will be completed prior to July 1, 1991.

It should be noted this is not a prior year finding as indicated. It should also be noted that the review step is the final phase of the eligibility determination process, not the verification process as stated. Eligibility verification is a separate procedure.

****

Bureau of Employment Security

Employment Services
CFDA #17.207

Unemployment Insurance
CFDA #17.225

Questioned Costs:

None

None

(116) Finding: No documentation

Of the fifty voucher payments we examined at the Maine Department of Labor one did not have a vendor invoice on file to support payment. After completion of the audit fieldwork, MDOL obtained supporting documentation.

Recommendation:
We recommend that MDOL strengthen its control procedures and ensure that voucher payments are supported by vendor documents.

Auditee Response:

The invoice in question was supported by documentation prior to approving the invoice for payment and was detached from the package prior to filing. Procedures are in place for retaining all material required for processing invoice payments.

****

Department of Mental Health and Mental Retardation

Division of Accounting

Questioned Costs:

Alcohol and Drug Abuse and Mental Health Services (ADAMHS) Block Grant
CFDA #13.992 — $6,000

(117) Finding: Unsupported transfer of funds

The Code of Federal Regulations, 45 CFR, §96.30 fiscal and administrative requirements states:

> Fiscal control and accounting procedures must be sufficient to (a) permit preparation of reports required by the statute authorizing the block grant and (b) permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of restrictions and prohibitions of the statute authorizing the block grant.

A journal voucher transferred $6,000 from the ADAMHS Block Grant to the Social Services Block Grant. The transfer was not sufficiently traceable to determine allowability of the expenditures.

Recommendation:

We recommend that the department comply with the regulations when making cash transfers between fund sources.

Auditee Response:

We agree.

****

Division of Audit

Questioned Costs:

Social Services Block Grant
CFDA #13.667 — None

Alcohol and Drug Abuse and Mental Health Services (ADAMHS) Block Grant
CFDA #13.992 — None

(118) Finding: Subrecipient audit requirements not met (Prior Year Finding)

The Office of Management and Budget (OMB) Circular A-110, Attachment F requires procedures to determine the reasonableness, allowance and allocation of costs according to federal cost principles and the terms of the grant.

Our review of MHMR subrecipient audits revealed that the audit workpapers do not document the audit procedures used to test transactions for compliance with federal grant terms or cost principles. In addition, MHMR does not have written procedures which address the allocation of questioned costs incurred by a subrecipient program that is financed with federal and non-federal funds.

Recommendation:

We recommend that MHMR establish audit procedures to ensure that those audits performed by its Division of Audit meet the audit requirements of OMB Circular A-128 and A-110.

Auditee Response:

The Department has established audit procedures to ensure compliance with the OMB Circulars A-128 and A-110. The auditor of record was forced to look at FY 89 records since we had not performed any FY 90 audits at the time of his audit. Audit work papers are now more complete and the Department has promulgated regulations which define acceptable costs and delineate our position with regard to program income. The questioned costs are appropriately handled at this time.

****

Division of Audit

Social Services Block Grant
CFDA #13.667

Questioned Costs:

$31,299

(119) Finding: Allocation of subrecipient audit costs (Prior Year Finding)

Paragraph C2, Attachment A, of the Office of Management and Budget (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 simultaneously conducts audits on Block Grant and General Fund pass-through monies. The department charged the block grant account with $31,299 in salary and fringe benefits for two of the department's auditors.

Recommendation:

We recommend that the department develop an allocation plan for distributing costs of more than one program to the cost center incurring the expense.

Auditee Response:

The Department is in the process of developing an appropriate allocation plan for distributing costs and should have that system in place within the next few months. Similar findings for the years ending 1988 and 1989 were dealt with by identifying legitimate costs charged to the General Fund more appropriately belonging to the Block Grant. That approach has been approved by Federal Oversight Reviewers as an appropriate mechanism to handle the disallowances.

****

Division of Audit

Social Services Block Grant
CFDA #13.667

Questioned Costs:

None

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

None

(120) Finding: No system for prompt corrective action (Prior Year Finding)

The Office of Management and Budget (OMB) Circular A-128, paragraph 9c requires that governments providing $25,000 or more in federal pass-through funds to a subrecipient ensure appropriate corrective action within six months after receiving an audit report if the subrecipient is not in compliance with federal regulations.

During the period under audit, the Department of Mental Health and Mental Retardation lacked an established system to ensure timely corrective action. Effective October 12, 1990 the department implemented a system to follow up on subrecipient audit reports within the required time frame.

Recommendation:

There are no recommendations since the department implemented a follow up system.

Audit Response:

As is indicated in the recommendation, the Department has implemented a follow up system which is working reasonably well.

****

Bureau of Mental Health and Bureau of Mental Retardation

Questioned Costs:

Social Services Block Grant
CFDA #13.667

None

(121) Finding: Performance reports not submitted on time (Prior Year Finding)

United States Code, 42 USC, 1397(e) requires each state to prepare reports on those activities which used federal funds. Section 607 of the Family support Act of 1988, Public Law 100-485 requires states to submit annual reports to the Department of Health and Human Services. The Federal Register of October 13, 1987 requires submission of reports within six months of the end of the reporting period.

The Department of Human Services (DHS) and MHMR administer Social Services Block Grant monies. DHS has prepared and submitted performance reports for the period October 1, 1987 through September 30, 1990. However, reports for the portion of grant funds administered by MHMR were not prepared or submitted on time.

Recommendation:

We recommend that MHMR prepare and submit all performance reports as required.

Auditee Response:

We agree.

****

Department of Transportation

Office of Audit

Highway Planning and Construction
CFDA #20.205

Questioned Costs:

None

(122) Finding: Professional education requirements not met

Government Auditing Standards states: "The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required." To meet this standard auditors are required to complete "...every two years, at least 80 hours of continuing education...At least 20 hours should be completed in any one year of the 2 year period." The MDOT auditors have completed 20 hours in each year but have not completed the 80 required hours in the two-year period, 1989 and 1990.

Recommendation:

We recommend that MDOT make certain that its internal and external auditors keep current on professional training and education in order to comply with federal standards for government auditors.

Auditee Response:

We concur that the 80 hours total biennial requirement was not met for all auditors; the 20 hour requirement for each year was met as well as the 24 hour biennial requirement for training related to governmental auditing.

Since the implementation of the continuing professional education standard in the 1988 revision to Government Auditing Standards... we... have taken steps to implement the standards and the related management controls:

> *a) We encouraged and participated in an informal Statewide audit training committee with audit representatives of all affected departments...*
>
> *b) Controls have been established to document the training hours required and achieved by each auditor.... (which) permits the individual auditor and audit management to monitor progress in meeting the requirements.*

...We intend to continue pursuing efforts to provide for consolidated training opportunities...that will meet the training standard.

It should be noted...implementation nationally has been uncertain until the Comptroller General issued needed clarifications...in April 1991.

****

Bureau of Finance and Administration

Highway Planning and Construction
CFDA #20.205

Questioned Costs:

$1,815

(123) Finding: Federal participation charges exceed limit

During our audit we found that the MDOT Internal Audit Division made the following finding/recommendation for the fiscal year ended June 30, 1990.

Construction Engineering costs charged to FHWA might exceed the 15% limitation due to a misunderstanding by the federal billing section that the 15% could be applied to total construction engineering costs and total construction costs.

The 15% limitation was exceeded on two projects in the total amount of $1,815.

Recommendation:
We recommend that MDOT and FHWA resolve $1,815 of overcharge.

We also recommend that, when there are multiple federal fund sources at different participating rates, the Federal Billing Section add procedures to ensure that the federal share for Construction Engineering not exceed 15% of the federal share of construction cost, as required by United States Code, 23 USC §121, (d).

Auditee Response:
We agree with the finding and the Federal Billing Section has added a step to their written procedures to insure that the 15% not be exceeded.

****

Bureau of Finance and Administration

Highway Planning and Construction
CFDA #20.205

Questioned Costs:

None

(124) Finding: Federal participation charges incorrect

The Code of Federal Regulations, 23 CFR, 260.407 states that federal funds may reimburse for "...tuition and direct educational expenses (including incidental training, equipment and program materials) exclusive of travel, subsistence, or salary of trainees." During our audit we found that the MDOT Internal Audit Division made the following finding/recommendation for the fiscal year ended June 30, 1990.

The department erroneously charged salaries and related overhead of students as participating federal expenditures to a National Highway Institute (NHI) Program. As a result, the Department of Transportation overbilled the Federal Highway Administration $4,725. It used those funds for ten months but corrected the overbilling in January 1991.

Recommendation:
We recommend that the bureau develop procedures to ensure that travel, subsistence, and salaries of trainees in the NHI program are not charged as participating costs.

Auditee Response:
We agree with the finding and to assure that training charges are correctly coded the Federal Billing Section of Finance and Administration will periodically review all National Highway Institute projects.

Further, the Department's policy is that training costs are non-participating as per...memoranda to all DOT employees of November 8, 1988 and ...April 4, 1991 reaffirming this.

****

Bureau of Finance and Administration

Highway Planning and Construction
CFDA #20.205

Questioned Costs:

None

(125) Finding: External audit findings not resolved

Of the twenty-five project files tested three included audits by the MDOT Audit Division external auditors. All were audits of third party overhead charges and none had been resolved. MDOT had not resolved two and the Federal Highway Administration had not resolved a regional problem that may have resulted in excess charges.

Government Auditing Standards states that due professional care "...includes follow-up of known findings and recommendations from previous audits...." MDOT does not have a system or procedures for following up on audit findings. Consequently it does not, in cases of excess charges, promptly bill the vendor or credit the federal government.

Recommendation:

In order to receive timely reimbursement from vendors for excess charges, to have current accounting for project expenditures, and to promptly credit the federal government for charges in excess of those agreed to or, in case of overhead charges, those determined by a federal schedule, we recommend MDOT establish and follow internal procedures for audit resolution.

Auditee Response:

The Department has written procedures, Administrating Policy Memorandum No. 182, Disposition of audit Reports. Additional steps have been adopted and responsibility defined since the audit to assure that there are no recurrences and that all audits are followed through to resolution.

****

Bureau of Project Development - Right of Way Division

Highway Planning and Construction
CFDA #20.205

Questioned Costs:

None

(126) Finding: Documenting federal participation in land sales

The Code of Federal Regulations, 23 CFR, §713.307 requires crediting federal funds in the same ratio as used for acquiring right of way. The Right of Way Division maintains all data to determine federal participation and the ratio of participation. ROW informs the Federal Highway Administrator(FHWA) of any pending land sales through a memorandum which identifies documents used to determine participation. When land is sold ROW advises the MDOT Finance Division of federal participation but provides neither the support data nor the participation ratio. In addition, ROW does not have an updated procedural manual for use as a guide in assessing federal participation or determining ratios. It recently installed a computerized inventory of land purchased but maintains no inventory of land previously purchased.

Recommendation:

We recommend the ROW Division determine federal participation and the ratio of participation of all land sales; that at the completion of a sale it provide the Finance Division with a copy of the memorandum previously sent to FHWA along with the ratio of federal participation. In order to consistently and accurately document land sales we recommend ROW update its procedural manual regarding acquisition and disposal of real property and use the computerized inventory to record funding sources and participation percentages.

Auditee Response:

The Right of Way Division does determine if...property was purchased with Federal Funds.... (but) does not agree...that they provide Finance & Administration with the ratio of Federal participation. This is presently determined by the Federal Billing Section of Finance & Administration and

FHWA.

The Right of Way Division will provide the Bureau of Finance & Administration with a copy of the memorandum sent to FHWA.

The Right of Way Manual is currently being updated and will include the additional step of forwarding a copy of the memo to FHWA to Finance & Administration.

When the Right of Way Division acquires a parcel of land, that parcel becomes an integral piece of the Highway Right of Way and they do not consider it to be a separate parcel at that time. To maintain an Inventory of these parcels would be cumbersome and would require additional staffing. Individual parcels are identified on the R/W drawings and are retained forever.

Whenever a parcel of land is deemed to be excess property it is then added to our excess property inventory.

****

State of Maine
Status of Unresolved Significant or Material Findings and Recommendations For the Years Ended Prior to June 30, 1990

Significant or material findings and recommendations which have not received corrective action are restated as referenced below. Other significant or material findings and recommendations have either been resolved or are no longer applicable in the current year.

Agency/Finding	Report Reference 1989	1990
Department of Administration - Bureau of Public Improvements		
Incomplete General Fixed Assets Account Group records	D-5	55
Department of Educational and Cultural Services		
Educational loans receivable	D-6	55
Department of Environmental Protection		
Administration of bond proceeds	D-9	175
Executive Department - Division of Community Services		
Subrecipient monitoring	E-4	73
Department of Finance - Bureau of Accounts and Control		
Lack of sufficient current policies and procedures	D-2	52
Wire transfers incorrectly recorded as accounts payable	D-11	57
Inadequate accounting for interfund transactions	D-11	179
Incorrect use of prepaid expense account	D-12	56

Agency/Finding	Report Reference 1989	1990
Department of Finance - Bureau of Accounts and Control (cont'd.)		
Deferred Compensation Plan not recorded on the Controller's official records	D-13	57
Department of Human Services		
Subrecipient audits	E-4	73
Department of Labor		
Inadequate detail records to substantiate Unemployment Trust Fund accounts receivable	D-14	62
Subrecipient audits	E-4	73
Maine State Retirement System - Group Life Insurance Program		
Verification of premiums received	D-18	63
Internal control procedures for claim payments	D-18	211
Liability for anticipated claims	D-20	62
Maine State Retirement System		
Pending transactions incorrectly recorded	D-21	64
Documentation of internal control inadequate	D-22	65
Accrued interest and dividend income not recorded	D-24	66
Accrual of refunds	D-24	67
Accrual of contributions	D-25	67

Agency/Finding	Report Reference 1989	1990
Department of Mental Health and Mental Retardation - Augusta Mental Health Institute		
Billings for patient care and treatment not up-to-date	G-3	203
Department of Mental Health and Mental Retardation		
Subrecipient audits	E-4	73
Department of Transportation - Bureau of Aeronautics Ferry Service Ports and Marine		
Operating transfers from General Fund not properly recorded	D-25	68

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MANAGEMENT LETTER

STATE OF MAINE
DEPARTMENT OF AUDIT
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Area Code 207
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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 for the year ended June 30, 1990, 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 attachment that accompanies this letter summarizes our comments and suggestions regarding those matters. We previously reported on the State's internal control structure in our report dated May 15, 1991. A separate report dated May 15, 1991, contains our report on reportable conditions on the State's internal control structure. This letter does not affect our report dated May 15, 1991, 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
State Auditor

May 15, 1991

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State of Maine
Management Letter Findings and Recommendations
For the Year Ended June 30, 1990

Department of Administration

Bureau of State Employee Health

(127) Finding: Incorrect health benefit payments

According to Title 5, MRSA, §285 employees filling part-time positions should be paid health and dental benefits on a pro rata basis determined by the position's budgeted hours divided by 80. A test of health benefit payments for 33 part-time employees revealed 15 instances where the state paid 100% of the health and/or dental benefit costs as opposed to the pro rata amount. In fiscal year 1990 an estimated $38,744 in excess of that authorized by law was paid for health and dental benefits.

Recommendation:
We recommend that the bureau and the Controller (a) review the MFASIS data; (b) determine the cause of the incorrect health benefit payments for part-time employees; and (c) adjust procedures to ensure that benefits will be paid according to Maine law.

Auditee Response:
The recommendation has been implemented.

****

Bureau of Human Resources

(128) Finding: Lack of statewide policy on time sheet signatures

There is no specific statewide policy stating that employees must sign time sheets or that supervisors must sign them. Both employees' and supervisors' signatures attest to the correct number of hours worked. In addition, supervisors' signatures authorize payments.

Recommendation:
We recommend that the bureau and the Controller ensure correct payment authorizations by requiring both employees and supervisors to sign time sheets, and updating policies in the State of Maine Civil Service Rules and Manual of Financial Procedures.

Auditee Response:
This recommendation has been implemented.

****

Bureau of Human Resources

(129) Finding: Incorrect current hire dates

On October 8, 1989 the Bureau of Human Resources data base was transferred to the MFASIS system. This transfer apparently contributed to an error in which the hire dates for about 500 employees were shown as the same date. An incorrect hire date could affect the determination of an employee's seniority.

Recommendation:
We recommend that the bureau correct the hire dates which were erroneously recorded as October 8, 1989.

Auditee Response:
The records have been corrected.

****

Office of Information Services

(130) Finding: Delinquent accounts receivable (internal billings)

Collection of outstanding accounts receivable (internal billings) of the Telecommunication Internal Service Fund was not properly supervised. Of the $204,362 in receivables that was over 120 days past due as of June 30, 1990, $123,070 or 60% remained delinquent and past due for a period of over one year as of December 31, 1990.

Recommendation:
We recommend that OIS maintain adequate procedures for supervising the collection of all outstanding accounts receivable (internal billings) in a timely manner.

Auditee Response:
Although fiscal constraints with all agencies cause delays in payments to the Division, the OIS Telecommunication Division business office has and will continue to work with agencies to have all outstanding accounts receivable amounts collected.

****

Office of Information Services

(131) Finding: Internal service fund billings incorrectly recorded

Office of Information Services Telecommunication personnel recorded certain April, May and June 1990 Telecommunication charges in the 1991 fiscal year. As a result, 1990 fiscal year Telecommunication Internal Service Fund accounts receivable, revenue and retained earnings were understated and 1991 fiscal year revenues were overstated by $684,744.

Recommendation:
We recommend that OIS accounting personnel record accounts receivable and revenue in the fiscal year in which services are provided.

Auditee Response:
The OIS Telecommunication Division business office has made procedural changes to ensure that accounts receivable and revenue will be reflected in the fiscal year in which services are provided.

****

Office of Information Services

(132) Finding: Incorrect journal entry preparation

One individual prepares and approves journal entries affecting the Telecommunication Division Internal Service Fund. Errors in journal preparation occurred and were not detected.

Recommendation:
We recommend that an individual with a level of authority and responsibility above that of the journal preparer review and approve all journals.

Auditee Response:
The OIS Telecommunication Division business office has instituted procedures to ensure that an individual with a level of authority above that of the journal preparer reviews and approves all journals.

****

Office of Information Services

(133) Finding: Lease-purchase agreements incorrectly accounted for (Prior Year Finding)

The Office of Information Services Telecommunication Division has not correctly accounted for telecommunication

Recommendation:
We recommend that the Office of Information Services use due care when accounting for fund activity and when processing adjusting journal entries in order to properly state the financial position of the Telecommunication

equipment lease-purchase payable agreements. Accounting personnel incorrectly coded interest and principal payments and did not record the full amount of the lease-purchase agreement at the time the obligation was incurred. As a result, the June 30, 1990 Telecommunication Division's recorded Internal Service Fund retained earnings is overstated by $47,537 and the following accounts understated: equipment by $49,330; cost of goods sold by $46,439; and lease-purchase payable by $96,867.

Internal Service Fund.

Auditee Response:

The OIS Telecommunication Division business office will endeavor to use due care when accounting for all fund activity. Adjusting journal entries to properly state the financial position of the Internal Service Fund will be made.

****

Bureau of Public Improvements

(134) Finding: Project files are incomplete (Prior Year Finding)

We examined ten project folders in order to verify that procedures followed complied with the State of Maine Manual of Financial Procedures and the Procedures for Procurement of Professional Architectural and Engineering Services. Of the folders selected for review, fifty percent did not contain sufficient documentation to evidence that requirements had been met.

Recommendation:

We again recommend that the bureau establish procedures which will help assure that pertinent documentary evidence is maintained in project files.

Auditee Response:

Procedures and guidelines for properly documenting construction projects have been established by the Bureau. We will continue to review our project folders to ensure they contain the proper documentation.

****

Bureau of Public Improvements

(135) Finding: Contract does not agree with wording in legislation

Public Laws of 1989, Chapter 501, Part C, §1 appropriated to the Department of Administration, Bureau of Public Improvements "....$800,000 toward the purchase of Oak Grove-Coburn Academy....".

Our review disclosed that the ensuing agreement between the department and the Board of Directors of the academy is a lease-purchase contract.

Under terms of the contract, the $800,000 payment represents rent for a two-year period ending August 31, 1991. No equity interest in the property will accrue to the state unless the purchase option, which will cost an additional $1,300,000, is exercised by the 115th Legislature.

Recommendation:

We recommend that the Department of Administration structure contractual agreements to be in compliance with the wording of the authorizing legislation.

Auditee Response:

We do not agree with the findings and recommendations presented in the audit report. We consulted with the Attorney General on the intent of the legislation P.L. 1989, Chapter 501, Part C §1. The Attorney General advised the Department of Administration that the wording in the aforementioned law provided sufficient authority to enter into a lease purchase agreement with the Board of Directors of the Academy.

****

Bureau of Public Improvements

(136) Finding: Inadequate control over supplies inventory (Prior Year Finding)

The Bureau of Public Improvements maintains an inventory of supplies used for its vehicles and the state office complex.

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

1. The bureau has not taken a physical inventory of supplies in three 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.

Recommendation:

We recommend that the bureau establish 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:

The Department agrees with the findings and recommendations presented in the audit report regarding the control over supplies inventory. The Department will implement the necessary controls to comply with this recommendation.

****

Bureau of Public Improvements

(137) Finding: Capital asset recorded as an expenditure

The bureau recorded the cost of replacing the heating system at the Oak Grove-Coburn Academy as repairs and maintenance. Since the total amount paid, $80,600, represented removal of the old boiler and replacement with a new unit, the cost incurred should have been capitalized in accordance with generally accepted accounting principles.

Additionally, chimney repairs totaling $7,680 have been capitalized. The bureau should have classified this cost as a repair and maintenance expenditure.

Recommendation:

We recommend that BPI strengthen controls to assure that items purchased are classified correctly. We also recommend that BPI prepare and record journal entries to reclassify the transactions referenced to the appropriate General Fixed Assets Account Group category.

Auditee Response:

The Department agrees with this finding and recommendation. A journal entry will be prepared to correct the classification of this expenditure.

****

Bureau of Public Improvements

(138) Finding: Incomplete transaction recorded

BPI capitalized funds expended toward the purchase of the

Recommendation:

We therefore recommend that BPI prepare and record appropriate journal entries.

Oak Grove-Coburn Academy in the General Fixed Assets Account Group (GFAAG). The remainder to be paid in order to complete the purchase is stipulated in an agreement between the state and the academy.

According to the Financial Accounting Standards Board (FASB) statement #13:

1. The agreement represents a capital lease;

2. The purchase option price should be recorded at its present value in the appropriate funds of the state's books of account in addition to cash actually expended.

Auditee Response:
The Department agrees with the findings and recommendations and will prepare the necessary journal entries to comply with FASB #13.

****

Bureau of Purchases

(139) Finding: Non-compliance with the Bureau of Purchases' Operations Manual (Prior Year Finding)

Our review of the commodity contracts file revealed non-compliance with the Bureau of Purchases' Operations Manual: (a) purchase orders in excess of $100,000 were not signed by the State Purchasing Agent; (b) commodity contracts were not always compared with contract releases for prices and specifications; (c) central vendor performance file was not maintained by the commodity buyers.

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

Auditee Response:
We agree with the audit finding as it appears in the Audit Report. The Department has taken the appropriate steps to implement the recommendation proposed by the State Auditor.

****

Bureau of Purchases

(140) Finding: Internal billing not reconciled

The trial balance, by fund, as of June 30, 1990 showed an ending balance for internal billing as $854,648 while the bureau's records showed $890,569 owed to this account, a difference of $35,921.

Recommendation:
We recommend that the bureau reconcile the difference between internal billing and the Controller's records.

Auditee Response:
We agree with the audit finding as it appears in the Audit Report. The Department has taken the appropriate steps to implement the recommendation proposed by the State Auditor.

****

Bureau of Purchases

(141) Finding: Federal surplus property program sustained a loss (Prior Year Finding)

Recommendation:
We recommend that the Department of Administration,

Maine statutes require the Federal Surplus Property Program to be self-sustaining. However, the program had a loss of $55,551 because the service fees charged to recipients of federal surplus property were insufficient to cover the acquisition, warehousing, handling, administrative and delivery costs chargeable to that property.

through the Bureau of Purchases, charge sufficient fees to fully recover the program's operating costs as outlined in the State of Maine Plan of Operation-Surplus Property Program.

Auditee Response:

We agree with the audit finding as it appears in the Audit Report. The Department has taken the appropriate steps to implement the recommendation proposed by the State Auditor.

****

Bureau of Purchases

(142) Finding: Poor internal control environment in accounts receivable (Prior Year Finding)

The accounts receivable and due-from records revealed a poor internal control environment in collections. There was little or no follow up on delinquent accounts which had an approximate total balance of $82,000. In addition, the bureau carried many credit balances totaling approximately $6,000.

Recommendation:

We recommend that the bureau review its collection procedures to determine the reasons for the slow turnover rate and the variances between account receivable records and the confirmations. We also recommend that the bureau provide statements which give user agencies the current and delinquent amounts due.

Auditee Response:

We agree with the audit finding as it appears in the Audit Report. The Department has taken the appropriate steps to implement the recommendations proposed by the State Auditor.

****

Risk Management Division

(143) Finding: Capital equipment records do not reconcile with Controller

The State of Maine Manual of Financial Procedures requires that individual agencies maintain capital equipment detail records that reconcile to the Controller. Risk Management Division capital equipment detail cards totaled $38,352 at June 30, 1990 while the Controllers' records showed $59,126 or a variance of $20,774. The detail records showed no posting since September 30, 1989.

Recommendation:

To adequately safeguard the state's assets we recommend that the division maintain the records on a current basis and that it periodically reconcile the records to the Controller.

Auditee Response:

We agree with the audit finding as it appears in the Audit Report. The Department has taken the appropriate steps to implement the recommendation proposed by the State Auditor.

****

Risk Management Division

(144) Finding: Purchase of capital assets for other agencies

Recommendation:

We recommend that Risk Management forward the

Title 5, MRSA, requires that the Bureaus of Purchases and Public Improvements handle purchases and contracts for state agencies. As a result of other agencies' insurance loss claims the Division of Risk Management has been purchasing replacement items, implementing construction contracts, and purchasing materials and services for other agencies without following the criteria of 5, MRSA. Additionally Governmental Accounting and Financial Reporting Standards (GASB) requires that expenditures made by one fund for the benefit of another should be shown as quasi - external transactions. Consequently the financial statements of the Division of Risk Management have been misstated.

payment for insurance loss to the agency experiencing the loss so that replacement can be processed in accordance with Title 5 and GASB policy.

Auditee Response:

We agree with the audit finding as it appears in the Audit Report. The Department has taken the appropriate steps to implement the recommendation proposed by the State Auditor.

****

Baxter State Park Authority

(145) Finding: Capital equipment records are incomplete

The Baxter State Park Authority has not maintained capital equipment records since the departure of the individual responsible for them.

Recommendation:

We recommend that Baxter State Park Authority reassign responsibility for capital equipment records and that it maintain these records on a current basis.

Auditee Response:

The Authority is in the process of updating its capital equipment records and plans on maintaining the records on a current basis.

****

Baxter State Park Authority

(146) Finding: Checkbook authorized balance not on books of Controller; internal control weakness

The Baxter State Park Authority, in accordance with Title 12, MRSA, §5908, established a checking account which has an authorized maximum balance of $100,000. The park director is the only individual authorized to sign checks. BSPA opened the account using funds transferred directly from a Boston bank trust account. The checking account balance is not recorded on records of the Controller. The account is reimbursed through "dummy bills" processed by the Bureau of Accounts and Control.

Recommendation:

We recommend that the Baxter State Park Authority officially journal the amount received from the trust account as a debit to cash and credit to fund balance. We also recommend that the BSPA strengthen internal controls for the checking account by:

1. Establishing written procedures for using the account;
2. Establishing what expenditures may or may not be charged;
3. Establishing at what level approval is required;
4. Considering a second signature when amounts exceed a certain level and provide two signature spaces on checks.

Auditee Response:

Park officials will take the recommendations under advisement.

Department of Conservation

Department of Conservation

(147) Finding: Internal control weaknesses

We noted the following weaknesses in the department's internal control over its uniform inventory:

1. The department assigns responsibility for the inventory to a storekeeper who also counts the inventory;

2. The department permits the storekeeper who does the physical inventory to adjust the perpetual inventory records without prior approval;

3. Returned uniforms and obsolete items remain in inventory and are stored at the Bolton Hill facility.

Recommendation:

We recommend that the department:

1. Assign an independent individual to perform the physical inventory;

2. Give prior managerial/supervisory approval for any adjustments;

3. Assign an independent individual to adjust the perpetual inventory records;

4. Include in the "Information and Policy Letter Series" a procedure or policy regarding returned uniforms and obsolete items.

Auditee Response:

1. *During the last legislative session, in order to meet the budget reduction goal, a storekeeper position within Administrative Services was eliminated. Some of the duties of the storekeeper position were transferred to the Fire Control Division staff at Bolton Hill. This reduced our ability to perform an independent physical inventory. therefore, due to the limited staff availability to perform inventory functions twice a year the task was assigned to the storekeeper at Bolton Hill. To increase internal control an employee from the Accounting Unit of the Administrative Services will be assigned the responsibility of counting the uniform inventory under the direction of the property officer and/or storekeeper.*

2&3. *The responsibility for counting the physical inventory has been assigned to an employee from the Accounting Unit. If there are any discrepancies an adjustment to the perpetual inventory will be done by the storekeeper after approval by the Property Officer and the Bureau Director or Designee.*

4. *When possible all returned uniforms are kept in inventory and reissued based on the condition of the uniform. If the item is found to be in serviceable condition it is returned to the inventory stock after cleaning. If found to be not in good condition but still usable uniforms are* *retained at the regional headquarters to be used on work projects.*

Obsolete items, that is, items which have been discontinued from the uniform code, are removed from the inventory and sent to regions for work projects. Obsolete items may still be included in the current inventory during the phase-out period.

This has been past practice and now has been documented in the appropriate Instruction and Policy Letter, subject to final approval by the Department management.

****

Geographic Based Information System

(148) <u>Finding</u>: Incorrect procedures used to account for GBIS financial transactions;

The Department of Conservation is incorrectly accounting for GBIS financial transactions. Title 12, MRSA, Chapter 218 requires that GBIS financial transactions be recorded in its Internal Service Fund. Currently, financial transactions are recorded in both the ISF and a General Fund account.

The department made several journal entries in fiscal years 1987, 1989 and 1990 that incorrectly recorded GBIS accounting transactions and resulted in misstated account balances into fiscal year 1990.

The department did not capitalize computer equipment or the software package acquired in January 1990. In addition, it did not take depreciation on the equipment or software.

<u>Recommendation</u>:
We recommend that the department (a) account for GBIS financial transactions in its Internal Service Fund; (b) use due care when preparing and reviewing journal entries; (c) record the acquisition of equipment and software; and depreciate/amortize equipment and software according to the <u>Governmental Accounting and Financial Reporting Standards</u> (GASB) 1400.104 and <u>Financial Accounting Standards Board</u> (FASB) current text Co2.106.

<u>Auditee Response</u>:

1. *The original Geographic Based Information System (GBIS)...charged all of its expenses through its rates...which created very high rates and the revenue still did not cover expenses.*

   A task force was formed...to develop a plan for implementation of the GBIS.... It was the intention of the Task Force that charges to users would not cover all the expenses of the GBIS but would defray some of the operating costs of the system such as some maintenance or costs of end products....

   Section 1755 of 12 MRSA which established the Internal Service Fund (ISF) was recently repealed by the legislature.... In its place is language which allows GBIS to charge users in order to cover some portion of the operating expense.

2. *The Department of Conservation reviewed the 1987 1989 and 1990 incorrect journal entries. Adjustments to close the Due To Other Fund account to the profit and Loss Account corrected*

the journal entries.... in FY 1991. Due care will be taken to review and process journal entries.

3. *Since it was not the intention of the new GBIS program to charge out all expenses, the new computer equipment was not depreciated. The Internal Service Fund that was established for the original GBIS has been repealed by the legislature.*

****

Department of Corrections

Maine Correctional Center

(149) Finding: Incorrect documentation of employee hours worked

The guards at the Maine Correctional Center provide the payroll clerk with a document of hours worked that is not signed by either employees or supervisors. The document also lacks identification as a MCC form.

Recommendation:
We recommend that the department (a) require employees and supervisors to sign the payroll document prior to authorizing payment; and (b) identify the document as a MCC payroll form.

Auditee Response:
The Maine Correctional Center is now documenting its correctional officers' time through the use of a personal computer (PC). A particular supervisor is in charge of the time. He will identify the particular form used as an "MCC payroll form". The time records will be verified and signed by the appropriate shift supervisors and reviewed by the PC operator. At this time, supervisor manpower is not adequate to coordinate the collection of individually signed time slips by line officers. The procedure of having the supervisor only sign the time document is currently working well at Maine State Prison (MSP).

****

Maine State Prison

(150) Finding: Sale of consigned goods (Prior Year Finding)
The financial statements of the Prison Industries Fund do not reflect the sales of the inmates' consigned products.

Recommendation:
We recommend that the Maine State Prison disclose the amount of sales of consigned products in the Prison Industries Fund financial statements.

Auditee Response:
Due to the confusion regarding financial reporting on the MFASIS reporting system, this was not addressed from the prior year audit finding.

****

Maine State Prison

(151) Finding: Financial statement preparation (Prior Year Finding)

The Maine State Prison does not prepare financial statements for the Prison Industries Fund.

Recommendation:
We recommend that the MSP prepare financial statements for the Prison Industries Fund on at least a quarterly basis.

Auditee Response:
The Prison Industries Fund financial statements are currently processed through the MFASIS reporting system. These reports have not reflected accurately the financial status of this account, due to untimely reporting. The Prison has updated its reporting of this account and the financial statements received from MFASIS reporting are accurately reflecting its financial condition.

****

Maine State Prison

(152) Finding: Asset ownership (Prior Year Finding)

The current policy of the Maine State Prison is to reflect fixed asset purchases as expenditures on its Inmate Benefit Fund (IBF) income statement and not as assets on the IBF balance sheet. In addition, the department does not list the assets as property of the state on the fixed asset file listing.

Recommendation:
We recommend that 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.

Auditee Response:
It is anticipated that a policy will be instituted in the near future.

****

Maine State Prison

(153) Finding: Time records (Prior Year Finding)

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

Recommendation:
In order to assure correct records we recommend that the personnel officer make certain that department officials sign employee weekly time records.

Auditee Response:
With the implementation of the automated time attendance system, this deficiency will be corrected and all payrolls will have supervisory approvals as well as employee certification by virtue of a magnetic ID card, which will record each employee's time in/out punches. This system has been under contract for the past year and should be in place by September 30, 1991.

****

Maine State Prison

(154) Finding: Overtime authorization (Prior Year Finding)

We examined twenty-five overtime authorization records submitted for the two-week period ending May 19, 1990. The supervisor did not sign six, or twenty-four percent of the authorizations, nor did the warden approve any.

Recommendation:
We recommend that the department strengthen the internal control of unscheduled overtime authorizations by including firm policies and procedures regarding written authorizations and approvals.

Auditee Response:
With the implementation of the automated time and attendance system, all overtime worked will have prior authorization by the Warden's designee. Employees not authorized will not be paid until an explanation has been received and approved.

****

Maine State Prison

(155) Finding: Fixed assets not completely tagged/listed (Prior Year Finding)

The Maine State Prison did not completely tag or list its fixed assets.

Recommendation:
We recommend that the Maine State Prison tag fixed assets to correlate with asset numbers shown on the fixed assets file listing.

Auditee Response:
At the time of this audit, MSP capital equipment assets were in the process of being re-tagged and reconciled. This will be updated by June 30, 1991. An annual review will be done...and spot checks...will be conducted, as stated in the prior year audit response.

****

Maine State Prison

(156) Finding: Financial statement preparation

The Maine State Prison does not prepare financial statements for the following fiduciary funds:

1. Maine State Prison - Canteen Fund;
2. Minimum Security (Bolduc) Unit - Canteen Fund;
3. Minimum Security (Bolduc) Unit - Inmate Benefit Fund.

Recommendation:
We recommend that the MSP periodically prepare appropriate financial statements for its fiduciary funds.

Auditee Response:
MSP currently prepares monthly and quarterly income statements, as well as a quarterly cash flow and a yearly balance sheet for the MSP Canteen Account. Monthly and Quarterly income statements are prepared for the MSU Canteen Account and a cash flow statement for the MSU/IBF Account. Because of the close relationship between the three accounts, and how the income and expenses relate to one another, this reporting was acceptable in previous years' audits and provided the

information needed to satisfy the financial status of these accounts.

****

Maine State Prison

(157) Finding: Prison Industries account balances do not agree with Controller's records

The following Prison Industries account balances did not agree with the Controller's balances as of June 30, 1990 because the Maine State Prison did not enter financial transactions until after the close of the fiscal year.

	Account	Variance
1.	Other accounts receivable	$49,265.96
2.	Supplies inventory	($181,583.33)
3.	Finished goods inventory	($21,249.37)
4.	Merchandise inventory	($69,129.14)
5.	Sales	$49,265.96
6.	Cost of goods sold	$271,962.84

Recommendation:

We recommend that the MSP communicate all year-end financial activity to the Controller.

Auditee Response:

As of June 17, 1991, deficiencies in reporting of year-end Prison Industries account balances have been brought up-to-date. Understanding of the MFASIS process and additional support have provided MSP with the ability to continue to keep timely reporting of financial activity.

****

Department of Educational and Cultural Services

Education Finance Division

(158) Finding: Transfer of funds not timely

Public Law 1989, chapter 698 transferred the administrative responsibility of student financial assistance services from the Department of Education to an independent state agency, the Finance Authority of Maine. All "...accrued expenditures, assets, liabilities, balances or allocations, transfers, revenues or other available funds in excess of allocations..." associated with these services were to be transferred "...within 30 days of the effective date..." of the pertinent act, which was March 16, 1990.

We noted the following unencumbered balances for the student financial assistance funds on the Controller's records as of June 30, 1990:

1.	Blaine House Scholars Fund	$ 4,247
2.	Osteopathic Loan Fund	$ 2,015
3.	Grant/Loan Scholarship Fund	$23,421

Recommendation:

None

Auditee Response:

No corrective action by the Department is necessary. Although not timely, the required transference was accomplished in the subsequent fiscal year.

In addition, $1,193,593 in the department's two loan insurance administration funds, which are used to monitor Stafford Loan Program funds, were not transferred within the required time frame.

We do not recommend corrective action since the required transference, although not timely, was accomplished in the subsequent fiscal year.

****

Education Finance Division

(159) Finding: General Purpose Aid subsidy payment not made

A review of educational General Purpose Aid subsidy payments revealed that a school administrative unit did not receive its June, 1990 allocation of $155. This error represented .000036% of total program subsidies. Computer monitoring of the LEAs' project funds revealed that monies of one LEA were not available to pay a bill when initially processed. This error, undetected until the next accounting period, was corrected in October 1990.

Recommendation:
We recommend that once a month the agency reconcile its detail subsidy payment records to the Controller's records.

Auditee Response:
Subsidy payment was not paid due to unavailability of project funds, the error not being detected until late July, and failure of the accountant to notify Accounts and Control of final level of approval to pay the bill. The oversight was corrected by the first of October and resolved at that time.

****

Education Finance Division

(160) Finding: Lack of segregation of duties (Prior Year Finding)

Those individuals who receive student loan repayments also maintain the receivable records. During the audit period student loan repayments for the Blaine House Scholars and Post-Graduate Medical Student scholarship programs totaled $78,400 and $525,190 respectively.

We do not recommend corrective action since accounting procedures for the various student loan programs are no longer the responsibility of the Department of Education.

Recommendation:
None

Auditee Response:
No corrective action by the Department is necessary.

****

Education Finance Division

(161) Finding: Reconciliation of loans receivable not current

The department maintains a detailed manual ledger, which

Recommendation:
None

records individual creditors and their loan balances, for the general ledger loan receivable account. This account represents receivables on behalf of the Blaine House Scholars and Post-Graduate Medical Student scholarship programs. As of June 30, 1990 the account variance was approximately $1.6 million. The manual ledger for these receivables has not been reconciled to the State Controller's records since April 1990.

The department should reconcile the detail ledger to the Controller's records on a timely basis.

We do not recommend corrective action since responsibility for administering loans receivable was transferred to an independent state agency as of April 1, 1990.

Auditee Response:

No corrective action by the Department is necessary. All functions relative to loans receivable were transferred to F.A.M.E. as of April 1, 1990.

****

Governor Baxter School for the Deaf

(162) Finding: Unauthorized gifts (Prior Year Finding)

Title 2, MRSA, §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.

Recommendation:

We again recommend that the department ensure proper authorization for all gifts with a value greater than $50. We further recommend that it transfer to the state treasury any monies received as gifts.

Auditee Response:

The Part II budget includes a request for a special revenue account which is the vehicle that would enable us to accept these gifts and utilize them for facility maintenance and improvements. It is important to note that student related clubs, activities, athletics and other events necessitate a vehicle whereby funds can be obtained more quickly than the general fund system allows. In order to provide services in a timely and effective manner that accommodates the needs of hearing-impaired children and adults, a measure of flexibility and ease must be built into our financial system.

****

Governor Baxter School for the Deaf

(163) Finding: Noncompliance with statute

The late Percival P. Baxter bequeathed $100,000 to the Governor Baxter School for the Deaf. The gift had no conditions and was for the sole use of the school. The school placed this money, a certificate of deposit, in a local depository not in the state treasury. In addition, the accumulated interest on the certificate of deposit, that was maintained in a separate bank account was never paid to

Recommendation:

We recommend that GBSD immediately transfer the certificate of deposit and its accumulated interest to the state treasury. We further recommend that it record these monies on the Controller's records.

Auditee Response:

Governor Baxter did indeed leave the noted $100,000 to the Governor Baxter School for the Deaf and the gift was for the treasury.

According to Title 5, MRSA, §131, "Every department and agency of the State, whether located at the Capitol or not, collecting or receiving public money, or money from any source whatsoever, belonging to or for the use of the State, or for the use of any state department or agency, shall pay the same immediately into the State Treasury...."

the sole use of the school with no conditions attached. We have no problem with allowing the $100,000 C.D. to be controlled by the Treasury Department providing there is a vehicle for interest accrued on the C.D. to be distributed to our local trust fund account for use by the facility. There is a similar system set up with separate trust funds where Treasury periodically writes a check for the interest on these funds to our locally controlled student accounts. This allows us to utilize the interest and fulfill the conditions of the will of the funds being used for the "sole" use of the school.

We believe it was the intent of Governor Baxter that the money be used for the school. We have identified a major project to be funded by the interest on this gift. We are in the process of raising funds to build a handicap-accessible playground. Use of the accumulated interest would allow us to begin construction.

****

Governor Baxter School for the Deaf

(164) Finding: Usage fees do not comply with statutes

From July 1, 1989 through January 9, 1991 the Governor Baxter School for the Deaf collected $9,842 in facility and service usage fees from rentals of state owned property or equipment. The school retained these collections in a local fund and did not, in accordance with state law, deposit them to the treasury or establish conference fee accounts.

Title 5, MRSA, §131 requires departments or agencies to pay immediately to the treasury any monies collected or received from any source that belong to the state or are for the state or any department or agency's use. Title 5, MRSA, §1541, subparagraph 12-A states:

> **Conference fee accounts.** To establish subsidiary dedicated accounts for the purpose of receiving and expending reasonable fees for the operation of conferences, workshops and seminars by units of State Government whose established program involves dissemination of information. The fees so collected shall be used only to meet costs related to the event for which they were collected. Personal services expenditures, capital expenditures and transfers to other accounts shall not be permitted from these accounts. At the end of the fiscal year, any

Recommendation:

We recommend that GBSD handle facility and service usage fees according to Title 5, MRSA, §131 and 1541. In addition, we also recommend that it credit these fees to the General Fund in order to reduce the state's share of monies used to support the operations of this institution.

Auditee Response:

The Part II budget includes a request for a special revenue account which is the account that will be used to deposit usage fees. If this special revenue account is established, it will enable us to roll over existing balances as a beginning balance. The auditor has indicated that this should not be a problem. Usage fees collected would be utilized for facility maintenance and improvements.

balance remaining for a given event may carry once; other balances shall lapse to the General Fund undedicated revenue.

****

Governor Baxter School for the Deaf

(165) Finding: Compensation in excess of salary (Prior Year Finding)

The Maine Civil Service Rules, Chapter 11, §2 (D)(1), does not allow compensation in excess of the salary rate for an employee.

As of January, 1991 the school had not taken action on a prior year finding regarding an individual with Workers Compensation benefits in excess of the salary rate. A review of the overpayment resulted in an adjusted amount of $634 due to the state. GBSD initiated corrective action by having the individual sign a promissory note and reimburse the state by February 15, 1992. As of April 29, 1991 only $200 of the balance due had been remitted to the state.

Recommendation:
We recommend that the Governor Baxter School for the Deaf ensure that the terms of the promissory note and the accompanying agreement are met.

Auditee Response:
The terms of the promissory note and terms of the agreement will be met by February 15, 1992.

****

Office of Personnel

(166) Finding: Incorrect documentation of hours worked and payments

An employee was hired on August 29, 1989 but was paid for five hours work on August 28, 1989. The time sheet reported twenty-nine hours of work but payroll records showed payment for thirty-five hours.

Recommendation:
We recommend that the department take due care in establishing dates of hire and reviewing time sheets; and that it expeditiously correct any errors. We further recommend that the department adjust payments to reflect exact hours worked.

Auditee Response:
The employee's hire date was August 28, 1989. Due to an error on the employee's new hire form, the date of hire was recorded incorrectly as August 29, 1989. The employee was also paid for six hours more than appears on the time sheet. Steps will be taken to avoid recurrence of these errors in the future.

****

Bureau of School Management - Division of Higher Education Services

(167) Finding: Pre-signed lender agreements (Prior Year Finding)

Recommendation:
None

Agreements used to guarantee loans between the Maine State Board of Education and eligible lenders were pre-signed by the chairman of the board. No other signature from the Department of Education was required to bind the agreement. This practice defeated the use of the control measure, ie., the board chairman's review and approval of all agreements. It therefore was possible for program personnel to enter into agreements without the board's approval.

As of January 1990 the Finance Authority of Maine, which currently administers the program, began using a new agreement which is no longer pre-signed.

Auditee Response:

No corrective action by the Department is necessary. As of January, 1990, the Finance Authority of Maine, which currently administers the program, began using a new agreement which is no longer presigned.

****

Bureau of School Management - Division of School Nutrition and Food Distribution

(168) Finding: Commodities not recognized (Prior Year Finding)

According to the Code of Federal Regulations, 7 CFR, §250.13 (c) title to donated foods shall pass to distributing agencies when they accept donated foods at the time and place of delivery.
Program personnel do not account for Food Distribution commodities by value. Consequently the state's financial statements do not include recognition of the Food Distribution Program.

Recommendation:

We recommend that the department provide the Controller with year-end commodity values for inclusion in the state's financial reports.

Auditee Response:

The Division of School Nutrition and Food Distribution personnel account for commodities by value on the FNS-155 monthly report as required by Title 7, Code of Federal Regulations, Section 250.16 and 250.17.

The Department will furnish the year end value of commodities to the State Controller in July of each year.

****

Department of Environmental Protection

Bureau of Administration

(169) Finding: Control of court ordered settlements (Prior Year Finding)

We reviewed cashbook entries of installment payments for court ordered settlements and noted payments recorded for two settlements that had not been set up as accounts receivable. One case, a clean up in which the state is still expending resources, was noted in the 1989 audit. The condition still exists. Since there is no control over the total amount expended or the total number of payments

Recommendation:

We recommend that the department revise policies on current agreements and include updated ones on court ordered settlements. These should include procedures to ensure that the settlement details are communicated to the Division of Budget and Finance and that the division set up all court ordered settlements as accounts receivable.

received, we were unable to determine the amount of understatement of accounts receivable for this case. In another case, the court approved an installment payment plan but the details were not communicated to DEP's Division of Budget and Finance. Consequently, at June 30, 1990 accounts receivable was understated by $34,125.

The Department has made significant progress in this area and will continue to improve the existing system. The Director of Procedures and Enforcement, Office of the Commissioner, currently provides for the coordination with the Department of the Attorney General and the DEP Budget and Finance Division and Program bureaus. The Director will seek to establish a formal procedure with the Department of the Attorney General to better support practices now in place.

Two older settlements will be addressed but it may be difficult to make these consistent with current settlements.

****

Bureau of Administration

(170) Finding: Cash management

The department has not issued set procedures for segregating bond proceeds. As a result there are excess cash balances beyond the deadlines established by the Tax Reform Act of 1986. Consequently, the state will have to return a portion of earned income, plus a penalty, to the Internal Revenue Service.

Recommendation:

We recommend that the department develop policies for requesting bond proceeds and train operational staff to observe the strict requirements of the 1986 Tax Reform Act. In order to monitor bond expenditures and avoid arbitrage penalties and interest, the accounting staff must also improve coordination between the program personnel and state treasury.

Auditee Response:

The previous audit and the Treasury Department helped us to improve the management of bond proceeds consistent with Treasury Department fund management and with the Tax Reform Act. The chief accountant and the Director of Administration jointly review requests for funds from program bureaus before forwarding the request to the Treasury Department. Training of administrative and operational staff has been on-going. The current procedures will be formalized in a standard operating procedure.

It should be noted that the arbitrage penalties result from older bond issues during the first years of the Federal Tax Reform Act. Continued training and coordination with the Treasury Department will avoid a recurrence.

****

Bureau of Administration

(171) Finding: Control over approval of emergency expenditures

The department has developed standard operating

Recommendation:

For effective control of resources we recommend that the department direct the bureaus to follow authorized procedures. To ensure that procedures are followed and procedures for emergency requisitions "where immediacy is a paramount concern, and routine procedures inappropriate." During our review of the emergency responses for oil spill clean up we noted that the department does not follow all the required procedures. In addition, we noted a lack of segregation of duties between authorization of clean up, contracting of services, and approval of expenditures. This disregard for procedures and lack of segregation of duties could lead to inappropriate expenditure of state funds.

that all expenditures are reasonable, proper and required for a specific project we also recommend that DEP establish a departmental oversight committee, with membership from all bureaus, to perform a post-review on emergency projects.

Auditee Response:

The Bureau of Administration and the Bureau of Oil and Hazardous Materials Control will provide a periodic post review on emergency projects to assure that appropriate procedures are being adhered to.

The emergency expenditures are critical to preventing further environmental damage and protecting public health and safety. Fast response time often must be the priority where all information isn't available.

****

Bureau of Administration

(172) Finding: No record of authorized signatures

The DEP Division of Budget and Finance has no records showing which program personnel are authorized to approve expenditures for the various bond accounts of the several bureaus.

Recommendation:

To strengthen internal control, we recommend that DEP bureau directors provide the Division of Budget and Finance with a written record of individuals and the accounts for which they are authorized to approve expenditures.

Auditee Response:

The recommendation will be implemented. In most instances, signature approvals will be limited to bureau and division directors after appropriate staff reviews.

****

Bureau of Oil and Hazardous Material Control

(173) Finding: Recording of oil and hazardous waste spills

Title 38, MRSA, Subchapter III establishes the criteria for the department to recover, from parties deemed responsible for the generation or actual spilling of oil and hazardous materials, materials and labor costs expended in a clean up. Although the department has made progress in its internal monitoring of cost recovery it has not booked the amounts receivable in the state accounting records.

We also noted certain weaknesses in its internal control of recoveries:

Recommendation:

We recommend that the department develop and implement written policies to ensure that the Division of Budget and Finance books all recoveries as accounts receivable in the state system, and that each month it reconcile its ledger to the spill log system and the state accounting system. We also recommend that the bureau charge for any labor costs associated with clean up and that it develop a systematic policy to ensure aggressive follow up on unresolved cost recoveries.

Auditee Response:

The department will undertake to develop a standard operating procedure (SOP) that will encompass the broad

1. Although the statutes specifically allows recovery for labor costs, DEP seeks reimbursement only for material costs;

2. The bureau does not reconcile its spill log system to the subsidiary ledger maintained by the Division of Budget and Finance to ensure that all spills are included in the recovery phase;

3. The bureau is responsible for enforcing reimbursements but has no written procedures in place and does not consistently apply enforcement measures; of the $1,022,763 sought for reimbursements $981,903, or 96.01 percent, was more than 90 days old.

spectrum of program activities as well as providing a baseline for accounts receivable. Part of the SOP will address recoverable labor costs assigned to various spills as well as establishing consistent follow-up procedures and reconciliation of records between the Bureau of Oil and Hazardous Materials Control and the Division of Budget and Finance.

In the past year, the Bureau of Oil and Hazardous Materials Control and the Division of Budget and Finance established procedures and received authorizing legislation to provide for consistent recovery efforts, including use of collection agencies where responsible parties don't respond to billings for reimbursement. Past due amounts over $10,000 are referred to the Department of the Attorney General.

Issues of litigation, fiscal condition of the responsible parties, and continued work in progress often make it difficult to adhere to a conventional aging of receivables associated with a purchasing process.

****

Executive Department

Division of Community Services

(174) Finding: Journal entries not recorded promptly (Prior Year Finding)

The payroll section of the State of Maine Division of Community Services Financial Procedures Manual states that "the allocation of salaries and fringe benefits will be done on a monthly basis...to ensure the accuracy of the month end reports as required by the various programs."

The division did not prepare and record payroll allocation journal entries consistently or promptly.

Recommendation:
We recommend that the division comply with its own procedures on the frequency of journal entries, and on the allocation of salaries and fringe benefits.

Auditee Response:
Agency did not respond.

****

Division of Community Services

(175) Finding: Subgrantees' affirmative action plans not submitted

According to the Division of Community Services'

Recommendation:
We recommend that DCS ensure that subgrantees maintain affirmative action plans and that they submit them annually.

Affirmative Action Plan, "...the subgrantee will annually file a copy of its Affirmative Action Plan with the Division." In 1990, only three of the division's sixteen subgrantees submitted affirmative action plans.

Auditee Response:
Agency did not respond.

****

Division of Community Services

(176) Finding: Food inventory understated

A physical inventory of food commodities revealed that for eleven of sixteen items the perpetual inventory records were understated by a total of $2,796.

Recommendation:
We recommend that DCS personnel take more care in recording the receipt and issuance of food commodities. We further recommend that the division periodically reconcile the perpetual inventory records to the physical count.

Auditee Response:
Agency did not respond.

****

Division of Community Services

(177) Finding: No authorization for overtime/travel

Section XI [payroll] subparagraphs 1 through 9 of the Financial Procedures Manual for the State of Maine Division of Community Services requires the division to follow certain procedures when preparing time sheets.

The division prepares and processes employee time and travel sheets without proper authorization. In several instances, the time and travel records did not reflect items such as overtime request authorizations, supervisory approval of overtime requests, authorizations for travel, the number of hours worked daily by an employee, employee signatures, or supervisory approval signatures for hours worked.

Recommendation:
We recommend that DCS adhere to the established procedures for completing and approving time and travel sheets.

Auditee Response:
Agency did not respond.

****

Division of Community Services

(178) Finding: Nonperformance of fuel vendor visits/audits

The Division of Community Services management decided to visit and/or audit 5% of the approximately 560 Low Income Home Energy Assistance Program fuel vendors during program year 1990. However, it visited only 21 vendors, or 3.75%, during that period of time.

Recommendation:
We recommend that DCS visit or audit fuel vendors during each program period according to its management directives.

Auditee Response:
Agency did not repond.

Division of Community Services

(179) Finding: Accounting records of two federal programs not segregated

In fiscal year 1990 the division administered the Emergency Community Services for the Homeless Program. It placed any funds received in an account designated for the Community Services Block Grant. Since these two programs have separate funding sources separate accounts should be established.

Recommendation:
We recommend that DCS establish separate accounts for funds received under the two programs.

Auditee Response:
Agency did not respond.

****

Department of Finance

Bureau of Accounts and Control

(180) Finding: Overpayment to municipalities

Due to coding and calculation errors, General Fund transfers to the municipal revenue sharing account were $10,736 higher than they should have been.

Recommendation:
We recommend that the bureau reconcile and, whenever possible, use computer spreadsheets for recurring mathematical calculations such as municipal revenue sharing. We also recommend that Bureau of Accounts and Control personnel transfer $10,736 from the municipal revenue sharing account to the General Fund account.

Auditee Response:
Agency did not respond.

****

Bureau of Accounts and Control

(181) Finding: Inadequate accounting for inter-fund transactions (Prior Year Finding)

At the end of each fiscal year the Bureau of Accounts and Control 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;

Recommendation:
We recommend the bureau account for due-to and due-from amounts on an accrual basis; the bureau reconcile on a regular basis; and the bureau write off or reclassify balances as appropriate.

Auditee Response:
We agree this should and will be done for GAAP statements in fiscal year 1991.

3. Use of the prepaid expense account to balance inter-fund transactions;

4. Incorrect recording of inter-fund transactions which distorts fund revenues, expenditures and fund balances.

****

Bureau of Accounts and Control

(182) Finding: Working capital advance (Prior Year Finding)

As of June 30, 1990 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 according to Title 8, MRSA, §374, Subsection 1-L which specifies that lottery revenue may be apportioned for repayment of the money appropriated.

The Bureau of 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.

Recommendation:

We recommend that A&C recover the outstanding working capital advance of $335,000 from the next transfer of profits to the General Fund.

Auditee Response:

Lottery requires these funds and we are not aware of any requirement for return. If returned, the amount would reduce current income to the General Fund.

****

Bureau of Accounts and Control

(183) Finding: Earnings on treasurer's cash pool not correctly distributed

The Department of Human Services (DHS) processes monthly Aid to Families with Dependent Children (AFDC) payrolls. AFDC payroll checks are post-dated so DHS may edit them before mailing. AFDC payrolls are initially charged to prepaid expense to generate post-dated checks because of a limitation in the state's accounting system. The accounting system reduces cash in the General Fund on the payroll processing date rather than on the payroll check date. The average daily cash balance in the General Fund is therefore understated on reports used to calculate the amount of earnings on the Treasurer's cash pool distributed to various funds. As a result, the General Fund received $40,901 less than it was entitled during fiscal year 1990. In addition, General Fund cash was understated by $8,562,726 as of June 30, 1990.

Recommendation:

We recommend that the Bureau of Accounts and Control provide the amount and processing date of monthly AFDC payrolls to the Treasurer's office for proper calculation of the Treasurer's cash pool distributions.

Auditee Response:

This practice was implemented prior to receipt of these findings.

Bureau of Accounts and Control

(184) Finding: Inadequate review of journal vouchers

The Bureau of Accounts and Control processed journals which either had no approval signatures or were approved by the person who prepared the journal.

Recommendation:
Good accounting practices are necessary in order to maintain adequate internal control. We therefore recommend that the Bureau of Accounts and Control review all journal vouchers to ensure that each contains correct approval signatures.

Auditee Response:
The Bureau will review procedures and controls in this area and institute changes where required.

****

Bureau of Accounts and Control

(185) Finding: Highway Fund balance incorrectly lapsed (Prior Year Finding)

We reviewed 25 Highway Fund accounts. One account, Misc. Studies Legislature, incorrectly lapsed to unappropriated surplus.

Title 3, MRSA, §162 requires that any appropriation or allocation made for legislative studies will carry forward and be expended only for the purposes for which it had been appropriated/allocated.

Recommendation:
We recommend that the Bureau of Accounts and Control establish a record of statutory non-lapsing accounts; and we recommend that A&C review this record prior to lapsing or carrying forward account balances.

Auditee Response:
Agree. This balance has been restored.

****

Bureau of Accounts and Control

(186) Finding: Incorrect accounting for working capital advance (Prior Year Finding)

In fiscal year 1989 the Bureau of Accounts and Control journaled a $500,000 working capital advance to the special revenue fund of the Department of Environmental Protection. Several incorrect entries were made in fiscal years 1989 and 1990.

1. A&C recorded the set up of the working capital advance as both an asset and liability of the special revenue fund;

2. The bureau recorded the special revenue fund liability as-due to other funds rather than as a working capital advance payable;

Recommendation:
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 accounting records.

Auditee Response:
We find this recommendation is reasonable and will take steps to comply.

3. The bureau recorded 1989 and 1990 scheduled repayments of $25,000 each year as increases to both the asset and liability accounts in the special revenue fund;

4. The bureau over-corrected a coding error decreasing both the asset and liability accounts by $2,000.

At fiscal year-end 1990, the special revenue fund assets were over-stated by $548,000, and the liabilities were over-stated by $98,000.

****

Bureau of Accounts and Control

(187) Finding: Non-compliance with travel expense requirement (Prior Year Finding)

Section 40 of the State of Maine Manual of Financial Procedures provides minimum requirements for official and employee travel expenses. Our review of travel and expense vouchers revealed the following deficiencies:

1. No receipts for meals exceeding $8.00;
2. No receipts for claims exceeding $3.00;
3. Reimbursement when agendas showed meals were provided;
4. Reimbursement for personal items, i.e., liquor;
5. Lack of support documents, i.e., agendas;
6. Reimbursement for lodging in excess of receipt amount;
7. Reimbursement for travel expenses without daily breakdown of mileage;
8. Reimbursement for travel expenses which occurred after a conference closing date.

Recommendation:

We recommend that the Bureau of Accounts and Control make a concerted effort to prevent these conditions from recurring; that it carry out the provisions of §40 of the Manual of Financial Procedures; and that it ensure that all claims submitted are allowable.

Auditee Response:

We agree that these policies should be enforced, and we consistently attempt to do so.

****

Bureau of Accounts and Control

(188) Finding: Inability to reverse payroll checks which were incorrectly prepared

The Maine Financial and Administrative Statewide Information Systems (MFASIS) payroll system is unable to process the reversing of incorrectly prepared payroll checks.

During the period February to June 1990, the payroll system produced about 323 checks which should not have been paid. The checks were not delivered and the net wages were returned to the treasury. Due to the failure of the MFASIS check reversing system, deductions and benefit payments remained unreversed at the end of the 1990 fiscal year.

Recommendation:
We recommend that the bureau make corrections to the MFASIS payroll system in order to expedite automatic reversing of incorrectly produced payroll checks.

Auditee Response:
Problem has been resolved and reconciled.

****

Bureau of Accounts & Control

(189) Finding: Payroll withholding fund accounts not cleared

A balance sheet account in Fund 080 has carried the same $45,017 balance throughout fiscal year 1990. If the liability balance represents a valid payable it should be cleared periodically.

Recommendation:
We recommend that the bureau periodically review balances to ensure that aging liability balances do not recur. We also recommend that the bureau clear the current aged balance.

Auditee Response:
The account belongs to Retirement System. We have discussed this with them and they are working on it.

****

Bureau of Accounts and Control

(190) Finding: No centralized documentation of interagency transactions

Since the implementation of the new statewide accounting system, MFASIS, interagency transactions are processed via internal bills and internal payments. The Bureau of Accounts and Control does not retain copies of these documents. They are available only at the agencies affected by the transactions.

Recommendation:
We recommend that the Bureau of Accounts and Control retain adequate documentation to support receipt and expenditure of all state funds, including those transactions between state agencies.

Auditee Response:
For several years the original documents relating to internal billings and internal payments have been retained by the billing agency. Prior to the implementation of MFASIS, this practice was discussed with the Department of Audit, and it was agreed that the practice would continue to be acceptable provided the billing agency

retained the documentation for seven years. This recommendation appears to be a change in previously agreed upon procedures.

****

Bureau of Accounts and Control

(191) Finding: Expenditures processed without proper documentation

Since the implementation of the new statewide accounting system, MFASIS, in January 1990, individual agencies enter expenditure transaction data directly into the system. Agencies then batch and submit original bills to the Bureau of Accounts and Control. Pre-Audit section personnel review the bills and enter payment approval codes into the system for the corresponding data. Checks are then printed and the original bills microfilmed by the Records section of Accounts and Control.

We examined 100 MFASIS expenditure transactions. We noted one transaction which Pre-Audit approved for payment but which the Records section had not received to microfilm. We examined the missing records log maintained by the Records section for March 1990. We found that payments had been made without the Records section having received the bill for 12 of the 20 entries we examined. Documents may have been misplaced between the two sections or payments may have been approved without Pre-Audit having reviewed the original bill.

Recommendation:

We recommend that the Pre-Audit section of the Bureau of Accounts and Control review all supporting documentation before approving invoices for payment.

Auditee Response:

The Pre-Audit section is required to review all supporting documentation before approving invoices for payment. System security requires Pre-Audit approval prior to payment, and procedures require Pre-Audit personnel to compare electronic information to the original document. We are not aware of any payments made without examination of the supporting documentation. Early in the implementation of the new systems, some documents were not properly indexed in the microfilm retrieval system, however this problem has been fully resolved and all documents approved for payment by Pre-Audit are accounted for in the Records Management section of the Bureau.

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Bureau of Accounts & Control

(192) Finding: Authorized signature forms

The Bureau of Accounts and Control has on file authorized signature forms for all persons who have invoice approval authority. These forms include the individual's name and accounts for which the individual is authorized to approve expenditures. Authorized signature forms of the new statewide accounting system, MFASIS, include many supporting pages. The system is cumbersome and difficult to use.

We examined documents supporting 200 expenditure transactions. We found three invoices with no approval signature; fourteen transactions with no authorized

Recommendation:

We recommend that Pre-Audit section personnel approve for payment only those invoices that are approved by authorized individuals; and that the Bureau of Accounts and Control revise the authorized signature form to permit a more functional system of control.

Auditee Response:

The Pre-Audit personnel have been informed about this finding and will attempt to tighten this control. The Bureau would be pleased to review any recommendations on how a revised Authorized Signature Form might permit a more functional system of control.

signature card on file; and twenty-one where the individual had no approval authority for the account.

****

Bureau of Accounts and Control

(193) Finding: Enforcement of travel policies not consistent

Title 5, MRSA, §1541 (6) provides the Bureau of Accounts and Control with authority to prescribe the forms of receipts, vouchers, bills or claims to be filed with the Department of Finance by any and all departments and agencies. Section 1541(13) provides that the Controller, with the approval of the Commissioner of Finance, may establish policies for travel expense reimbursement. The State of Maine Manual of Financial Procedures §40.11 requires original receipts of certain expenses.

The Bureau of Accounts and Control does not apply this policy of travel and expense vouchers to members of the Legislature or the Judiciary. Their vouchers are processed for payment with only limited review; supporting documentation is not required.

Recommendation:

We recommend that the Bureau of Accounts and Control equitably enforce established policies. If the Controller decides that differing policies are appropriate for individual agencies, we recommend that these policies be documented.

Auditee Response:

The Legislature and Judicial Departments are independent of the Executive Branch. Both the Legislature and the Judicial have elected not to routinely provide supporting documentation. The Pre-Audit section of the Bureau is aware of these decisions made by those branches of State Government.

****

Bureau of Accounts and Control

(194) Finding: MFASIS reports excessive, duplicative and cost inefficient

A review of reports generated by the MFASIS system disclosed the following:

1. Several reports contain substantially the same information in different formats with each minor change causing a new report to be printed;

2. Reports which list vendor information, accounts receivable, etc., use a minimum of one printed page per vendor/debtor regardless of the number of transactions for a particular vendor/debtor;

3. Transaction reports are printed daily and monthly summary reports, which contain the same information, are also printed;

Recommendation:

We recommend a survey of departments and agencies be performed to determine which MFASIS reports are needed. Unnecessary reports could then be excluded from regular production.

We also recommend that Accounts and Control consolidate similar or duplicative reports to reduce production costs and storage requirements at recipient agencies.

Auditee Response:

A survey has been conducted. Programs have been written to produce reports for only those agencies requesting them. The number of report pages produced in May 1991 was 277,320, down approximately 25% from the 368,300 page average during the July 1990 to January 1991 period.

4. Open invoice activity and aging reports include vendors who have had no activity and no open invoices yet each vendor listing requires a minimum of one page;

5. The daily report of unposted payment vouchers is useful for cash management in federal programs and for determining available allotments; however, this could be a "look up" report on computer terminals rather than a printed report;

6. The check register lists payees alphabetically by first and last names but the listing is based on the first initial in the first name; therefore, where the first name is common, e.g., John or Robert, locating a specific check is tedious;

7. Comparison between the Summary Balance Sheet and the Balance Sheet Account Trial Balance for the same date showed different account balances.

Our review also noted a substantial increase in the number of report pages generated. The average number printed between February and June 1990 totaled 246,000 pages per month, and 368,300 pages per month between July 1990 and January 1991, an increase of 122,300 pages per month.

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Bureau of Alcoholic Beverages

(195) Finding: Understatement of revenue (Prior Year Finding)

The Bureau of Alcoholic Beverages did not include sales totaling $79,792 as revenue for fiscal year 1990, as required by the Codification of Governmental Accounting and Financial Reporting Standards (GASB) §1600.106.

Recommendation:

We recommend that BAB recognize sales revenue in the fiscal period when earned and measurable.

Auditee Response:

The bureau agrees with the auditor's recommendation that sales revenue should be recognized in the fiscal period when earned and measurable.

It is the bureau's understanding that as the current state system does not presently provide for accrual accounting; the bureau and Liquor Accounting will make whatever special adjustments are necessary to satisfy the above recommendation.

****

Bureau of Alcoholic Beverages

(196) Finding: Submission of blank checks by agency liquor stores (Prior Year Finding)

Due to its interpretation of Title 5, MRSA, §707, the Bureau of Alcoholic Beverages requires agents to submit endorsed, blank checks with liquor orders. This practice contributes to poor internal control.

Recommendation:
We recommend that Bureau of Alcoholic Beverages cease this practice. It can comply with the law by using escrow accounts or by requiring agents to send a payment that is equal to the amount of the orders.

Auditee Response:
The Bureau agrees with the auditor and has recommended legislation which was heard and approved in this session to establish on agency escrow account system whereby the need for submitting blank checks was discontinued.

****

Bureau of Alcoholic Beverages

(197) Finding: Incorrect inventory valuation/costing method (Prior Year Finding)

The Bureau of Alcoholic Beverages uses a "current cost" method for valuing merchandise inventory and for inventory costing. This practice does not conform with generally accepted accounting principles nor does it comply with Title 28-A, MRSA, §64 which requires that inventory be valued at cost.

Recommendation:
We recommend that Bureau of Alcoholic Beverages record inventory at cost and use an acceptable inventory costing method such as last-in, first-out (LIFO) or first-in, first-out (FIFO).

Auditee Response:
The bureau agrees with the auditor's recommendation. The costing method currently used by Accounts and Control, however, does not permit the use of FIFO or LIFO costing. Due to budget restrictions, we have been unable to change these programs to one(s) which would be more compatible with retail inventory costing.

****

Bureau of Alcoholic Beverages

(198) Finding: Contract for warehousing services (Prior Year Finding)

The Bureau of Alcoholic Beverages uses the Fore River Warehouse without a formal contract approved by the State Purchasing Agent, as required by Title 5, MRSA, §1812.

Recommendation:
We recommend that BAB use the services of Fore River Warehouse through an approved contract with the State Purchasing Agent.

Auditee Response:
The bureau agrees with the auditor's recommendation that an approved contract between the Bureau and Fore River Warehouse should be effected with the State Purchasing Agent. The bureau will pursue the same with the State Purchasing Agent.

****

Office of the Commissioner

(199) Finding: The Community Agency Agreement Register incomplete and inaccurate.

Title 5, MRSA, §1654 outlines the responsibilities of the Commissioner of Finance under the Maine Accounting and Auditing Practices Act (MAAP): "The commissioner shall maintain a register of all grants or contracts administered by the state to community agencies."

Our test of the register revealed that grants were missing and that the dollar amount of numerous grants was inaccurate due to recurring data entry errors.

Section .09 of MAAP rules, effective July 1, 1989, lists information that the register should contain. Data regarding the status of the audit and the state agency responsible for the audit was not included in the Community Agency Agreement Register.

Recommendation:

We recommend that the department complete the grant register, correct all data errors, add the required information on audit status, and add the name of the agency responsible for the audit.

Auditee Response:

We concur that the grant register should contain accurate and current data. One of the top priorities...will be to maintain a current and reliable grant register.

****

Office of the Commissioner

(200) Finding: Maine Uniform Accounting and Auditing Practices Act (MAAP) not effectively administered

Title 5, MRSA, Chapter 148-B established MAAP which sets forth standard accounting practices and uniform criteria for audits of all funds provided by the state and federal governments. Title 5, §1654, A(3) designates the Commissioner of Finance as ultimately responsible for the interim and final administration of MAAP. The Department of Finance has no mechanism for monitoring state agencies regarding their MAAP responsibilities: it has not committed adequate resources to effectively administer MAAP; it has no personnel assigned to implement the act; it has no procedures developed to ensure that audits of community agencies meet MAAP requirements. Consequently, application of MAAP rules is inconsistent or nonexistent.

1. The Finance Department designates various state agencies as lead agencies which are responsible for ensuring that MAAP audit requirements are met; however, lead agency staffing, expertise, and commitment to MAAP vary.

2. Lead agencies have no authority to require other state agencies to participate in

Recommendation:

In order to comply with all MAAP requirements we recommend that the commissioner commit adequate resources to provide oversight of the agencies responsible for coordinating and conducting audits of community agencies.

Auditee Response:

...the Department staff person assigned MAAP oversight resigned December 1990. Since that time the Administrative Services Division has attempted to maintain the program objectives. We are cognizant, however, that available resources have not been adequate to satisfy the total program needs. (We)...intend to dedicate the necessary staff early in the new fiscal year, at which time the necessary funding will be made available.

subrecipient audits. They do not accept responsibility for assuring that expenditures of funds from other agencies comply with state and federal requirements.

3. Lead agencies only consider their own contract amounts when determining the need to audit even though federal and state audit thresholds are based on aggregate funding. This could result in incorrectly excluding a community agency from an audit and therefore not complying with federal or state audit requirements.

4. Contracts from certain state departments are categorically excluded from audit coverage. In most instances, this is because state departments, particularly those without audit staff, have elected not to participate in an audit.

Federal audit agencies rejected audits of community agencies which were performed according to MAAP guidelines that failed to meet federal requirements. Recent revisions (MAAP II) should address the major federal concerns. However, the preceding points still need to be addressed.

****

Lottery Commission

(201) Finding: Working capital advance (Prior Year Finding)

As of June 30, 1990, the Bureau of the Lottery had not paid $335,000 of a $400,000 working capital advance. The advance was received in 1973 under Chapter 570, §3, Public Laws, 1973 and was to be repaid in accordance with 8, MRSA, §374, Subsection 1-L. This statute specifies that lottery revenue may be apportioned for repayment of the money appropriated.

Title 8, MRSA, §374 and 387, which relate to the apportionment of lottery revenues, were interpreted 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, thereby leaving no means by which to repay the working capital advance provided by Chapter 570, §3, P.L. 1973.

Recommendation:

We recommend that the Bureau of Lottery repay the outstanding working capital advance of $335,000 before making the next transfer of profits to the General Fund.

Auditee Response:

Agency did not respond.

Bureau of Taxation

(202) Finding: Inaccurate record of time worked and incorrect pay for overtime

An employee hired on March 27, 1990 was paid from March 26, 1990. The time sheet recorded nine and one-half hours of overtime but the employee payroll report showed payment for seven and one-half hours.

Recommendation:

We recommend that the bureau correct both the applicable Human Resource Profile (HRP) and the procedures for recording and reporting hours worked. We further recommend that the bureau pay the correct overtime to the employee.

Auditee Response:

A corrected Time and Attendance Report was prepared and processed resulting in a correct payment to the employee. However, we do not concur that procedures for reporting and recording hours worked are deficient; rather this was the result of a clerical error.

****

Bureau of Taxation

(203) Finding: No listing of corporate tax receivables

There is no complete listing of corporate tax receivables to support the $47,184 recorded on the state's financial statements. Consequently, we were unable to determine if the corporate tax receivables were fairly stated at their net realizable value.

Recommendation:

Although current computer resources do not provide for the routine printing of a receivables listing, we recommend that the bureau write a program to obtain a listing of debit and credit balances at the end of each fiscal year so that the existence of corporate tax receivables and the probability of collecting them can be independently assessed.

Auditee Response:

While the Bureau does not currently make a routine year-end corporate income tax receivables report it would not be difficult to do. If we can arrange to review the detail you think important we will produce a year-end receivable report for fiscal year 1991.

On May 22, 1991 representatives of the Bureau of Taxation met with a representative from the Department of Audit. They agreed to provide a year-end corporate income tax receivables report for fiscal 1991. The report should be available in July of 1991.

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Bureau of Taxation

(204) Finding: Special Fuel taxes receivables not up to date

The Enforcement Division of the Bureau of Taxation does

Recommendation:

We recommend that Enforcement Division personnel maintain up-to-date records of amounts owed and reconcile receivable balances with the Excise Tax Division.

not have current records documenting Special Fuel tax receivables in collection.

Auditee Response:

At this time, neither the personnel nor computer resources are adequate to maintain up-to-date records of amounts owed and reconcile the receivables balances. We plan to resolve this shortcoming with the implementation of MATS for special fuel tax.

****

Bureau of Taxation

(205) Finding: Noncompliance with statute

The Bureau of Taxation allows distributors of internal combustion engine fuel to file and pay taxes three days past the due date which is specified by Title 36, MRSA, §2906 as "on or before the last day of each month." However, the state consistently accepts payments made in the first three days of the subsequent month as having been made in the current month.

Due to this practice, 1990 recorded revenues exceeded 1990 cash receipts by $2,430,653. Governmental Accounting and Financial Reporting Standards (GASB) 1600.110 states that taxpayer assessed taxes are best recognized when cash is received.

Recommendation:

We recommend that the Bureau of Taxation collect taxes when they are due and record taxpayer assessed revenues when cash is received.

Auditee Response:

In order to avoid the expressed concern, we will include a request to have an amendment included in our housekeeping bill. The amendment would move the required filing date forward from the last day of the month to the 21st day of the month, effective this fall.

****

Bureau of Taxation

(206) Finding: Excise Division taxes not reconciled

The Excise Tax Division has not reconciled taxes since implementation of the new state accounting package (MFASIS) on January 1, 1990.

Recommendation:

We recommend that Excise Tax Division personnel obtain necessary reports and instruction to reconcile excise taxes.

Auditee Response:

All taxes administered by the Excise Tax Section have now been reconciled through April, 1991. We now expect that reconciliations will be maintained on a current basis, given the required staff.

****

Bureau of Taxation

(207) Finding: Segregation of duties

Two clerks in the Business Services Section of the Bureau of Taxation review, batch and total sales tax returns, and prepare cash receipts statements and deposit slips for the

Recommendation:

We recommend that the bureau assign duties so that no one individual has control over assets and the accounting records of those assets.

receipts. They also prepare their own cash slips to verify cash received in the mail.

Auditee Response:

The two clerks referred to handle excise and property tax returns have been notified of a modification in procedure. Each will be responsible for the verification of cash and checks, preparation of deposits and cash receipt statements for those returns screened by the other employee.

****

Bureau of Taxation

(208) Finding: Sales tax debit list

Each month Bureau of Taxation personnel prepare a list of debits to sales tax receivable by batch ("debit list") composed of all sales tax reported due on tax returns. This hand-written list of 25-30 legal size pages requires several days to prepare and is a complete repetition of work done by data processors.

Recommendation:

We recommend that bureau personnel verify sales tax receivable batches by comparisons of totals or other methods short of duplicating work already performed.

Auditee Response:

We agree that the debit list as now prepared should be eliminated. It will be necessary to continue to make a daily tape of the final tax totals from returns in each batch after data entry. This is required for batch balancing purposes. As soon as we are satisfied that the computerized month end sales tax report breaking down the revenue by source (i.e., sales, use, rental, etc.) is provable to the manual listing, the manual listing will be discontinued.

****

Bureau of Taxation

(209) Finding: Sales tax grace period

Business Services Section personnel used the due date of sales tax when batching sales tax returns that were received up to two weeks late. Current state law requires that interest and penalty be assessed if tax returns and/or tax remittances are late. There is no documentation that a grace period has been approved by the State Tax Assessor. Revenue from interest and penalties could be lost; with no documented procedures, a grace period could be inconsistently applied.

Recommendation:

We recommend that the bureau document approval and procedures for implementation of any grace period.

Auditee Response:

We are developing a written policy which will be made clear to bureau staff. A copy will be provided to you.

****

Bureau of Taxation

(210) Finding: Reconciliation of sales tax receivable

The Business Services Section of the Bureau of Taxation

Recommendation:

We recommend that the state's accounting records be adjusted annually to reflect sales taxes receivable that are performs a monthly reconciliation of sales tax receivable subsidiary ledger totals to the Controller's sales tax receivable total. If an unreconciled balance remains, no adjustment is made to the state records to reflect the total of taxpayers' individual accounts.

supported by the bureau's subsidiary ledgers. Taxation should investigate material reconciling amounts before making adjustments.

Auditee Response:

There has been considerable difficulty in reconciling taxes receivable since the installation of MFASIS. This difficulty arose in large part because transaction reports were not segregated by tax type. In February, 1991 a more detailed transaction report was put into production. We are currently utilizing these reports to attempt reconciliation. Once unreconcilable differences are identified, an adjustment to the Controller's records will be requested.

****

Department of Human Services

Office of Alcoholism and Drug Abuse Prevention

(211) Finding: Unrecorded attendance on time sheets

State of Maine Civil Service Rules state, "Each department or division shall maintain an adequate set of employee records for the purpose of recording attendance and leave actions." Ten of eleven time sheets reviewed for three DHS employees in the office did not reflect hours worked.

Recommendation:

We recommend DHS require all employees to record on their time sheets all hours worked and not worked.

Auditee Response:

...OSA is requiring all staff to record on their time sheets, all hours worked and not worked.

****

Bureau of Income Maintenance

(212) Finding: Excessive petty cash balances

The five regional offices maintain petty cash accounts with an average balance of $19,700. Since October, 1989, when the department implemented a system of paying Welfare Employment, Education and Training (WEET) clients directly from the applicable appropriations, the average amount disbursed each month from the petty cash accounts was $800.

Recommendation:

We recommend that the department reduce the regional petty cash balances to a level sufficient to meet emergency needs.

Auditee Response:

These accounts will be used for numerous other types of client-type bills during fiscal year 1991. Therefore, the usage will require the current balances in these accounts.

****

Bureau of Income Maintenance

(213) Finding: Food stamp overpayment recoveries (Prior Year Finding)

The Department of Human Services deposits the state's share of monies recovered from food stamp overpayments in a DHS dedicated revenue account but currently has no legislative authorization to do so. The department uses these monies to support other DHS programs.

Recommendation:
We recommend that the department deposit the account balance, $246,036 as of June 30, 1990, and any additional receipts into the General Fund.

Auditee Response:
L.D. 274 - Chapter 9 transferred these funds to the General Fund.

****

Office of Management and Budget - Division of Audit

(214) Finding: Noncompliance with state requirements for presenting financial statements

Chapter 1 of the Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP), adopted September 17, 1986 and effective for fiscal years subsequent to January 1, 1987, requires subrecipients a) to submit financial statements that detail operations on an agreement by agreement basis; and b) to include a schedule of state/federal financial assistance. Thirteen of twenty-five subrecipient audits which we examined had not met these requirements.

Recommendation:
We recommend that the division accept only those financial statements that meet MAAP requirements for accounting and auditing.

Auditee Response:
We agree with the finding for MAAP I. Effective for MAAP II or Community Agencies fiscal years beginning on or after 7-1-89 this condition has been corrected.

****

Office of the Management and Budget - Division of Audit

(215) Finding: Noncompliance with single audit responsibilities

Title 5, MRSA, §1654 paragraph B states that the lead agency has the responsibility to coordinate and conduct the single audit and to issue the single audit report. Maine Uniform Accounting and Auditing Practices for Community Agencies, promulgated by the Department of Finance on September 17, 1986, defines a single audit as "...one financial and compliance audit of all funds contracted for between the state and community agency, excluding Medicaid." The Department of Human Services Audit Division conducted audits and issued single audit reports which excluded funds received by the subrecipient from other state departments that elected not to participate.

Recommendation:
We recommend that the division either perform single audits as required by Title 5, MRSA, §1654 or make more aggressive attempts to elicit the participation of non-lead agencies. If attempts fail, the division should obtain clarification of its responsibilities from the Commissioner of Finance.

Auditee Response:
...We have been performing audits as required by MAAP. Obtaining an exemption from the Commissioner of Finance for state departments not participating in the single audit process on a case by case basis has not been a requirement. The Commissioner of Finance is...aware of the departments not meeting their MAAP single audit

responsibilities and to our knowledge has had several meetings with the affected departments. MAAP simply guides us to include an explanatory paragraph to qualify and disclose the non-participating departments in the state single audit process.

****

Office of Management and Budget - Division of Audit

(216) Finding: Incomplete data used for subrecipient audits

Title 5, MRSA, §1653 (9) requires that all community agencies recognizing $25,000 in revenue from state and federal sources, excluding Medicaid, must be audited and that the designated lead agency be responsible for the coordination of the audit. For purpose of audit scheduling, the Division of Audit uses an internally generated listing of subrecipients that only reflects grants awarded by DHS. This method does not include revenue received from other state departments. Although no single source may meet the $25,000 audit requirement the aggregate may exceed the statutory threshold. Therefore the division may not audit all subrecipients whose revenue exceeds $25,000 from all state and federal sources.

Recommendation:
We recommend that prior to making scheduling decisions the division obtain complete information regarding the revenue of those subrecipients for which it has lead responsibility.

Auditee Response:
...We plan our audit engagements with the best available DHS grant budgetary data available. Adjustments are made to our annual plan when the community agency financial statements are received. Should the amounts on the schedule of State and Federal Assistance alter the original budgetary plan, we alter our scheduling plans accordingly. It should additionally be noted that we do not have a Department of Finance Grants Register from which to view the community agency in its entirety....

****

Office of Management and Budget - Division of Audit

(217) Finding: Cost settlement status of Medicaid providers not monitored

Procedures are not in place to ensure that records of the status of final cost settlements are adequately maintained. The department has not updated the status of home health providers to reflect final settlements for any period after 1985.

Recommendation:
We recommend that the department implement procedures so that the status report is current and usable for monitoring.

Auditee Response:
The HHC log hasn't been updated because we haven't completed the HHC cost settlements. We will shortly be undertaking the HHC cost settlements at which time we will be updating the HHC log.

****

Office of Management and Budget -Division of Data Processing

(218) Finding: No alternate computer processing plan (Prior Year Finding)

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 intermediary between the Department of Human Services' operations and the state's centralized computers, of which DHS is the largest user. The division maintains computer applications for the administration of departmental operations which includes the client database for the Aid to Families with Dependent Children (AFDC) 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.

Recommendation:
We again recommend that the division coordinate an effort with the Department of Administration's Bureau of Data Processing to develop, implement and test an alternative data processing plan to provide for uninterrupted processing capability.

Auditee Response:
The Bureau of Data Processing is developing a disaster recovery plan, and will be contacting the DHS Division of Data Processing for input. Staff reductions and other economics consideration preclude the development, implementation, and testing of an alternative data processing system at this time.

****

Office of Management and Budget - Division of Data Processing

(219) Finding: No background checks for computer personnel (Prior Year Finding)

Formal background checks are not performed on candidates for positions in the department's Division of Data Processing.

The potential misuse of confidential client information and the risk of the misappropriation of state and federal funds suggests that a formal background check, in addition to an interview, is preferable.

Recommendation:
We again recommend that the Division of Data Processing perform background checks on all new employees and perform rechecks at appropriate intervals.

Auditee Response:
The Department has begun the process of setting up a procedure to do background checks for employees.

****

Office of Management and Budget - Division of Financial Services

(220) Finding: Failure to make indirect cost adjustments

Recommendation:
We recommend that the department make any necessary

In two of its eleven major federal programs the Department of Human Services failed to make indirect cost adjustments to account for the difference between the provisional and final rates for state fiscal year 1988. The programs and amounts which should have been adjusted are as follows:

Program/CFDA #	Amount
Special Supplemental Food Program - Women, Infants, Children CFDA #10.557	$ 1,430
Foster Care - Title IV-E CFDA #13.658	4,509
Total	$ 5,939

adjustments and promptly complete any future adjustments.

Auditee Response:

We agree with the finding.

****

Office of Management and Budget - Division of Financial Services

(221) Finding: Posting of accounts receivable transactions not up-to-date (Prior Year Finding)

The department does not post accounts receivable transactions on a timely basis. The detail ledger was not up-to-date: balances shown at June 30, 1990 were actually as of January 31, 1990.

Recommendation:

For more accurate accounting of receivables, we recommend that DHS post transactions on a timely basis.

Auditee Response:

This was brought up to date in October, 1990 and has been current ever since. The delay in posting was primarily due to MFASIS training.

****

Regional Offices

(222) Finding: Weak internal control over regional checking accounts

Current accounting practice requires an adequate internal control structure. The Department of Human Services regional offices, which have a total authorized checking account cash balance of $98,500, have an inadequate internal control structure. In each of the five regional offices the same individuals write checks, sign checks and reconcile the account.

Recommendation:

We recommend responsibilities for checkbook maintenance, check signing and account reconciliation be adequately segregated.

Auditee Response:

Each region submits a monthly reconciliation report to the Director, Division of Regional Administration.

Also, considering the limited staffing available, the Division of Regional Administration has in place reasonably good internal control over its 5 regional checking accounts.

****

Various Divisions

(223) Finding: Uniform collection procedures not implemented

Prior year audits disclosed that the department had not uniformly implemented follow-up procedures for collecting amounts due the state. The department has not yet finalized or implemented these procedures.

Recommendation:
We recommend that units which administer subrecipient agreements implement collections procedures to ensure timely recouping of disallowed costs.

Auditee Response:
We are in the process of finalizing a process to meet this requirement.

****

Department of Inland Fisheries and Wildlife

(224) Finding: Accounting for use tax

Section 7793D of 12 MRSA requires use tax certificates to be promptly forwarded to the State Tax Assessor. The Department of Inland Fisheries and Wildlife collected use tax and use tax certificates prior to registering watercraft, as required by 12 MRSA C. 715. However, as of mid-September 1990 the department had not reconciled tax certificates to credits made to taxes receivable since May 1990. Certificates were not forwarded to the Bureau of Taxation until reconciliation was completed. The bureau personnel then credited use tax revenue and debited taxes receivable.

In addition, the department was not current in processing receipts: Tax certificates and checks received on July 1, 1990 were being processed in mid-September 1990. Subsequent checks and certificates were stored in boxes.

Due to processing delays at year-end, $228,000 in General Fund revenue from use tax was not recognized in the correct fiscal year; taxes receivable were understated by $130,000; and $98,000 was incorrectly recognized as revenue to the Special Revenue Fund.

Recommendation:
We recommend that the department change its procedures so that the General Fund, rather than the Special Revenue Fund, is initially credited for use tax collected; and that the time taken between receipt of funds and initial recording of receipts, and transfer of documentation to the Bureau of Taxation is minimized.

Auditee Response:
The finding description of last year's handling of the boat use tax money is correct due to a lack of personnel to handle the program.

We have resolved the batching problems and streamlined the program so that we can now submit the corresponding tax forms to Taxation at the same time the journal is forwarded to them.

I believe their recommendation reflects the way we presently handle the money. The use tax is not being held in a Special Revenue Fund as it was last year, but deposited directly into the General Fund, as we are now a General Fund agency.

****

Department of Labor

Office of Administrative Services

(225) Finding: Encumbrances not relieved

Seven voucher payments which we examined required

Recommendation:
We recommend that the Office of Administrative Services monitor voucher payments and properly relieve

encumbrances to be relieved at the time of payment. Three of these had no encumbrances relieved which resulted in an overstatement of the reserve for encumbrances by $20,032.

encumbrances at the time of payment.

Auditee Response:

Procedures are now in effect to relieve encumbrances at the time of payment. Additionally all encumbrance balances are reviewed monthly to ascertain if they are still current.

****

Office of Administrative Services

(226) Finding: Bank account reconciling items not promptly cleared

Several reconciling items were outstanding for more than two months on the unemployment benefit, clearing, and trust fund account reconciliations. In addition, the office made a $150,000 electronic fund transfer from the U.S. Treasury to a depository bank on June 17, 1990. It did not record the transfer on the Controller's records until September 20, 1990.

Recommendation:

We recommend that MDOL investigate and promptly resolve any outstanding reconciling items on the unemployment benefit, clearing, and trust account reconciliations. We further recommend the MDOL record electronic fund transfers on the Controller's records on the date of deposit at the bank.

Auditee Response:

Procedures have been established that require reconciliation be completed within thirty (30) days after the end of the month. Reconciling items are to be reviewed and necessary adjustments will be processed prior to close of the next reporting period.

The electronic fund transfer in question was not posted timely because the credit advice from the bank was missing. The State's accounting system would not accept an entry for cash receipts until a copy of the credit advice was attached and forwarded to Treasury. New procedures have been established whereby cash receipts statements are prepared and entered into the accounting system (MFASIS) the same day the electronic fund transfer is requested. The statements are then forwarded to Treasury for approval (i.e. State Treasury is on line with the Bank's accounting system and can verify revenue received) and then entered in the State's accounting system.

****

Bureau of Employment Security

(227) Finding: Inadequate record of employer's surety deposits (Prior Year Finding)

The Commissioner of MDOL may require surety deposits if employers elect the direct reimbursement method of providing unemployment benefits in lieu of payment of the

Recommendation:

We recommend that MDOL monitor the amount of sureties that direct reimbursement employers are required to file; and that it periodically reconcile its records to the physical inventory at treasury.

unemployment compensation payroll tax. MDOL does not have procedures to monitor and reconcile the amount of sureties to the physical inventory of surety deposits held for safekeeping in the Office of the Treasurer.

Auditee Response:

MDOL cannot currently execute the above recommendation, however, we are currently rewriting our unemployment insurance taxation automated system which will include the ability to monitor the amount of sureties that direct reimbursement employers are required to file. The entire automation provision should be completed within 18 months.

****

Bureau of Employment Security -Division of Unemployment Compensation

(228) Finding: Missing documentation

Of the twenty-five claims for unemployment compensation we tested, one was not supported with an application or weekly claim card.

Recommendation:

We recommend that the Unemployment Compensation offices retain all documents that support claims for unemployment benefits and weekly benefit checks.

Auditee Response:

Administrative procedures require that support documentation for unemployment benefits be maintained at the unemployment compensation local offices with the following two (2) exceptions: a) the matter is under appeal, and b) the claimants records are being transferred to another local office.

The Unemployment Compensation Division concurs with the stated recommendation. Internal controls will be reviewed to ensure that the appropriation documentation supports each claim for unemployment benefits in accordance with established procedures.

****

Maine Potato Board

(229) Finding: Funds not deposited with treasury

Title 5, MRSA, Section 131 requires that every department and agency that collects or receives money from any source that belongs to the state, for the use of the state or state departments shall pay the same immediately into the treasury.

The MPB personnel maintain accounting records and process transactions through six locally handled bank accounts. These funds belong to or are used for the MPB. Prior to the 1990 fiscal year, MPB used these accounts for depositing both federal and state funds.

Maine Potato Board (cont.)

At June 30, 1990 the balances for MPB bank accounts were:

Account Type	Bank	Balance 6/30/90
Demand deposit accounts		
Maine Potato Export Board	Key Bank	$ 4,495
Special Project Committee of the Maine Potato Commission*	Casco Northern	2,401
Savings account		
Special Project Committee of the Maine Potato Commission*	Casco Northern	4,366
Certificate of deposit		
Maine Potato Export Board	Key Bank	7,687
Special Project Committee of the Maine Potato Commission	Casco Northern	14,014

*Note: The demand deposit account and the savings account for the Special Project Committee of the Maine Potato Commission were closed out on July 2, 1990; the funds were transferred to a certificate of deposit under a new name, MPB - Special Project Committee.

At the time of its inception the MPB assumed the functions of the Maine Potato Council. It uses a demand deposit account with Casco Northern Bank, in the name of the Maine Potato Council, for the Maine Potato News publication. The balance at June 29, 1990 was $2,788.

Recommendation:

To properly account for state funds, we recommend that MPB (a) determine the source of funds in these accounts; (b) deposit funds belonging to the state with the treasury; and (c) transfer unexpended federal funds to the proper appropriation account. In addition, MPB should return to the federal government any federal funds not needed to meet current requirements.

Auditee Response:

We have two individual organizations that are not part of the Maine Potato Board - Maine Potato Export Board, Inc., and the Special Project Committee of the Maine Potato Commission.

The MPEB is a nonprofit corporation, registered with the state...and these funds are to remain as a separate identity to maintain the original intent of the Export Board in *development of potato export promotions.*

...The Special Project Committee of the Maine Potato Commission funds should remain as a separate identity as these are federal funds and not state funds....

****

(230) Finding: Grantee contract agreements not executed

Of twenty-five vouchers that we examined, four for payment of state funds to grantee agencies had no contractual agreements with subrecipients receiving state funds.

Recommendation:
To provide for contractual relationships between MPB and grantee agencies receiving state funds, we recommend that MPB execute contractual grant agreements with all grantees.

Auditee Response:
The Board has initiated a process whereby a form is utilized for all research funding requests. Once the Maine Potato Board has approved the request, an addendum will be included, negotiated by both parties, to define agreed upon expenditures of funds.

****

Department of Mental Health and Mental Retardation

Elizabeth Levinson and Pineland Centers

(231) Finding: Incorrect documentation of employees hours worked

Employees at the Elizabeth Levinson Center use a sign-up sheet to document their hours worked but neither they nor their supervisors sign it. In addition, the sheet is not identified as an Elizabeth Levinson Center document. A sample time sheet of the Pineland Center was not signed by an employee's supervisor nor identified as a Pineland Center document.

Recommendation:
We recommend that the department (a) require employees and their supervisors to sign the time sheets; and (b) identify the time sheets as a payroll form of the Elizabeth Levinson and Pineland Centers.

Auditee Response:
On September 30, 1990 management at the Elizabeth Levinson Center (ELC) developed and implemented a new sign-in sheet for employees that does include each employee's signature and the respective supervisor. This form is completed on a daily basis. Inadvertently, the sheet was not identified as an ELC document, but since this finding was made known forms have been altered to clearly identify them as being ELC documents.

At Pineland, management has, for years, been utilizing two separate forms for keeping track of employees' time and attendance. The document currently in use for all areas except residential services does not list "time in/time out" for each employee and merely reflects hours worked and/or benefit hours used. It is Pineland's intention to discontinue the use of this form effective March 23, 1991. In its place

Pineland will institute for all employees the form that is currently in use for residential services. They have taken steps to add the heading "Pineland Center Payroll Form A" and will implement its use throughout the facility, effective March 24, 1991.

****

Division of Reimbursement

(232) Finding: Inadequate internal control for accounts receivable

The Department of Mental Health and Mental Retardation does not have adequate internal control for procedures it uses to record accounts receivables. As a result, certain insufficiences occurred in collections and adjustments which affected the accounts recevable balance:

1. Medicare receivables were not included;
2. Ancillary charges were not included;
3. Receivables were collected twice;
4. Uncollectible receivables were included.

These insufficiencies were directly related to MHMR not adequately establishing and following procedures for preparing accounts receivable records and invoices; not billing promptly; and not monitoring or following up on outstanding amounts due.

Recommendation:
We recommend that the department establish and follow internal control procedures for promptly recording, billing, monitoring and collecting receivables.

Auditee Response:
We agree.

****

Bureau of Mental Health

(233) Finding: Inadequate monitoring of providers (Prior Year Finding)

The Department of Mental Health and Mental Retardation does not monitor the providers of mental health services each year. Licenses are granted for up to two years and monitoring occurs when the term of the provider's license expires.

Title 34-B, MRSA, §1203-A (5) states, "Regardless of the term of the license, the commissioner shall monitor the licensee, at least once a year, for continued compliance with applicable laws and rules."

Recommendation:
We recommend that the department monitor agencies annually regardless of the term of the license.

Auditee Response:
We agree.

****

Bureau of Mental Health

(234) Finding: Missing Documentation

Standard provider contracts require providers to submit quarterly financial and narrative reports to the department so that it can monitor provider activity.

We requested sixty-three quarterly reports. Two could not be located.

Recommendation:

We recommend that the department retain quarterly reports.

Auditee Response:

We agree.

****

Bureau of Mental Retardation

(235) Finding: Lack of statewide procedures for fund accounts.

1. All regions: there is no supervisory review of monthly bank reconciliations; pre-numbered receipts are not issued for incoming funds that are to be deposited to the Representative Payee Fund accounts.

2. Region 3: the office established a special cash fund for a client without preparing proper records and documents.

3. Region 4: the office used the petty cash fund for unauthorized disbursements by making loans to four Representative Payee Fund clients over a four month period.

4. Regions 3, 4, 5 & 6: four offices have weak controls for securing deposits and safeguarding unused check stocks.

Recommendation:

We recommend that the department establish written procedures for handling Representative Payee Fund receipts and maintaining the accounting records. In addition, the department should monitor the accounting functions relating to the Representative Payee Fund to ensure that each regional office complies with the written procedures.

Auditee Response:

The Bureau of Mental Retardation is in the process of developing a formal policy for the handling of Representative Payee Funds. We are confident that this policy will be developed within the next few months. An Ad Hoc committee which will include representation from our central division of accounting as well as audit will be responsible to make sure that a policy is implemented. further, all regional offices will be briefed on its content and an internal monitoring system will be established to assure compliance.

Many of the specific conditions noted above have been corrected while some are in the process of being resolved. We believe that the integrity of all of our accounts is intact with the management of those accounts being enhanced significantly once written policies are in place.

****

Bureau of Mental Retardation

(236) Finding: Uninsured deposits

The Code of Federal Regulations, 12 CFR, §330 defines the regulations regarding deposit insurance coverage by the

Recommendation:

We recommend that the department submit the required forms to the bank so that the name "custodial account" will be on each of the district offices' bank accounts. This

Federal Deposit Insurance Corporation (FDIC).

The deposits of six Representative Payee Fund bank accounts exceeded the maximum FDIC insurance coverage which is $100,000 for each account. At June 30, 1990 the regional offices with account balances over $100,000 were:

District I	$ 121,960
District II	201,882
District III	254,520
District IV	147,602
District V	189,104
District VI	118,808
Total	$1,033,876

change should provide depository insurance coverage on each owner's fractional share of the total commingled funds.

Auditee Response:

The Bureau of Mental Retardation Director and his staff have over the past six months or so made arrangements to establish "custodial accounts" in order to assure depository insurance coverage for each client. Such accounts were established with Key Bank and records are on file to verify the authenticity of this change.

Department of Public Safety

(237) Finding: Missing documentation for petty cash account transactions

The auditor could not locate either employee request documents for eight of twenty-five sampled checks written from the Public Safety Petty Cash Account or receipts to document expenditures made from an $850 employee cash advance.

Recommendation:

In order to support expenditures, we recommend that the department require all individuals receiving disbursements from the petty cash account to submit request documents and obtain receipts. We also recommend that the department improve its recordkeeping in order to document retrieval and provide a reliable audit trail.

Auditee Response:

The Finance Office of the Administrative Services Division has implemented procedures to satisfy the above recommendation.

****

Department of Public Safety

(238) Finding: Inadequate controls over garage inventory

The Department of Public Safety maintains an inventory of garage supplies used for its vehicles. We noted the following internal control deficiencies:

1. The department does not take a complete physical inventory of its garage supplies each year;

2. The department does not perform periodic inventories of selected items which should compare actual count to kardex card balances;

Recommendation:

We recommend that the department establish internal controls over the garage supplies inventory to prevent possible misappropriation of assets.

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

Auditee Response:

The Department has forwarded the audit finding pertaining to this program area to the appropriate supervisor for action and to the Management Information Unit for possible inclusion in the Departmental Computerization Upgrade Project.

3. The department does not maintain costs records so it can readily determine year-end valuation of supplies.

****

Department of Public Safety

(239) Finding: Inadequate controls over clothing inventory

The Department of Public Safety maintains an inventory of clothing and related supplies that are issued to the Bureau of State Police. We noted the following internal control deficiencies:

1. The department takes periodic inventories and an annual physical inventory of clothing supplies; however, it does not retain a record of the annual inventory and the kardex records do not reflect periodic inventories of selected items;

2. The department does not maintain cost records so that it can readily determine year-end valuation of supplies.

Recommendation:

We recommend that the Department of Public Safety personnel:

1. Include the date of periodic inventories of selected items on the inventory cards;

2. Retain a record of the annual inventory and have management approve any adjustments;

3. Establish a costing system that will provide an inventory value at year-end.

Auditee Response:

The Department has forwarded the audit finding pertaining to program area to the appropriate supervisor for action and to the Management Information Unit for possible inclusion in the Department Computerization Upgrade Project.

****

Department of Public Safety

(240) Finding: Inadequate controls over gasoline

The Department of Public Safety currently has six locations in Maine where gasoline can be pumped. Our review of the department's system to monitor gasoline pumping at the Augusta facility revealed the following deficiencies:

1. The present gauge reading shows an accumulation of gallons over the years;

2. The gasoline tank does not have a sensor device that indicates the number of gallons on hand;

3. The personnel do not use the measuring rule, which is available to measure the quantity on hand, prior to delivery or at any time during the month;

Recommendation:

We recommend that the department take steps to strengthen internal controls so that it can correctly monitor its gasoline inventory.

Auditee Response:

The Department recognizes this problem area and has determined that with the replacement of the gasoline tank that automated systems be installed that can address the recommendations as a necessity.

4. The personnel do not always enter a beginning reading each time gas is pumped;

5. The department's current practice when recording the number of gallons pumped is to either round-down if less than half a gallon, or round-up if more.

****

Department of Public Safety

(241) Finding: Capital equipment inventory records not maintained

Title 5, MRSA, §1742 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 capital equipment inventory records on a current basis. The last time it undertook a complete physical inventory was in 1976. It did not complete the capital equipment reconciliation form or the quarterly equipment reports for the 1989 or 1990 fiscal years.

Recommendation:

We recommend that the Department of Public Safety personnel:

1. Enter all capital equipment transactions to the inventory records for the 1989 and 1990 fiscal years;

2. Perform a complete physical inventory of all capital equipment;

3. Reconcile the physical inventory to the detail equipment cards;

4. Reconcile the detail equipment records to the control cards;

5. Submit the quarterly equipment reports and the capital equipment reconciliation (Form CPA 17) to BPI.

We further recommend that the department maintain all equipment records on a current basis.

Auditee Response:

The Finance Office is presently working on bringing these reports and records up to date. The department also has attempted, periodically, to conduct physical inventories but has been hampered by lack of staff. Our conclusion is that this goal cannot be achieved without full computerization of the inventory. This recommendation will be forwarded to the Management and Information Unit to be included in the Departmental Computerization Program.

****

Division of Motor Vehicles

(242) Finding: Accounts receivable reconciliations not prepared

The division did not prepare accounts receivable reconciliations for motor vehicle driving records and protested checks on a monthly basis. The Division of Motor Vehicles records were not in agreement with the Controller's as of June 30, 1990.

Recommendation:
We recommend that the Division of Motor Vehicles take adequate steps to insure control and that reconciliations occur on a monthly basis in conformity with generally accepted accounting principles.

Auditee Response:
Improved methods of monthly reconciliation of accounts receivable accounts to Controllers records are being implemented. We are in conformity with generally accepted accounting principles.

****

Division of Motor Vehicles

(243) Finding: Regional fuel tax agreement fund transfers not timely (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."

Vermont, New Hampshire and Maine share revenue from the issuance of decals for fuel use identification. Vermont and New Hampshire transferred a total of $328,860 to Maine, of which $310,000 was from 60 to 120 days late. Maine transferred $1,323,000 to Vermont and New Hampshire of which, $1,089,000 was up to 60 days late.

Recommendation:
We again 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:
We are working with RFTA members to cause the timely transfer of funds on a monthly basis pursuant to Article 8.5 of the Regional Fuel Tax Agreement.

****

Division of Motor Vehicles

(244) Finding: Insufficient internal control of registrations issued by agents (Prior Year Finding)

Control procedures are insufficient to ensure that all registrations issued by municipal agents are reported to the Division of Motor Vehicle. There is no reconciliation of the number of registrations assigned/distributed to agents versus the number of registrations actually issued by the agents.

Recommendation:
We recommend that the division periodically reconcile the total number of motor vehicle registrations reported by the municipal agents as issued to the total number of registrations originally distributed to the municipal agents; or that it implement some other verifiable means of accountability, such as machine validation, to correctly account for these registrations.

Auditee Response:
The level of control expected by the Department of Audit cannot be accomplished within the capabilities of the

current manual system. The resolution of funding problems and future computerization will enable us to reach an acceptable accountability level.

****

Division of Motor Vehicles

(245) Finding: Revenue not recorded on a timely basis

During the testing of revenue (fuel use decal), we noted one instance in which a delay of eight days occurred between the validation date on the cash machine tape and the date of the bank deposit and the income statement.

Recommendation:
We recommend that the Division of Motor Vehicles review the cash-up procedures for the Commercial Vehicle Center to ensure that bank deposits are made and that revenue is recorded on a timely basis on the Controller's records.

Auditee Response:
Procedures have been strengthened at the Commercial Vehicle Center to ensure timely bank deposits and daily record keeping.

****

Maine State Retirement System

(246) Finding: Trade accounts receivable (Prior Year Finding)

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.

Recommendation:
We recommend that MSRS 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 fiscal year-end are about $350,000. Any credit balances are minor and reflected in subsequent billings.

One instance of a long-term receivable (ME-NH Bridge Authority) is expected to be successfully discharged over the next years. This item is about ninety percent of the total receivable dollars at June 30, 1990.

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 we contend it is not meaningful to create a receivables net amount, consistent with FASB 5. Retirement plans to continue our *past practice of periodic review and adjustment for uncollectible accounts.*

****

Maine State Retirement System

(247) Finding: Capital equipment inventory not current (Prior Year Finding)

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.

Recommendation:
We recommend that the MSRS update the inventory of capital equipment and prepare adjustments to 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 work station locations and tag identification, and are available for inspection.

A complete accompanying schedule of useful life and depreciation does not exist. Retirement has taken steps to institute a computer-based depreciation schedule and asset management system. We will continue our efforts in this regard.

****

Maine State Retirement System

(248) Finding: Understatement of federal taxes withheld

Due to an error in recording an adjusting entry, MSRS understated the liability for withheld taxes on federal reporting forms.

Recommendation:
We recommend that MSRS establish supervisory review procedures to ensure that the tax liability amounts reported are accurate.

Auditee Response:
The Retirement System does not complete Federal tax reporting forms as the finding would suggest. The error in question concerned a journal entry prepared for the State Controller's office. We consider the incident to be isolated and feel our review procedures are adequate as they relate to reporting financial information.

****

Group Life Insurance Program

(249) Finding: Verification of premiums received (Prior Year Finding)

Recommendation:
We recommend that the Group Life Insurance Program

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

verify the premiums received and revise the reporting format.

Auditee Response:

For the audit period, little was done to verify the appropriateness of the level 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 being planned and implementation is scheduled for fiscal year 1992. These changes should impact favorably on the point in question.

****

Group Life Insurance Program

(250) Finding: Accrual for life insurance premiums (Prior Year Finding)

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, 1990 financial statements.

The Governmental Accounting and Financial Reporting Standards (GASB) §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.

Recommendation:

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 (et al) 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 1992. Doing so would firmly establish the liability of insurance coverage and further allow an accurate recognition of accrued premiums as a receivable.

****

Department of Transportation

Bureau of Finance and Administration

(251) Finding: Cash receipt not transferred from suspense account

The Maine Department of Transportation held a $40,000 good faith deposit in a suspense account from January 1988 until it was noted in our audit in March 1991. MDOT should have recorded the deposit as revenue in July 1989 when the land sale was concluded. The Right of Way Division had directed the Finance Division to credit the appropriate account but the directive was not followed through. Consequently, Highway Fund 1990 fiscal year revenues were understated and liabilities overstated by $40,000.

Recommendation:
We recommend that the Finance Division at least annually review and transfer monies as appropriate from the suspense account.

Auditee Response:
We agree with this recommendation. In fact, a detail of the suspense account is prepared as of the end of each fiscal year. Errors such as this finding should be caught at that time....

****

Bureau of Maintenance and Operations - Motor Transport Service (MTS)

(252) Finding: Inadequate documentation for petty cash account transactions

There is an inadequate audit trail for transactions affecting the petty cash account and no assurance that all transactions are correct. Due to a lack of documentation we could not reconcile the account with the Controller's general ledger.

Recommendation:
In order to leave a clear audit trail we recommend that MTS fully document all receipts and disbursements affecting the petty cash account.

Auditee Response:
New procedures have been implemented and petty cash reconciles with the controller on a monthly basis. The new procedures were finalized and implemented in October 1990.

****

Bureau of Maintenance and Operations - Motor Transport Service (MTS)

(253) Finding: Work in progress inventory not substantiated (Prior Year Finding)

The MDOT Motor Transport Service Internal Service Fund has not maintained detail records to support the work in progress inventory balance. In January 1990 MTS implemented a new fleet management system, converted all identifiable WIP balances to the new system, but could not identify $492,955 of the work in progress balance. Although unidentifiable, this amount remains as an asset on state records.

Recommendation:
We again recommend that MTS maintain adequate inventory records to support recorded assets. We further recommend that work in progress close out the unsubstantiated work in progress inventory amount of $492,955 to the unappropriated surplus account.

Auditee Response:
Appropriate adjusting entries were made in April 1991.

Bureau of Maintenance and Operations - Motor Transport Service (MTS)

(254) Finding: No detail to substantiate recorded receivables

As of June 30, 1990 the MDOT Motor Transport Service Internal Service Fund had no records to substantiate $631,626 of the $854,721 receivable balance. The $631,626 consisted of $528,205 due-from other funds and $103,421 in internal billing to the Department of Transportation. If these amounts cannot be identified, it is unlikely that they can be collected.

We also noted internal billing receipts of $31,894, and due-from other funds receipts of $82,267 that were applied to incorrect receivable categories. Internal billing and due-from other funds receivable balances were therefore overstated.

Recommendation:
We recommend that MTS personnel write off receivable balances that cannot be substantiated. We also recommend that MTS maintain adequate records to identify work done and amounts owed to the division. We further recommend that they periodically reconcile these records; take appropriate action to collect amounts owed; apply payments received to the correct account balance; and establish adequate balances in allowance accounts for estimated uncollectible accounts.

Auditee Response:
We will take steps to write off receivables that cannot be substantiated or collected. MTS is currently preparing a detail list of all outstanding receivables for review and collection.

MTS accounting now retains copies of all documentation relating to billing other organizational units and accounts receivables will be monitored on a monthly basis. The current procedure is to notify using divisions and agencies in writing of all overdue 30 to 60 days in arrears. Over 60 days, phone contact will be made to collect those receivables. Any uncollectibles beyond the 60 days will be referred to the Director, Financial Analysis Division for further action.

We will pursue the recommendation to establish adequate balances in allowance accounts for uncollected debts.

****

Bureau of Maintenance and Operations - Motor Transport Service (MTS)

(255) Finding: Control over billing of equipment rentals

During our review of revenues we noted several control weaknesses in the State Equipment Rental System (SERS).

1) The equipment operator completes a daily entry on the weekly "MTS Fleet Equipment Rental Report" logging either the day's usage in hours or miles but there is no independent verification of the accumulated totals to ensure all usage has been reported.

2) The Department of Transportation's Finance Division processes a state equipment rental billing which uses a summary report to charge MDOT operations and maintenance. The MDOT accountants did not reconcile the summary report to the detail nor incorporate corrections to the detail prior to allocating the billing and completing the journal transfer of cash to MTS. This led to a net under-collection of several thousand dollars which is not significant. However, this weakness in internal control could lead to material errors in billings and revenue collections.

3) We noted that MTS accounting personnel stopped verifying the detail of rental billings to equipment usage reports when the Fleet Management System was implemented. This weakened the internal control for rental billing and consequently material errors in rental billing went undetected. Our testing disclosed inconsistencies between usage reports and rental detail which we traced to logic errors in the Fleet Management System software. MDOT management corrected the problem by rewriting the program logic and reinstating the policy of reconciling usage and billing reports.

Recommendation:

We recommend that Motor Transport Service develop policy and procedures for independently verifying accumulated equipment usage and reconciling usage reports to billing detail. We further recommend that MTS receive the equipment rental summary, reconcile it to the detail billing, incorporate all necessary corrections, and then enter the billing into the state accounting system as an internal bill (IB). MDOT financial services should then complete the cycle by entering the internal payment (IP) to transfer funds.

Auditee Response:

Odometer readings are verified when vehicles are serviced or in the case of pool vehicles, odometers are read periodically in order to assure proper maintenance schedules. We acknowledge readings are not verified to the rental reports independently but don't see this as a problem that wold warrant any immediate action. Nevertheless, we will explore possible solutions to establish controls over rental reports.

MDOT generates the monthly billing and forwards same to MTS along with a journal for the state amount. MTS review the billing, makes appropriate corrections and generates an IB to MDOT reflecting those corrections. We see no reason to change this procedure.

****

Bureau of Transportation Services - Division of Air Transportation

(256) Finding: Incorrect use of special revenue account

The Department of Transportation has accumulated monies in a federal special revenue account which resulted from federal and local government reimbursements. As of June 30, 1990 the account balance was $1,066,369. These monies do not constitute federal funds and MDOT uses the account as a revolving loan fund to finance various projects until monies are available in other accounts to charge against.

In fiscal year 1990, a $301,217 project was for construction and capital equipment acquisition at the Augusta State Airport. We identified $432,026 of the account balance as federal reimbursement for monies that MDOT borrowed from and did not return to the General Fund account for construction of waterways. General, special revenue and enterprise fund balances, expenditures, and amounts due-to and due-from other funds are misstated because of MDOT's incorrect use of this account. Further, MDOT's use of this account is not in compliance with approved state procedures.

Recommendation:
We recommend that the Department of Transportation return $432,026 to the General Fund as well as research the sources of the remaining account balance; return monies to the accounts from which funds were originally expended; and return any unidentified balance to the General Fund. We also recommend that MDOT contact the Bureau of Accounts and Control to obtain any necessary advance funds in accordance with approved state procedures.

Auditee Response:
We concur with the auditor's recommendation and will take steps necessary to identify and journal all funds to appropriate accounts...

...These types of transactions have caused concern by the Department of Transportation as well as the State Audit Department. Therefore, we will discuss this problem with the State Controller's Office as recommended for a mutually agreeable solution that will protect funds required to accomplish the Department's objective.

****

Bureau of Transportation Services - Ports & Marine Transportation Division

(257) Finding: Loan receivable not collected (Prior Year Finding)

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, $55,000, was to be repaid in ten annual installments of $5,500. The payments for fiscal years 1990 and 1991 have not been received by Ports & Marine.

Recommendation:
We recommend that the department's Ports & Marine Transportation Division request the $11,000 due on the loan receivable.

Auditee Response:
The Department received $11,000 from the Eastport Port Authority, January 1991.

****

Bureau of Transportation Services - Ports & Marine Transportation Division, Maine State Ferry Service

(258) Finding: Inadequate control over Island Ferry Service (IFS) inventory (Prior Year Finding)

As of June 30, 1990 the Island Ferry Service Enterprise Fund records showed a balance of $320,451 for the maintenance parts and supply inventory. However, this was inaccurate because IFS personnel had not performed a physical inventory since 1985; had not removed items from inventory records as they were used; and had not restricted access to supplies. On January 1, 1991 IFS personnel, with auditor assistance, conducted a physical inventory that resulted in inventory write-downs of $114,155. As of March 5, 1991 the department had not processed necessary inventory adjusting journal entries.

Recommendation:

To improve internal control and to fairly state the results of IFS Enterprise Fund operations and its financial position we recommend that IFS personnel:

1. Physically inventory supplies at fiscal year-end;
2. Record all additions and uses of inventory items;
3. Restrict access to or otherwise safeguard inventory; and
4. Process necessary adjusting journal entries to reflect the results of the January 1991 physical inventory.

Auditee Response:

1. *In coordination with the State Audit Department a physical inventory will be performed at the end of fiscal year 1991. Also, the storekeeper performs physical counts on a weekly basis.*

2. *Inventory control procedures have been strengthened substantially. All inventory withdrawals require a requisition and are closely monitored by the storekeeper at the Rockland Terminal. Requisitions are entered into the automated inventory system and inventory issues and receipts are forwarded to the Financial Analysis Division for entry into the state's accounting records.*

3. *The security over inventory has been enhanced. The port engineer's work station has been moved to the machine shop. Access is limited to key employees on weekends and/or emergency situations.*

4. *Necessary adjusting entries reflecting the results of the January 1991 physical inventory will be made prior to June 30, 1991 along with other adjustments required to reconcile actual with the accounting records.*

****

Bureau of Transportation Services - Ports & Marine Transportation Division, State Ferry Service

(259) Finding: Depreciation expense recorded in subsequent period (Prior Year Finding)

The department recorded the annual depreciation expense of $240,358 for the Island Ferry Service Fund and $502,255 for the Marine Ports Fund in the subsequent period. This overstated the net assets on the balance sheet and the net income on the operating statement for the 1990 fiscal year. Unless adjusted it will also cause an understatement of income in 1991 since two years of depreciation expense will be charged.

Recommendation:
We recommend that the department record depreciation expense in the proper period; process a journal entry to credit 1991 fiscal year depreciation expense; and debit adjustments to balance forward by $240,358 in the Island Ferry Service Fund and $502,255 in the Marine Ports Fund.

Auditee Response:
Depreciation expense for fiscal year 1991 was recorded in June 1991. Adjustments to fiscal year 1990 depreciation expense will be made prior to the close of fiscal year 1991.

****

Office of Treasurer of State

Office of Treasurer of State

(260) Finding: Inadequate segregation of duties

One individual is responsible for authorizing, recording and reconciling investment transactions of the Lands Reserved and Several Trust Funds.

Recommendation:
We recommend that treasury separate the authorizing and recordkeeping functions of investment transactions.

Auditee Response:
The recommendation will be reviewed and possibly implemented once the Treasury Department is able to refill vacancies within the department.

****

Office of Treasurer of State

(261) Finding: Trust funds not properly reconciled (Prior Year Finding)

Records of the Treasurer and the Controller do not agree with fiduciary reports of various trust fund holdings.

Treasury has not promptly recorded investment transactions or reconciled trust fund holdings. As a result, differences between the Controller's and the fiduciary's records are:

1. Lands Reserved for Public Uses overstated $ 15,986

Recommendation:
We recommend that treasury personnel reconcile the holdings of the various trust funds with the Controller's records and make appropriate journal adjustments.

Auditee Response:
A review of the balances will be made and entries made to reconcile. Buy and sell time differences caused this problem.

2. Several Trusts understated 743

3. Baxter State Park Trust overstated 365,058

4. Baxter - MacWorth Island Trust understated 22,734

****

Office of Treasurer of State

(262) Finding: Interest income not correctly accrued (Prior Year Finding)

Treasury did not record interest on investments of certain funds as of June 30, 1990.

According to the Governmental Accounting and Financial Reporting Standards (GASB) §1600, nonexpendable trust fund revenue should be recognized in the accounting period it is earned and becomes measurable.

As a result, assets and revenues of the following funds were understated:

1. Lands Reserved for Public Uses $131,763

2. Several Trusts $121,134

Recommendation:

We recommend that treasury accrue interest income in accordance with generally accepted accounting principles.

Auditee Response:

Casco will remit the income earned on the trusts in June 1991 to comply with auditee request.

****

Maine Waste Management Agency

(263) Finding: Lack of capital equipment records

Title 5, MRSA §1742, requires the Bureau of Public Improvements (BPI) to maintain an inventory of equipment belonging to the state.

Section 66.1 of the State of Maine Manual of Financial Procedures (MFP) gives the procedures for maintaining capital equipment records.

During the 1990 fiscal year, the Maine Waste Management Agency purchased capital equipment totaling $113,000. MWMA also acquired office furniture with a market value of $43,000 through a lease agreement that they negotiated with the landlord. The market value of the furniture exceeded the state budget guidelines for capital purchases.

Recommendation:

We recommend that the agency record the office furniture at its fair market value, maintain complete capital equipment records and submit the capital equipment forms to BPI, as required in the MFP.

Auditee Response:

The Bureau of Public Improvements has been contacted and the necessary reports have been obtained and will be filed prior to June 30, 1991.

In addition, MWMA did not maintain a detail listing of capital equipment purchased or acquired by the agency, nor did it submit the required equipment forms to BPI.

****

Maine Waste Management Agency

(264) Finding: Special waste disposal fees incorrectly recorded

Title 38, MRSA, §2202, requires that fees paid on special waste be credited to the Maine Solid Waste Management Fund. The Maine Waste Management Agency collected $8,139 which it credited to the Office of Waste Reduction and Recycling Account. This should have been credited to the Maine Solid Waste Management Fund.

Recommendation:

We recommend that to correct this error MWMA reimburse $8,139 to the Maine Solid Waste Management Fund.

Auditee Response:

The Agency correctly credited the fees to the Maine Solid Waste Management Fund in its reports to the Department of Finance. The Bureau of Accounts and Control incorrectly credited the fees to the Office of Waste Reduction and Recycling.

The funds were reimbursed to the Solid Waste Management Fund through a Journal Voucher (J. V.) on May 10, 1991.

Maine Waste Management Agency

(265) Finding: Cash receipts not recorded in ledger

During the 1990 fiscal year the Maine Waste Management Agency collected $676,000 in special disposal fees for commercial and municipal landfills. Accounting personnel did not record the check amounts in a cash receipts ledger.

Recommendation:

To strengthen internal controls, we recommend that accounting personnel record cash receipts in a cash receipts ledger and reconcile it monthly to the Controller's records.

Auditee Response:

On April 1, 1991 the Agency implemented the recommendations of the auditor. Subsequent cash receipts will be recorded in a ledger and reconciled monthly.

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APPENDICES

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DEPARTMENT OF AUDIT
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RODNEY L. SCRIBNER, CPA
STATE AUDITOR

Independent Auditor's Report on Additional Information

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

Our report on our audit of the component unit financial statements of the State of Maine oversight unit, as of and for the year ended June 30, 1990 appears on page one. That audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The graphs on pages 223 through 228 are presented for purposes of additional analysis and are not a required part of the component unit financial statements. Such information has been subjected to the auditing procedures applied in the audit of the component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1991

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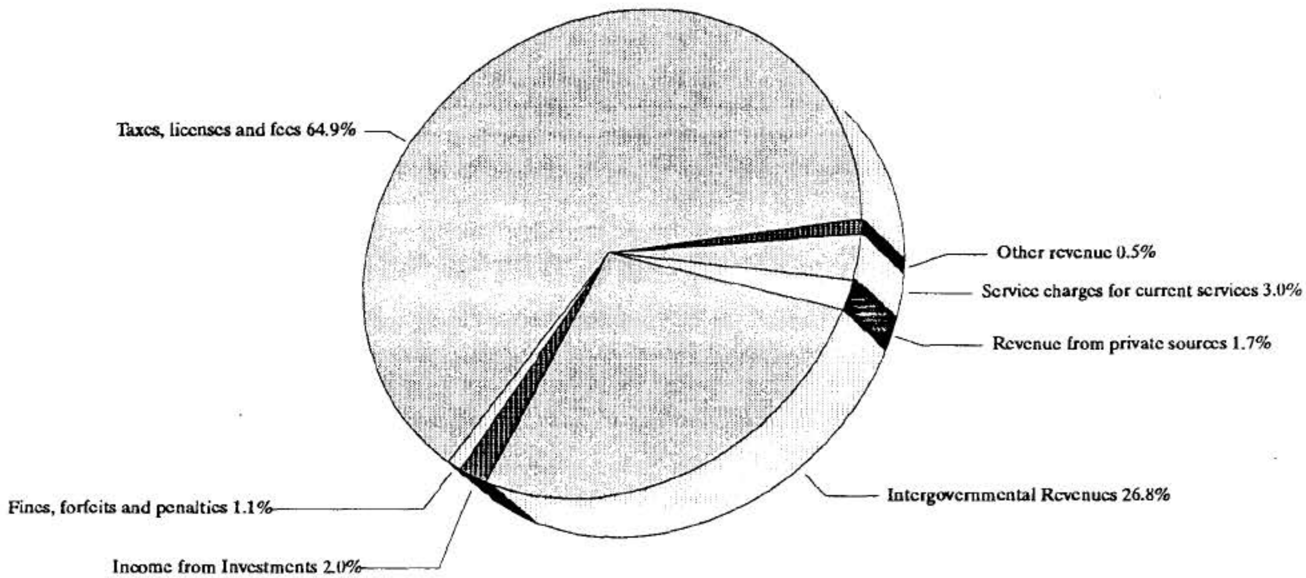
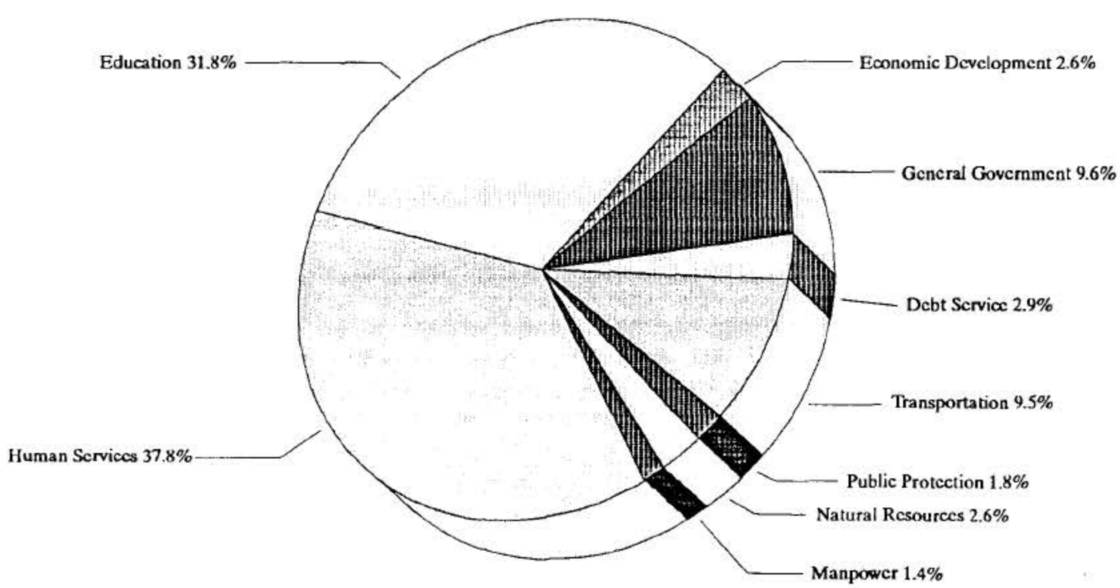
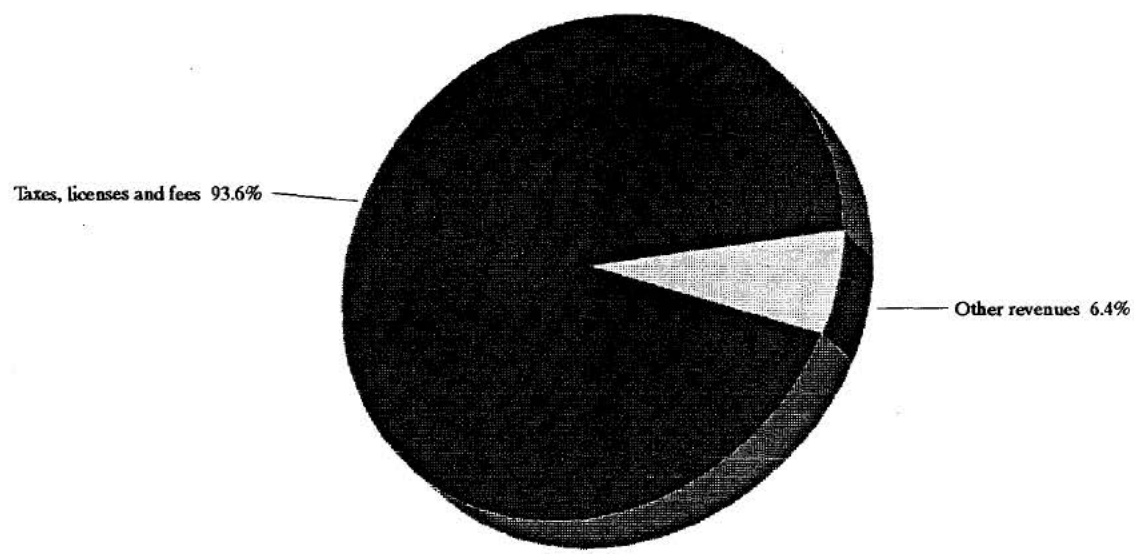
Revenues by Source
(All Governmental Fund Types)



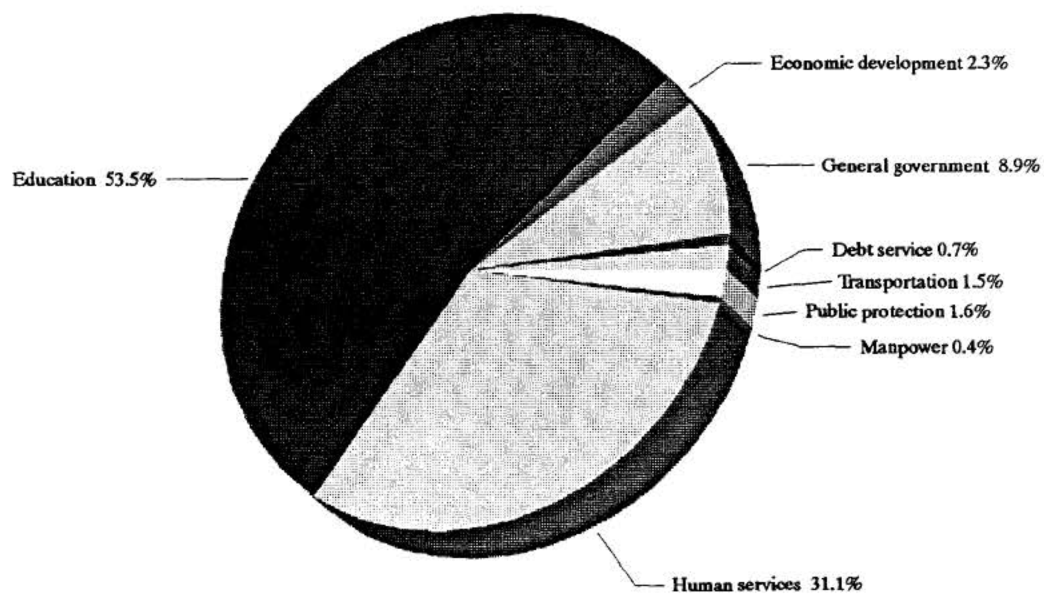
Expenditures by Function
(All Governmental Fund Types)



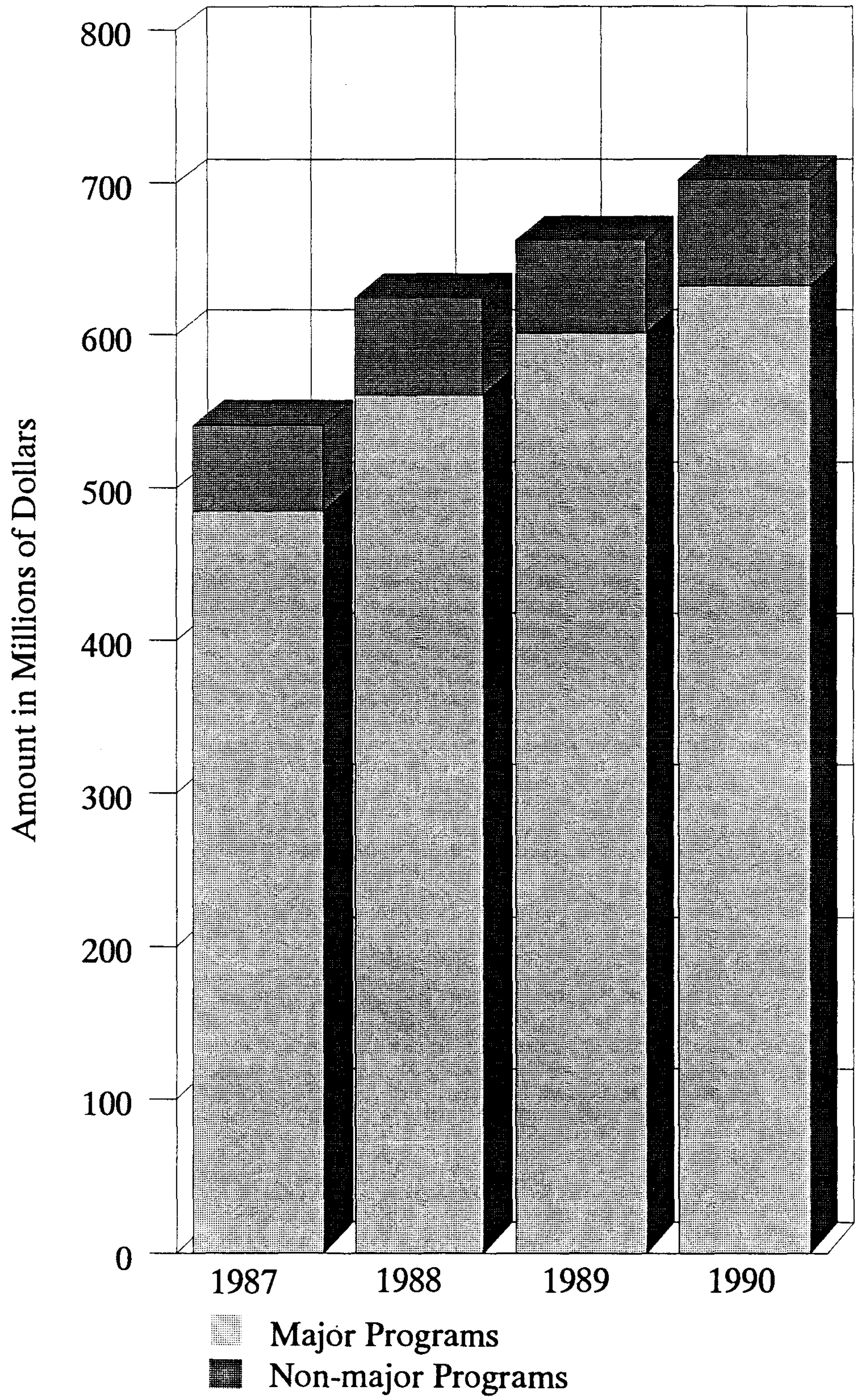
Revenues by Source
(General Fund)



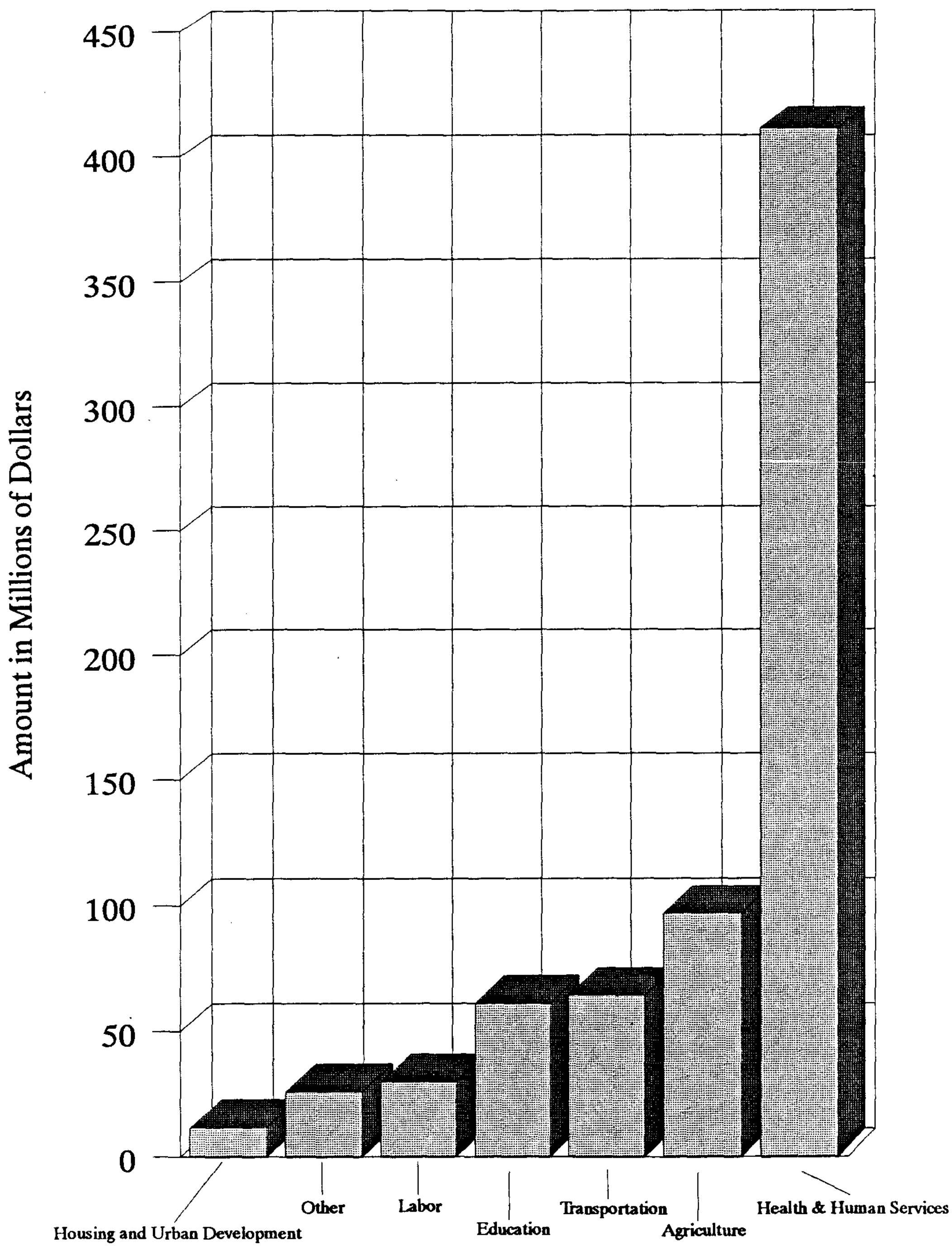
Expenditures by Function
(General Fund)



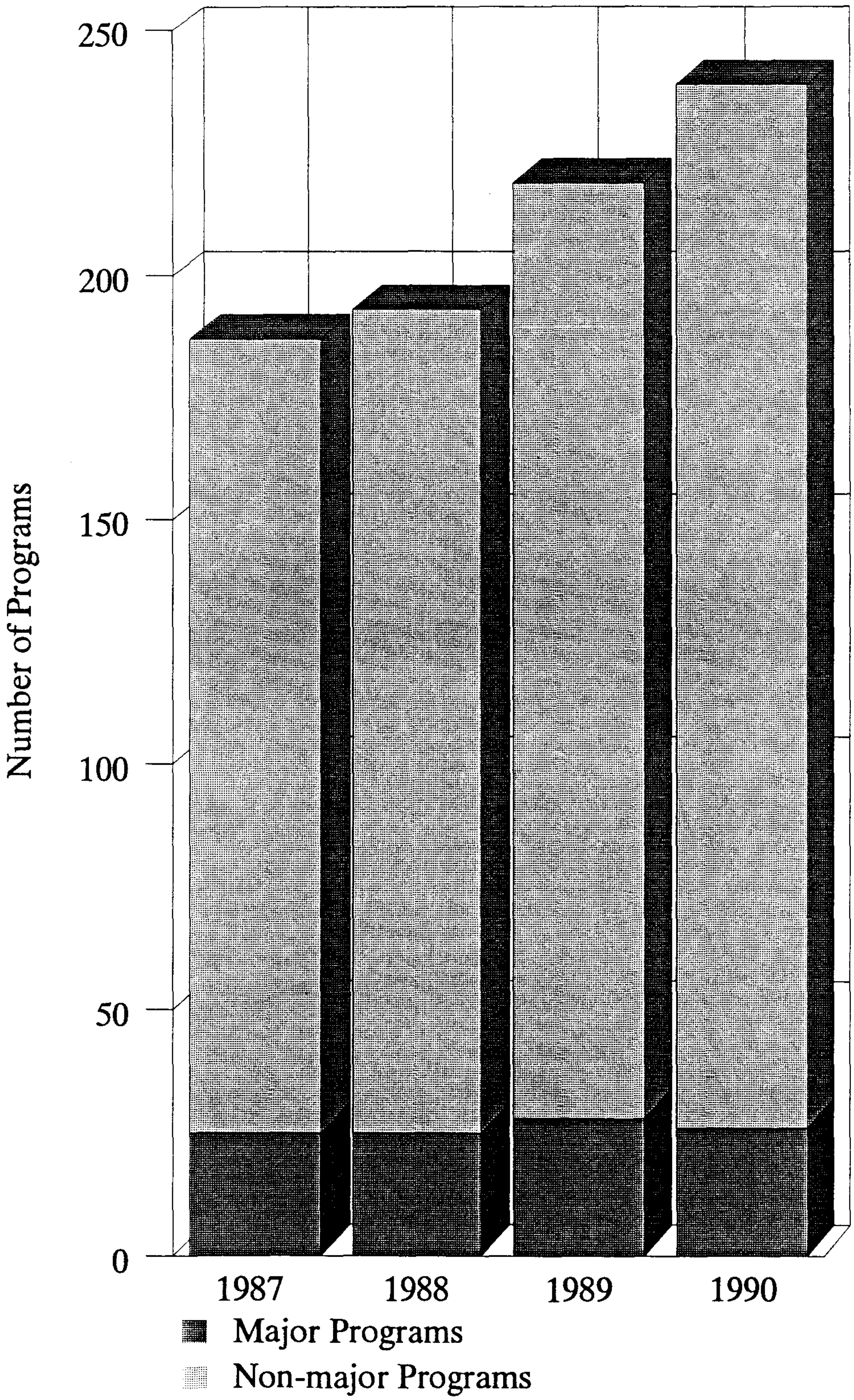
Federal Financial Assistance



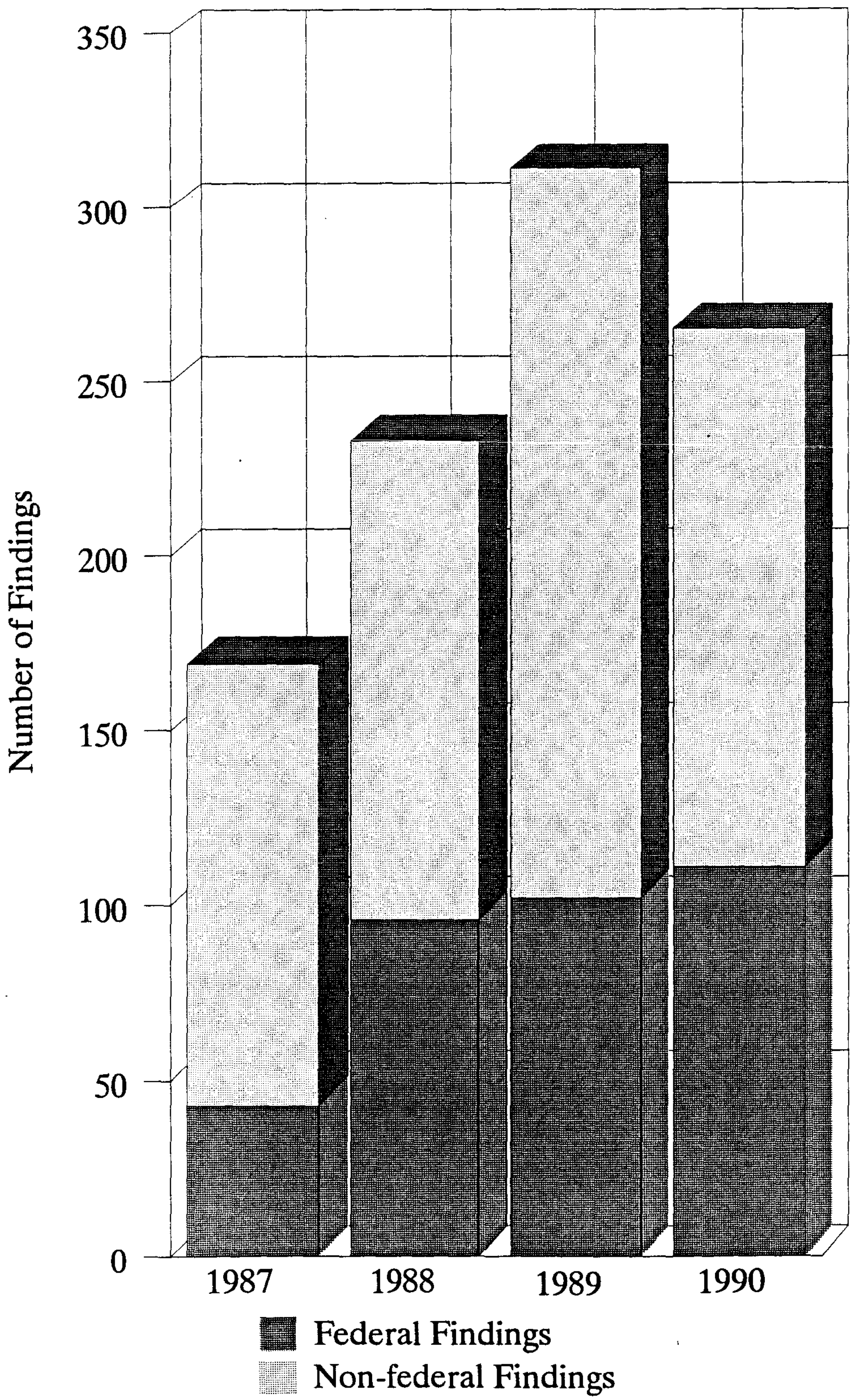
Federal Funding Levels by Grantor Agency



Major and Non-major Federal Programs



Number of Audit Findings



State of Maine
Fiscal Year Ended June 30, 1990
Legend of State Agencies/Departments

Abbreviations	Agency/Department
ADMIN	Administration
BSPA	Baxter State Park Authority
CONS	Conservation
DECD	Economic and Community Development
DECS	Educational and Cultural Services
DEP	Environmental Protection
DHS	Human Services
DOC	Corrections
DOL	Labor
DOT	Transportation
DSS	Secretary of State
EXEC	Executive
FIN	Finance
MHMR	Mental Health and Mental Retardation
MPB	Maine Potato Board
MSRS	Retirement System
MWMA	Maine Waste Management Agency
PS	Public Safety
TREAS	Office of the Treasurer of State

State of Maine
Summary of Federal Findings
by Federal Grantor Agency
Fiscal Year Ended June 30, 1990

Federal Grantor Agency	CFDA #	Program	Finding Number (Schedule C)
Dept. of Agriculture	10.550	Food Distribution	51, 52, 54
	10.555	National School Lunch Program	50, 53, 55
	10.557	Special Supplemental Food Program for Women, Infants and Children	104
	10.558	Child Care Food Program	101, 108
	10.561	State Administrative Matching Grants for Food Stamp Program	85, 87, 89, 90, 91, 92, 107, 108, 110
	10.568	Temporary Emergency Food Program (Administrative Costs)	75
	10.571	Food Commodities for Soup Kitchens	75
Dept. of Education	81.042	Weatherization Assistance for Low Income Persons	65, 66, 68, 69, 70, 71, 72, 73, 74
	84.010	Educationally Deprived Children - Local Educational Agencies	35, 40
	84.011	Migrant Education - Basic State Formula Grant Program	36, 37, 38, 39, 40
	84.027	Handicapped State Grants	41, 42, 43, 44, 45
	84.032	Guaranteed Student Loans	46, 47, 48, 49
	84.034	Library Services	61
	84.048	Title II - Basic State Programs for Vocational Education	31, 32, 33, 34, 59
	84.126	Rehabiliation Services - Basic Support	96, 97, 98, 99, 104, 107, 108
Dept. of Health & Human Services	13.118	AIDS - School Health Education	104
	13.141	Alcohol, Drug Abuse and Rehabilitation Block Grant	104
	13.268	Childhood Immunization Grant	104
	13.635	Special Programs for the Aging, Title III, Part C	77, 78, 79, 80, 81,82, 83, 108, 110

Federal Grantor Agency	CFDA #	Program	Finding Number (Schedule C)
Dept. of Health & Human Services	13.658	Foster Care - Title IV-E	104, 107, 108, 110
	13.667	Social Services Block Grant	104, 107, 118, 119, 120, 121
	13.669	Administration for Children, Youth and Families - Child Abuse and Neglect - State Grants	104
	13.714	Medical Assistance Program	90, 93, 94, 95, 103, 104, 108, 110
	13.780	Family Support Payments to States - Assistance Payments (AFDC)	86, 90, 107, 110
	13.783	Child Support Enforcement	88
	13.789	Low-Income Home Energy Assistance	64, 65, 66, 67
	13.792	Community Services Block Grant	75
	13.802	Social Security - Disability Insurance	100, 107
	13.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	76, 104, 107, 117, 118
	13.994	Maternal and Child Health Services Block Grant	84, 104, 106
	13.997	Sexually Transmitted Disease Control Grant	104
Dept. of Housing and Urban Devel.	14.228	Community Development Block Grant - States Program	28, 29, 30
Dept. of Justice	16.575	Crime Victim Assistance	104
Dept. of Labor	17.207	Employment Service	111, 112, 116
	17.225	Unemployment Insurance	111, 112, 116
	17.250	Job Training Partnership Act	112, 113, 114, 115
Dept. of Transportation	20.205	Highway Planning and Construction	122, 123, 124, 125, 126
		Various Other Federal Programs	27, 56, 57, 58, 60, 62, 102, 105

State of Maine
Summary of Findings/Conditions
by State Department
Fiscal Year Ended June 30, 1990

Department	Reportable Condition	Federal Finding	Management Letter	Total
ADMIN	2	1	18	21
BSPA			2	2
CONS			2	2
DECD		3		3
DECS	1	31	11	43
DEP			5	5
DHS	1	35	13	49
DOC			9	9
DOL	2	6	4	12
DOT	2	5	10	17
DSS			4	4
EXEC		14	6	20
FIN	9		31	40
MHMR		5	6	11
MPB			2	2
MSRS	9		5	14
MWMA			3	3
PS			5	5
TREAS	—	—	3	3
TOTAL	26	100	139	265

State of Maine
Summary of Questioned Costs
Fiscal Year Ended June 30, 1990

Federal Grantor Agency	CFDA Number	State Agency	Amount	Finding Number
Dept. of Agriculture	10.558	Human Services	$1,467.	87
	10.561	Human Services	633.	89
	10.561	Human Services	8,175.	90
	10.561	Human Services	1,810.	92
	10.561	Human Services	18,101.	101
Total Dept. of Agriculture			30,186.	
Health & Human Services	13.635	Human Services	1,081.	77
	13.635	Human Services	86,112.	79
	13.635	Human Services	12.	83
	13.667	MH & MR	31,299.	119
	13.714	Human Services	12,908.	90
	13.780	Human Services	8,175.	90
	13.783	Human Services	141,174.	88
	13.992	MH & MR	6,000.	117
	13.994	Human Services	234,389.	84
	13.994	Human Services	6,125.	106
Total Health & Human Services			527,275.	
Dept. of Housing & Urban Development	14.225	Economic & Community Development	94,699.	29
Dept. of Transportation	20.205	Transportation	1,815.	123
Dept. of Energy	81.042	Community Services	24.	63
	81.042	Community Services	184,770.	69
	81.042	Community Services	117,217.	71
	81.042	Community Services	1,499.	72
Total Dept. of Energy			303,510.	
Dept. of Education	84.027	Educational and Cultural Services	402.	42
	84.027	Educational and Cultural Services	4,322.	45
	84.034	Educational and Cultural Services	5.	61
	84.126	Human Services	1,460.	98
Total Dept. of Education			6,189.	