STATE DEPARTMENT OF AUDIT
Augusta, Maine 04333-0066

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

State of Maine

Single Audit Report

Fiscal Year Ended June 30, 1991

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, 1991

TABLE OF CONTENTS

(This page intentionally left blank)

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

Letter of Transmittal

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

I am pleased to submit the fifth Single Audit of the State of Maine, covering the fiscal year ended June 30, 1991.

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 having expended $814 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 systems and procedures for financial accounting, reporting 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 noted and include a management response to our findings and recommendations.

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 reports on compliance and internal control.
- 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 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;
- The state did not retain records necessary for recording additional amounts of corporate taxes receivable and related revenue;
- The state has not recorded an adequate allowance account balance for uncollectible taxes receivable.

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

I commend 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 Administrative and Financial Services and other state agencies, we will continue to provide financial information that serves the needs of governmental decision makers, federal regulators, credit rating agencies, financial institutions and interested citizens of Maine.

We would be pleased to respond to any of your questions or comments about the 1991 Single Audit Report.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

July 29, 1991

New England Intergovernmental Audit Forum

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

State-Federal-Local

Executive Director

Ellen Bradley

July 15, 1992

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

Dear Auditor Scribner:

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

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

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

Respectfully submitted,

Robert A. Powilatis

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

:cam

0201

(This page intentionally left blank)

COMPONENT UNIT FINANCIAL STATEMENTS

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

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, 1991, 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 not able to satisfy ourselves about the amounts at which land, buildings, and equipment and investment in general fixed assets are recorded in the accompanying financial statements (stated at $349.8 million).

The state used incomplete information to establish the amount of the allowance account for uncollectible taxes receivable. In our opinion, the amount of the allowance account for uncollectible taxes receivable should be adjusted to conform with generally accepted accounting principles. If the financial statements were corrected for that departure from generally accepted accounting principles, General Fund taxes receivable (net of allowances for uncollectibles) and fund balance would be decreased by $32.1 million as of June 30, 1991, and General Fund revenues would be decreased $8.7 million for the year then ended.

The state generally reports corporate tax revenue as cash payments are received. Recorded corporate taxes receivables and related revenue amounts represent certain additional amounts assessed as the result of tax audits. The state did not retain records for and did not include in the accompanying financial statements other amounts for which taxpayer liability has been established. Accordingly, we were unable to form an opinion regarding the amounts at which General Fund corporate taxes receivable are recorded in the accompanying financial statements at June 30, 1991 (stated at $19.1 million), and the related amount of General Fund revenue for the year then ended (stated at $79.9 million).

In the previous fiscal year the state recorded certain expenditures and expenses when paid that, in our opinion, should have been recorded when the obligations were incurred. The effects of this practice on fund balance and accounts payable of the General, Special Revenue, and Capital Projects fund types and on retained earnings and accounts payable of the Proprietary fund types, as of July 1, 1990, and the effect on expenditures and expenses for those fund types for the year ended June 30, 1991 are not reasonably determinable.

The state records certain revenues from federal grants as funds are received that, in our opinion, should be recorded when the grant-related expenses are incurred. The effects of this practice on Special Revenue Fund amounts due from other governments and fund balance, as of June 30, 1991, and on Special Revenue Fund revenues for the year then ended are not reasonably determinable.

In our opinion, except for the effects on the component unit financial statements of not recording an adjustment to the allowance account for uncollectible taxes receivable as discussed in the fourth preceding paragraph; and except for the effects of such adjustment, if any, as might have been determined to be necessary had records concerning amounts for which corporate taxpayer liability had been established been adequate as discussed in the third preceding paragraph; and except for the effects of the matters discussed in the second and first preceding paragraphs, the component unit financial statements referred to above present fairly the financial position of the State of Maine oversight unit, at June 30, 1991, and the results of its operations and the cash flows 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, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the General Fixed Assets Account Group.

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

As described in Note 4 to the financial statements, the state has presented a Statement of Cash Flows for the year ended June 30, 1991, rather than a Statement of Changes in Financial Position, as required by the provisions of Government Accounting Standards Board Statement No. 9.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1992

Exhibit 1

State of Maine
Combined Balance Sheet – All Fund Types and Account Groups
(Dollars in Thousands)
June 30, 1991

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types	Account Groups		Total
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service	Trust and Agency	General Fixed Assets (Unaudited)	General Long-Term Debt	Total (Memorandum Only)
Assets and Other Debits										
Equity in treasurer's cash pool (Note 5)	$ (42,364)	$ 64,448	$ 242	$ 1,945	$ 2,786	$ 10,287	$ 90,243	$	$	$ 127,587
Cash with fiscal agent			443							443
Cash – other (Note 5)	316	147			1,228	5	4,980			6,676
Deposits with U.S. Treasury (Note 5)							108,356			108,356
Investments (Note 5)			95,989	72,531	1		2,034,545			2,203,066
Receivables (net of allowances for uncollectibles)										
Taxes	90,555	9,350					202			100,107
Accounts	7,251	9,576			2,815	193	9,093			28,928
Notes					448					448
Loans	3	5			6,539		9			6,556
Accrued interest							10,731			10,731
Due from other funds (Note 17)	4,888	7,200			45	10,795	1,399			24,327
Due from other governments (Note 8)		50,132								50,132
Advances to other funds (Note 17)	2,871	13,182				2,000				18,053
Inventories					5,402	5,632				11,034
Other assets	21	18			746	303	635			1,723
Restricted assets (Note 1E)				14,360		98				14,458
Land, buildings and equipment (Note 10)					43,495	79,143	4,388	349,783		476,809
Accumulated depreciation (Note 10)					(11,525)	(41,353)	(303)			(53,181)
Amount available in debt service funds									242	242
Amount to be provided for retirement of general long-term debt									491,814	491,814
Total Assets and Other Debits	$ 63,541	$ 154,058	$ 96,674	$ 88,836	$ 51,980	$ 67,103	$ 2,264,278	$ 349,783	$ 492,056	$ 3,628,309
Liabilities, Fund Equity and Other Credits										
Liabilities:										
Accounts payable	$ 47,714	$ 41,603	$	$ 619	$ 3,266	$ 4,381	$ 17,660	$	$	$ 115,243
Accrued payroll	19,100	13,630			678	1,151	162		2,371	37,092
Lease purchase payable						20,353			5,203	25,556
Workers' compensation benefits payable					1,242	2,370	453		49,923	53,988
Compensated absences payable					487	1,219	125		23,139	24,970
Tax refunds payable	14,431									14,431
Other liabilities	3,149	90			1,018	1,249	2,346			7,852
Due to other funds (Note 17)	13,903	6,717			3,282	366	59			24,327
Due to other governments		5,571								5,571
Due to program participants and providers							169,335			169,335
Deferred revenue	32,826	15,000			240		1,245			49,311
Advances payable (Note 17)	2,000	625			2,075	13,353				18,053
Matured bonds payable			210							210
Matured interest payable			233							233
Certificates of participation payable (Note 13)									16,000	16,000
Notes payable (Note 15)			95,989							95,989
Bonds payable (Note 15)									395,420	395,420
Total Liabilities	133,123	83,236	96,432	619	12,288	44,442	191,385	–	492,056	1,053,581

Exhibit 1
(Continued)

State of Maine
Combined Balance Sheet – All Fund Types and Account Groups
(Dollars in Thousands)
June 30, 1991

	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	$	$	$	$	$ 41,315	$ 4,504	$	$	$	$ 45,819
Investment in general fixed assets (Note 10)								349,783		349,783
Retained earnings (deficit) (Note 2)					(2,204)	18,157				15,953
Fund Balances:										
Reserved for encumbrances	12,356	23,277		36,566						72,199
Reserved for retirement contributions							1,902,109			1,902,109
Reserved for advances	2,871	13,182								16,053
Reserved for group life insurance							22,680			22,680
Reserved for Rainy Day Fund	83									83
Reserved for other purposes	3,350	118			581					4,049
Unreserved:										
Designated for subsequent year expenditures		34,245		51,651						85,896
Designated for debt service			242							242
Undesignated	(88,242)						148,104			59,862
Total Fund Equity and Other Credits	(69,582)	70,822	242	88,217	39,692	22,661	2,072,893	349,783	–	2,574,728
Total Liabilities, Fund Equity and Other Credits	$ 63,541	$ 154,058	$ 96,674	$ 88,836	$ 51,980	$ 67,103	$ 2,264,278	$ 349,783	$ 492,056	$ 3,628,309

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, 1991

	Governmental Fund Types				Fiduciary Fund Type	
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	Total (Memorandum Only)
Revenues:						
Taxes, licenses and fees	$ 1,232,908	$ 264,985	$	$	$ 73,306	$ 1,571,199
Fines, forfeits and penalties	27,146	3,769				30,915
Income from investments	1,027	2,762	23	3,550	18,054	25,416
Intergovernmental revenues	4,167	727,783			2,585	734,535
Revenues from private sources	1,472	14,572				16,044
Service charges for current services	42,890	38,122	2,030			83,042
Group life insurance premiums					5,472	5,472
Other	(738)	934			721	917
Total Revenues	1,308,872	1,052,927	2,053	3,550	100,138	2,467,540
Expenditures:						
General government	122,122	115,937		25,215	836	264,110
Economic development	30,229	39,683		322		70,234
Education and culture	750,688	76,416		13,108	(180)	840,032
Human services	524,791	510,647		5,839	9,883	1,051,160
Manpower	5,642	42,990			169,895	218,527
Natural resources	45,170	28,479		23,274	91	97,014
Public protection	14,537	35,656		751		50,944
Transportation	3,803	240,040		14,628		258,471
Debt service			66,936			66,936
Total Expenditures	1,496,982	1,089,848	66,936	83,137	180,525	2,917,428
Excess of Revenues over (under) Expenditures	(188,110)	(36,921)	(64,883)	(79,587)	(80,387)	(449,888)
Other Financing Sources (Uses):						
Operating transfers (net)	29,241	(26,399)	64,864	(5,021)	(893)	61,792
Bond proceeds		9,500		126,625		136,125
Certificate of participation proceeds				16,000		16,000
Other	7,723	307		(138)	215	8,107
Total Other Financing Sources (Uses)	36,964	(16,592)	64,864	137,466	(678)	222,024
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(151,146)	(53,513)	(19)	57,879	(81,065)	(227,864)
Fund Balances – July 1 (as adjusted) (Note 20)	81,564	124,335	261	30,338	237,800	474,298
Fund Balances – June 30	$ (69,582)	$ 70,822	$ 242	$ 88,217	$ 156,735	$ 246,434

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, 1991

	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	$ 1,283,258	$ 1,276,408	$ (6,850)	$ 273,737	$ 264,428	$ (9,309)	$ 1,556,995	$ 1,540,836	$ (16,159)
Fines, forfeits and penalties	26,377	27,147	770	3,690	3,770	80	30,067	30,917	850
Income from investments	3,259	1,027	(2,232)	1,698	2,762	1,064	4,957	3,789	(1,168)
Intergovernmental revenues	6,559	4,796	(1,763)	885,059	731,965	(153,094)	891,618	736,761	(154,857)
Revenues from private sources	2,938	1,718	(1,220)	42,345	41,114	(1,231)	45,283	42,832	(2,451)
Service charges for current services	48,902	44,197	(4,705)	82,341	53,324	(29,017)	131,243	97,521	(33,722)
Other	405	(738)	(1,143)	2,567	4,633	2,066	2,972	3,895	923
Total Revenues	1,371,698	1,354,555	(17,143)	1,291,437	1,101,996	(189,441)	2,663,135	2,456,551	(206,584)
Expenditures:									
General government	128,869	131,357	(2,488)	149,895	125,140	24,755	278,764	256,497	22,267
Economic development	39,814	30,229	9,585	74,215	39,683	34,532	114,029	69,912	44,117
Education and culture	751,709	750,688	1,021	80,571	70,815	9,756	832,280	821,503	10,777
Human services	542,663	523,650	19,013	623,758	539,027	84,731	1,166,421	1,062,677	103,744
Manpower	6,596	5,642	954	70,744	42,990	27,754	77,340	48,632	28,708
Natural resources	40,823	45,170	(4,347)	51,202	28,429	22,773	92,025	73,599	18,426
Public protection	14,915	14,537	378	40,273	35,656	4,617	55,188	50,193	4,995
Transportation	9,826	3,803	6,023	306,954	238,465	68,489	316,780	242,268	74,512
Total Expenditures	1,535,215	1,505,076	30,139	1,397,612	1,120,205	277,407	2,932,827	2,625,281	307,546
Excess of Revenues over (under) Expenditures	(163,517)	(150,521)	12,996	(106,175)	(18,209)	87,966	(269,692)	(168,730)	100,962
Other Financing Sources (Uses):									
Operating transfers (net)	3,392	29,241	25,849	(18,820)	(26,399)	(7,579)	(15,428)	2,842	18,270
Bond proceeds					9,500	9,500		9,500	9,500
Other		7,723	7,723		430	430		8,153	8,153
Total Other Financing Sources (Uses)	3,392	36,964	33,572	(18,820)	(16,469)	2,351	(15,428)	20,495	35,923
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	(160,125)	(113,557)	46,568	(124,995)	(34,678)	90,317	(285,120)	(148,235)	136,885
Fund Balances – July 1 (as adjusted)	141,686	141,686		143,724	143,724		285,410	285,410	
Fund Balances – June 30 (Note 3)	$ (18,439)	$ 28,129	$ 46,568	$ 18,729	$ 109,046	$ 90,317	$ 290	$ 137,175	$ 136,885

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

State of Maine
Combined Statement of Revenues, Expenses, and Changes in Retained Earnings/Fund Balances
All Proprietary Fund Types and Similar Trust Funds
(Dollars in Thousands)
For the Fiscal Year Ended June 30, 1991

	Proprietary Fund Types		Fiduciary Fund Types		Total
	Enterprise	Internal Service	Nonexpendable Trust	Pension Trust	(Memorandum Only)
Operating Revenues:					
Sales and services	$ 173,223	$ 52,620	$	$	$ 225,843
Fees and licenses	13,021				13,021
Interest and other investment income, net	186	28	309	85,687	86,210
Contributions –					
Employer			201	150,942	151,143
Employee				60,284	60,284
Participating districts				46,461	46,461
Other	316				316
Total Operating Revenues	186,746	52,648	510	343,374	583,278
Operating Expenses:					
Cost of sales and services	104,707	22,058			126,765
Personal services	10,148	16,246		2,614	29,008
General operating expenses	6,483	8,313	8	6,066	20,870
Depreciation	610	7,833		60	8,503
Refunds				10,209	10,209
Claim and benefit payments	2,888			193,162	196,050
Total Operating Expenses	124,836	54,450	8	212,111	391,405
Operating Income (Loss)	61,910	(1,802)	502	131,263	191,873
Nonoperating Revenues (Expenses):					
Interest revenue	640	1,613			2,253
Interest expense		(1,430)			(1,430)
Other	201	3,526	46	(106)	3,667
Total Nonoperating Revenues (Expenses)	841	3,709	46	(106)	4,490
Income before Operating Transfers	62,751	1,907	548	131,157	196,363
Operating Transfers In (Out)	(61,542)		(250)		(61,792)
Net Income (Loss)	1,209	1,907	298	131,157	134,571
Retained Earnings/Fund Balances – July 1 (as adjusted) (Note 20)	(3,413)	16,250	12,759	1,771,944	1,797,540
Retained Earnings/Fund Balances – June 30 (Note 2)	$ (2,204)	$ 18,157	$ 13,057	$ 1,903,101	$ 1,932,111

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

State of Maine
Combined Statement of Cash Flows –
All Proprietary Fund Types and Nonexpendable Trust Funds
(Dollars in Thousands)
For the Fiscal Year Ended June 30, 1991

Exhibit 5

	Proprietary Fund Types: Enterprise	Proprietary Fund Types: Internal Service	Fiduciary Fund Type: Nonexpendable Trust	Total (Memorandum Only)
Cash Flows from Operating Activities:				
Cash received from customers and users	$ 185,625	$ 51,019	$ 201	$ 236,845
Cash paid to suppliers and vendors	(107,976)	(21,332)		(129,308)
Cash paid to employees for services	(10,186)	(15,105)		(25,291)
Cash paid for claims and benefits	(2,888)			(2,888)
Other operating revenues	596			596
Other operating expenses	(6,544)	(8,075)	(8)	(14,627)
Net Cash Provided (Used) by Operating Activities	58,627	6,507	193	65,327
Cash Flows from Noncapital Financing Activities:				
Operating transfers, net	(61,542)			(61,542)
Advances from (to) other funds	(1,549)	(2,000)	(250)	(3,799)
Other nonoperating revenues (expenses)	217	2,277	65	2,559
Net Cash Provided (Used) by Noncapital Financing Activities	(62,874)	277	(185)	(62,782)
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets, net	(739)	(13,575)		(14,314)
Interest revenue (expense)		183		183
Installment payments on lease purchase contracts		(5,506)		(5,506)
Net Cash Provided (Used) by Capital and Related Financing Activities	(739)	(18,898)	–	(19,637)
Cash Flows from Investing Activities:				
Sale/purchase of investments (net)			(542)	(542)
Interest on investments	640	28	562	1,230
Net Cash Provided (Used) by Investing Activities	640	28	20	688
Net Increase (Decrease) in Cash and Cash Equivalents	(4,346)	(12,086)	28	(16,404)
Cash and Cash Equivalents – July 1	8,360	22,476	170	31,006
Cash and Cash Equivalents – June 30 (Note 1E)	$ 4,014	$ 10,390	$ 198	$ 14,602

Exhibit 5
(Continued)

State of Maine
Combined Statement of Cash Flows –
All Proprietary Fund Types and Nonexpendable Trust Funds
(Dollars in Thousands)
For the Fiscal Year Ended June 30, 1991

	Proprietary Fund Types		Fiduciary Fund Type	Total
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Operating income (loss)	$ 61,910	$ (1,802)	$ 502	$ 60,610
Adjustments to reconcile operating income (loss) to net cash provided by operating activies:				
Interest and other investment income, net		(28)	(309)	(337)
Depreciation	610	7,833		8,443
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable, net	435	(95)		340
(Increase) decrease in notes receivable, net	939			939
(Increase) decrease in loans receivable, net	(1,855)			(1,855)
(Increase) decrease in interfund receivables		(999)		(999)
Increase (decrease) in accounts payable and accruals	(3,368)	1,868		(1,500)
Increase (decrease) in interfund payables		(2)		(2)
Increase (decrease) in deferred revenue	(44)	(507)		(551)
Increase (decrease) in other liabilities		239		239
Total Adjustments	(3,283)	8,309	(309)	4,717
Net Cash Provided by Operating Activities	$ 58,627	$ 6,507	$ 193	$ 65,327

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

STATE OF MAINE

NOTES TO THE FINANCIAL STATEMENTS

June 30, 1991

1. **Summary of 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, legislative, or judicial 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 Educational Loan Authority
- 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 Public Utility Financing Bank
- Maine School Building Authority
- Maine State Housing Authority
- Maine Turnpike Authority
- Maine Veterans Home
- Maine 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 cash flows of the proprietary and similar trust 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 various Department of Transportation programs including construction and maintenance of highways and bridges, for a portion of the state police administration, and for other state programs.
>
> 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.

Fiduciary Fund Types

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

Account Groups

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

General Long-Term Debt Account Group - Accounts for all long-term liabilities of the state, except those accounted for in proprietary fund type and nonexpendable trust funds.

Total Columns on Combined Statements

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

C. Basis of Accounting

Governmental fund revenues and expenditures are recognized on the modified accrual basis. 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 individual 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. Some such resources, usually entitlements or shared revenues, are restricted more in form than in substance. Only a failure on the part of the recipient to comply with prescribed regulations will cause a forfeiture of the resources. Such resources should be recorded as revenue at the time of receipt or earlier if the susceptible to accrual criteria are met. For other such resources, usually grants, expenditure is the prime factor for determining eligibility, and revenue should be recognized when the expenditure is made. Similarly, if cost sharing or matching requirements exist, revenue recognition depends on compliance with these requirements.

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.

D. Budgetary Process

The budgeted appropriations are prepared biennially and are based on requests from 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 returns are received and recorded.

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

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. Carrying amounts of investments would be reduced to market value for significant declines in market value judged to be other than temporary.

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 supplies and merchandise for resale.

Restricted Assets

Cash resulting from issuance of certificates of participation is classified as a restricted asset because its use is limited by construction contracts and bank financing agreements.

Fixed Assets

Fixed assets are recorded at historical cost, estimated historical cost, or estimated fair market value on the date donated. Expenditures/expenses which materially increase values, change capacities or extend useful lives are capitalized. The costs of normal maintenance and repairs are not capitalized. 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: 2-5 years for equipment and fixtures, and 10-40 years for buildings and improvements.

Advances Payable

Starting in January 1947 and continuing through June 1987 the Highway Fund made a series of working capital advances to the Motor Transport Service Internal Service Fund for the purchase of equipment, land and buildings. The advances totaled $14.2 million. A balance of $13.2 million remains.

Encumbrances and Appropriations Carried

Encumbrance accounting, which requires that purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the Governmental Fund Types. Appropriated balances of the Governmental Fund Types 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 balances that are not available for appropriation or expenditure or that are legally segregated for specific future uses.

Nonmonetary Federal Assistance

Nonmonetary federal financial assistance is not reflected in the financial statements. Inventory valuations of such assistance were approximately $17.5 million as of June 30, 1991.

Cash and Cash Equivalents

As presented in the Combined Statement of Cash Flows - All Proprietary Fund Types and Nonexpendable Trust Funds, Cash and Cash Equivalents includes Equity in Treasurer's Cash Pool, Cash - Other, and Restricted Assets, as described above.

F. Other Accounting Policies

Revised Tax Laws

During fiscal year 1991, the State of Maine revised laws for certain taxes. This resulted in $40.5 million in additional General Fund revenues recorded in 1991 which would otherwise have been recorded in the following fiscal year. Tax laws were revised for the following:

- Withholding Tax deposit due dates were changed to conform with IRS Code Section 6302; this resulted in additional revenue of $21.5 million;

- The Insurance Premium Tax fourth quarter due date was changed from July 30 to June 30; this resulted in additional revenue of $10 million; and

- Sales Tax law was revised to require large retailers to pay estimated taxes by the twenty-first of each month rather than remitting sales tax collections by the fifteenth of the following month; this resulted in additional revenue of $9 million.

Tax Amnesty Program

The state implemented a tax amnesty program for fiscal year 1991 which resulted in $29.1 million in cash receipts for the year ended June 30, 1991. Of that amount, $19.4 million was recognized as revenue and the balance was applied to existing taxes receivable.

Corporate Tax Receivable

At June 30, 1991 taxes receivable included $19.1 million for corporate taxes receivable resulting from Bureau of Taxation audit assessments. Similar assessments were not made in fiscal year 1990.

Special Revenue Fund Reclassifications

Special Revenue Fund revenues and expenditures were reduced by $29.5 million and $28.1 million respectively due to the reclassification of the Maine Milk Pool and Child Support Collections programs as Agency Funds.

Maine Turnpike Authority Prepayment

For fiscal year 1991 the Maine Turnpike Authority prepaid $15 million to the Highway Fund. Statutory changes to the Highway Fund for only fiscal year 1991 resulted in the Highway Fund paying 75% of the expenses to operate the Department of Public Safety -Bureau of the State Police. This increased Highway Fund expenditures and decreased General Fund expenditures by $5 million. The remaining amount that the Authority prepaid was transferred to the General Fund, increasing General Fund transfers-in and Highway Fund transfers-out by $10 million.

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 year.

Vacation and Sick Leave

The state permits 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. A long-term liability of approximately $23 million of accrued vacation benefits at June 30, 1991 has been recorded in the General Long-Term Debt Account Group and represents the state's commitment to fund these costs from future operations. Proprietary Fund Types accrue vacation benefits in the period in which they are earned. Employees' sick time is not vested; therefore expense for sick time is recorded when paid.

2. Stewardship, Compliance and Accountability

At June 30, 1991 the General Fund had a deficit balance of $69,582,000. The enterprise funds for the Department of Transportation, Bureau of Alcoholic Beverages, Prison Industries, State Forest Nursery, State Lottery, and State Loan program had deficit retained earnings balances of $4,610,963, $353,586, $1,789, $33,873, $167,769 and $463,897 respectively. Several internal service funds had accumulated deficit retained earnings balances aggregating $3,835,806.

The General Fund deficit resulted from recognizing tax refunds payable, deferred tax revenue, and fund liabilities in excess of accrued revenues. The enterprise and internal service fund deficits result from recognizing depreciation, allowances for uncollectible accounts, and fund liabilities in excess of accrued revenues. In the past, these deficits were covered by transfers from the General Fund and Special Revenue Funds. Additional transfers can be made subject to legislative approval. Measures taken to alleviate the General Fund deficit include reducing personal services expenditures through layoffs, furloughs, and scheduled government shutdowns; deferral of scheduled payments for aid to local schools, teacher retirement contributions, support payments to the Maine Maritime Academy, Maine Technical College System, and University of Maine System; and transfers of certain surplus balances within the Maine State Retirement System.

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, as presented on a budgetary basis of accounting in Exhibit 3 and GAAP basis in Exhibit 2, for the fiscal year ended June 30, 1991 are:

(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balance (Exhibit 3)	$ 28,129	$109,046
Accounts payable	(35,900)	(50)
Accrued payroll	(19,100)	(13,630)
Due to other funds	(1,015)	(4,139)
Due to other governments		(5,601)
Deferred revenue	(32,826)	(15,000)
Accounts receivable	795	
Taxes receivable	(9,665)	196
Fund Balance (Exhibit 2)	($ 69,582)	$ 70,822

4. **Statement of Cash Flows**

For the fiscal year ended June 30, 1991 the state adopted Statement 9 of the Governmental Accounting Standards Board (GASB), "Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting." Accordingly, the accompanying Combined Statement of Cash Flows - All Proprietary Fund Types and Nonexpendable Trust Funds replaces the Combined Statement of Changes in Financial Position - All Proprietary Fund Types and Similar Trust Funds that was presented by the state in past years. The Statement of Cash Flows details changes in cash and cash equivalents during the year (see note 1D for a definition of cash and cash equivalents). In accordance with GASB Statement 9, the state has elected to use the indirect method of reporting net cash flows from operating activities and has omitted the Pension Trust Fund from its Statement of Cash Flows.

5. **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 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, such deposits are 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; in repurchase agreements secured by obligations of the United States which mature within the succeeding 24 months; in 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, provided the financial institutions lend operating funds (at least equal to the amount of the deposit) to agricultural enterprises in this state at 2% interest rate reductions and up to $4 million in lending institutions at a 2% lower-than-market yield, provided the financial institutions lend operating funds (at least equal to the amount of the deposits) to commercial enterprises approved by the Treasurer at 2% interest rate deductions.

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

In accordance with 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 manages a pooled cash and investment account that is available for use by all funds except those restricted by law. 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 allocated to the various funds is based on their average equity balances.

Deposits

Category 1 is 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 2 is the deposits which are collateralized with securities held by the pledging financial institutions' trust departments or agents in the state's name. Category 3 is the deposits which are not collateralized at June 30, 1991. At year-end, the carrying amount of the state's deposits was $132.7 million and the bank balance was $139.9 million. The difference was due primarily to timing of transactions.

(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Demand and time deposits	$ 8,830	$17,992	$5,710	$ 31,617	$ 24,345
Maine Employment Security Commission deposits with U.S. Government	108,356			108,356	108,356
Total	$117,186	$17,992	$5,710	$139,973	$132,701

Investments

The State of Maine categorizes investments according to the level of credit risk that the state assumes. 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, the total carrying amount, and the market value of state investments:

(Dollars in Thousands)

	Carrying Amount				Market
	Category 1	Category 2	Category 3	Total	Value
Repurchase agreements	$	$ 172,338	$	$ 172,338	$ 172,464
U.S. Government securities		49,453	4,390	53,843	54,486
Corporate bonds and notes		2,536	2,110	4,646	4,568
Money market holdings		2,867	1,765	4,632	4,632
Commercial paper		67,306	7,054	74,360	76,742
Subtotal		294,500	15,319	309,819	312,892
Add amounts managed by the Maine State Retirement System:					
U.S. Government securities			258,811	258,811	273,880
Corporate bonds and notes			125,383	125,383	124,895
Corporate stocks			523,495	523,495	565,762
Money market holdings			5,000	5,000	5,000
	$ -	$ 294,500	$ 928,008	1,222,508	1,282,429
Add amounts not categorized because securities are not used as evidence of investments:					
Investment pools that the retirement systems participate in:					
Commingled funds				953,153	1,148,673
Real estate				36,992	35,400
Mortgages				45	45
Deferred compensation plan investments				57,664	57,664
Other investments				42,622	42,285
Total Investments				$2,312,984	$2,566,496

6. **Accounts and Notes Receivable**

Taxes receivable, accounts receivable and loans/notes receivable are stated as net of allowances at fiscal year-end. At June 30, 1991 allowances for uncollectible accounts were approximately $21.5 million, $7.2 million, and $1.7 million respectively.

7. **Property Taxes**

Property taxes are assessed by the State Tax Assessor on properties located in the Unorganized Territories ofMaine and on telecommunication personal properties located statewide. 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.

8. **Due From Other Governments - Grants Receivable**

Due from other governments is comprised primarily of federal grants receivable, which represent $47.9 million due for Medicaid claims, $1 million due for Child and Adult Care Food Program and $1 million due for Family Support Payments to States - Assistance Payments (AFDC).

9. **Joint Venture**

Tri-State Lottery Commission

The State of Maine has entered into a lottery compact with the State of Vermont and the State of New Hampshire subject to certain terms and conditions. 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 is allocated to each state based on the amount of ticket sales in 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 Numbers expenses which are allocated to each state based on Daily Numbers 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 liability is established for prizes payable 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 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 states. The commission annually elects a chairman from among its members and exercises control over budgeting and financing policies.

As of and for the year ended June 30, 1991 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	$145,763
Total liabilities	145,763
Retained earnings	-
Total revenues	91,553
Total expenses	57,421
Allocation of funds to member states	33,802

Included in liabilities is approximately $145 million for prizes payable which have been provided for primarily through the purchase of annuity contracts.

Multi-State Lottery Association

The State of Maine has entered into a lottery compact with the Multi-State Lottery Association subject to certain terms and conditions. Lotto*America tickets are sold in each of the party states and processed in Iowa.

A proportional share of revenues and expenses is allocated to each state based on the amount of ticket sales made by each state. The exception is that the facilities management fee which is based on a contracted percentage of operating revenues that varies from state to state.

The association has designated that a minimum of 43% of gross revenues be reserved for prize awards and agent bonuses. A liability is established for prizes payable 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 the Multi-State Lottery Association is comprised of one member from each of the party states. Association members are appointed by and serve at the pleasure of their respective party states. The association annually elects a chairman from among its members and exercises control over budgeting and financing policies.

As of and for the year ended June 30, 1991 the following selected financial information was included in the Balance Sheet and Statement of Revenues, Expenses and Changes in Retained Earnings of the Multi-State Lottery Association:

(Dollars in Thousands)

Total assets	$249,369
Total liabilities	249,271
Fund balance	98
Total operating revenues	1,710
Total operating expenses	1,738
Net decrease in fund balance	(28)

Included in liabilities is approximately $219 million for prizes payable which have been provided for primarily through the purchase of annuity contracts.

10. **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 Assets Account Group (Unaudited)	Enterprise Funds	Internal Service Funds
Land	$ 52,190	$ 821	$ 243
Buildings and improvements	197,146	10,135	5,642
Equipment and fixtures	100,447	32,539	73,258
	349,783	43,495	79,143
Less:			
Accumulated depreciation	-	(11,525)	(41,353)
	$349,783	$31,970	$37,790

11. **Pension Systems and Obligations**

Plan Descriptions

A. General

In accordance with state statutes, the Maine State Retirement System Board of Trustees administers three contributory defined benefit pension plans through the Maine State Retirement System, an agent multiple-employer public employee retirement system (PERS). The three plans are the Maine State Retirement System (MSRS), the Judicial Retirement System (JRS), and the Legislative Retirement System (LRS).

In addition to the MSRS, JRS, and LRS the state also has separate pension plans funded by legislative appropriations for certain former employees and beneficiaries of employees of the Judicial and Public Safety Departments. These plans existed prior to the establishment of the MSRS, JRS and LRS, and do not cover current employees. As of June 30, 1991 there were 45 payees of the Public Safety plan and 45 payees of the Judicial plan. Pension payments during 1991 for these two plans were $646,000 and $1,563,000 respectively.

The MSRS, JRS, and LRS are considered part of the State of Maine's financial reporting entity and are included in the accompanying financial statements as pension trust funds in the Trust and Agency Funds. The purpose of these plans is to provide retirement, death, and disability benefits for substantially all state employees, public school teachers, employees of minor political subdivisions, certain local participating districts and agencies, judges, and members of the state's legislature. Title 5, MRSA, Chapters 423 and 425 authorize the stated benefit provisions.

At June 30, 1991 MSRS, JRS, and LRS membership consisted of:

	MSRS	JRS	LRS	Total
Employers	275	1	1	277
Active members:				
state	15,506	47	123	15,676
teachers	22,905	-	-	22,905
districts	8,966	-	-	8,966
Retirees/beneficiaries	16,690	20	15	16,725
Inactive vested	604	1	-	605

B. Membership and Benefit Provisions

Maine State Retirement System:

Membership in the MSRS is a condition of employment for state employees and public school teachers, and is optional for elected and appointed officials. Eligibility is granted upon hiring. For those employed by political subdivisions, and local districts and agencies, membership is contingent upon the system's Board of Trustees' approval of the entity's participation in the plan. If approved, membership is a condition of employment for all employees hired after plan inception and is granted upon hiring. Participation of elected officials of political subdivisions is optional.

Participating employees who retire after 25 years of creditable service or after attainment of age 60 with either 10 years of creditable service or one year of service immediately before retirement, are entitled to an annual retirement benefit, payable monthly for life, that is generally 2% of the member's average final compensation multiplied by the years of membership service and up to 25 years of prior service, reduced for retirement before age 60. For participants entering the plan after December 1, 1984, the eligibility age is increased to age 62 and early retirement benefits are reduced 6% for each year before age 62. Certain law enforcement officers, liquor inspectors and airplane pilots employed before September 1, 1984 are entitled to a benefit of 50% of the member's average final compensation plus 2% for each year of service in excess of 20 years. A member may elect an option for a reduced benefit payable for life with the provision that after the member's death a beneficiary receives benefits for life.

Employees who have retired on or before February 28 of each year and their beneficiaries are entitled to an automatic cost-of-living adjustment (COLA) equal to the annual percentage change in the consumer price index (CPI) to a maximum of 4%. They may also receive an additional amount, contingent on sufficient funding, up to the actual amount of the change in the CPI.

Judicial Retirement System:

Membership in the JRS is a condition of employment for judges and eligibility is granted upon hiring.

Participating employees who retire after 25 years of creditable service or after attainment of either age 60 with 10 years of creditable service or age 70 with one year of service immediately before retirement, are entitled to an annual retirement benefit, payable monthly for life, that is generally the sum of (a) 2% of the member's average final compensation multiplied by the years of membership service and creditable service transferred from MSRS; and (b) 75% of the November 30, 1984 salary for the position held at retirement, pro-rated for service less than 10 years. All are reduced for retirement before age 60. A member may elect an option for a reduced benefit payable for life with the provision that after the member's death a beneficiary receives benefits for life.

Retirees who have retired on or before February 28 of each year and their beneficiaries are entitled to an automatic cost-of-living adjustment (COLA) equal to the annual percentage change in the consumer price index (CPI) to a maximum of 4%. They may also receive an additional amount, contingent on sufficient funding, up to the actual amount of the change in the CPI.

Legislative Retirement System

Membership in the LRS is mandatory for legislators entering on or after December 3, 1986 and is optional for those who were members prior to that date. Eligibility is granted upon election to the legislature.

Participating employees who retire after 25 years of creditable service or after attainment of either age 60 for members in service or age 60 with 10 years of creditable service or five full terms as a legislator for members not in service, are entitled to an annual retirement benefit, payable monthly for life, that is generally 2% of the member's average final compensation multiplied by the years of membership service reduced for retirement before age 60. A member may elect an option for a reduced benefit payable for life with the provision that after the member's death a beneficiary receives benefits for life.

Retirees who have retired on or before February 28 of each year and their beneficiaries are entitled to an automatic cost-of-living adjustment (COLA) equal to the annual percentage change in the consumer price index (CPI) to a maximum of 4%. They may also receive an additional amount, contingent on sufficient funding, up to the actual amount of the change in the CPI.

C. Employee and Employer Obligations to Contribute

MSRS and JRS covered employees are required to contribute to the system at a rate, set by statute, of 6.5% of earnable compensation. For state employees and public school teachers hired on or after July 1, 1992 the contribution rate is 7.5%. 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, 1991 the percentages were: MSRS, 19.66%; JRS, 35.09%; and LRS, 12.66%. Title 5, MRSA, Chapters 423 and 425 authorize the contribution rates.

D. 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. This measure represents the actuarial present value of credited projected benefits, and is intended to help users assess the funding status of the systems on a going-concern basis; assess progress made in accumulating sufficient assets to pay benefits when due; and make comparisons among other retirement systems. The measures are independent of the actuarial funding methods used to determine contributions to the plans as discussed in section F.

The pension benefit obligations were computed as part of actuarial valuations performed as of June 30, 1991. Significant actuarial assumptions used in the valuation include a rate of return on investments of 8%; projected salary increases of 6% to 10% per year, depending on age; and cost-of-living increases of 4% annually.

At June 30, 1991 the plans' unfunded pension benefit obligations were:

	(Dollars in Millions)			
	MSRS	JRS	LRS	Total
Pension benefit obligation:				
Retirees, beneficiaries and terminated vested employees	$1,560	$9	$*	$1,569
Current employees				
Accumulated employee contributions	664	1	*	665
Employer-financed vested	529	7	*	536
Employer-financed nonvested	895	4	*	899
Total pension benefit obligation (Does not include obligations or liabilities for health insurance)	3,648	21	1	3,670
Less:				
Net assets available for benefits at cost (market value - MSRS $1,429, JRS $12, LRS $1)	1,256	11	1	1,268
Unfunded pension benefit obligation	$2,392	$10	$0	$2,402

* less than $1 million

E. Effects of Current Year Changes on Contribution Requirements

The MSRS actuarial valuation as of June 30, 1991 incorporated changes in benefit provisions. MSRS members with less than seven years creditable service on December 1, 1991 will not be eligible for service retirement until age 62. In addition, legislation was passed to transfer monies representing excess reserves in various pension trust fund accounts to offset the deappropriation of approximately $49 million in employer contributions to the MSRS. Without the plan change to reduce future benefits, the contribution rate for fiscal year 1992 would have been 20.10% rather than 19.80% as calculated by the plan's actuary.

F. Contributions Required and Contributions Made

Funding policies for MSRS, JRS and LRS provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are adequate 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. Except for ancillary benefits, level percentage of payroll employer contribution rates are determined using the entry age actuarial funding method. This funding method produces an employer contribution rate consisting of (a) the normal cost rate and (b) the unfunded actuarial liability rate. Actuarial valuations prepared as of June 30, 1991 indicate that the unfunded liability liquidation period is 30 years from June 30, 1987 for MSRS, and 26 years from June 30, 1991 for JRS under the level percent of payroll amortization method. The contribution rates for ancillary benefits are determined separately using a term cost method.

Under the provisions of the plans substantially all employees of employers in the MSRS, JRS and LRS are covered by the plans. Therefore, total payroll (exclusive of participating local districts) approximates covered payroll. Total covered payrolls for the year ended June 30, 1991 aggregated $985,642,223, $3,545,966 and $1,291,500 respectively.

Contributions were made by employers and employees in accordance with actuarially determined requirements computed through actuarial valuations performed as of June 30, 1990. However, legislation was passed requiring the retirement system to transfer monies representing excess reserves in various pension trust fund accounts to offset the deappropriation of approximately $49 million in employer contributions to the MSRS. According to the most recent actuarial valuation performed as of June 30, 1991, if the state continues to defer required contributions the unfunded actuarial liability will continue to increase and the financial condition of the MSRS will deteriorate. The increased unfunded actuarial liability will have to be funded by increased contributions over the next 26 years, and the state must make a commitment to pay required contributions on schedule in order to prevent this situation from becoming critical.

Employer contributions, as percentages of active member payrolls during fiscal year 1991:

	MSRS	JRS	LRS
Normal cost	6.38%	24.51%	11.64%
Unfunded actuarial reserve	11.42	11.43	0.00
Ancillary benefits	1.86	2.24	1.95
Total cost	19.66%	38.18%	13.59%

G. Historical Trend Information

Historical trend information designed to provide information about progress that MSRS, JRS, and LRS made in accumulating sufficient assets to pay benefits when due, is presented in the Required Supplementary Information Section of this report following the notes to the financial statements.

12. **Other Employee Benefits**

A. 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 25% 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 non-Medicare 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, 1991 there were 8,456 retired state employees and 8,234 retired teachers. During the 1991 fiscal year health care expenditures for retirees were approximately $9.3 million.

B. 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 $1.9 million for the fiscal year ended June 30, 1991.

C. Deferred Compensation

The state offers its employees a deferred compensation plan created in accordance with Internal Revenue Code §457. The plan is available to all state employees, and 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.

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, 1991 these commitments, payable over 20 years, totaled approximately $566.3 million.

On November 1, 1990 the State of Maine entered into an agreement with the Bank of New York to finance construction of three buildings by issuing of $16 million in certificates of participation. The certificates bear interest at rates varying from 5.7% to 6.6% and mature on various dates from September 1, 1991 to September 1, 2000. Repayment of the obligations is dependent on appropriations by the state legislature.

At June 30, 1991 the Department of Transportation had contractual commitments for construction of various highway projects. The amount of the commitments could not be determined. Funding for these future expenditures is expected to be provided from federal funds, state funds, and bond proceeds.

14. Lease Commitments

The state has one to twenty year commitments for various operating leases of office space, land, vehicles, computers and office equipment. The state expects that these leases will be renewed or replaced by similar ones. In general, the leases contain nonassignable and escalation clauses as well as predetermined rent increases. Commitments for noncancelable operating leases are:

(Dollars in Thousands)

Year Ending June 30	Minimum Operating Lease Payments
1992	$11,796
1993	11,426
1994	10,095
1995	8,791
1996	7,914
Thereafter	16,459
Total	$66,481

Rental expense for the year ended June 30, 1991 was approximately $11.2 million.

Capital leases are for acquisition of vehicles, office space, computers, and telecommunications equipment. Future minimum capital lease payments are:

(Dollars in Thousands)

Year Ending June 30	Minimum Capital Lease Payments
1992	$10,490
1993	12,243
1994	8,956
1995	4,756
1996	2,224
Thereafter	8,857
Total minimum lease payments	47,526
Less interest	(7,356)
Present value of minimum lease payment	$40,170

15. **Bonds and Notes Payable**

General obligation bonds are backed by the full faith and credit of the state and must be repaid in annual installments beginning not more than one year after issuance. Various authorizing laws restrict the use of debt. Changes in general obligation bonds outstanding for the year ended June 30, 1991 are:

(Dollars in Thousands)

Bond Type (Rate range)	Outstanding July 1	Additions	Reductions	Outstanding June 30
General Purpose (3.25% to 11.25%)	$202,405	$85,375	$34,320	$253,460
Highways and Bridges (1.75% to 11.25%)	87,610	26,500	11,240	102,870
College, University, and Veterans Home Facilities (0.1% to 11.25%)	16,260	24,250	1,420	39,090
	306,275	136,125	46,980	395,420
Bond Anticipation Notes Payable (5.4% to 6.3%)	—	95,989	—	95,989
Total	$306,275	$232,114	$46,980	$491,409

Bond anticipation notes are issued by the state until bond proceeds are available. A portion of the proceeds of bonds issued in June, 1991 will be used to retire the outstanding bond anticipation notes maturing on July 1, 1991.

The requirements to amortize all bonds and notes outstanding as of June 30, 1991 are:

(Dollars in Thousands)

Fiscal Year	Principal	Interest
1992	$143,144	$25,394
1993	43,815	22,749
1994	51,935	19,459
1995	43,905	15,972
1996	38,580	13,002
Thereafter	170,030	43,766
Totals	$491,409	$140,342

At June 30, 1991 the state had approximately $108.2 million of authorized debt not issued.

16. **Self-Insurance**

The State of Maine is self-insured for the following:

- Unemployment compensation
- Workers' compensation
- Automobile liability
- Tort claims liability
- Federal law, Section 1983, civil rights
- Foster parent and respite care liability
- Police professional liability

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 $1.4 million for the fiscal year ended June 30, 1991.

The state is self-insured for losses incurred for workers' compensation settlements and medical payments to employees injured on the job. In the opinion of the Attorney General, the injuries involve the possibility of significant liability to the state. At June 30, 1991 the state had not estimated the liability for worker's compensation.

The state has elected partial self-insurance for the following:

- Property insurance for which the state retains the risk of $1 million per occurrence up to a $2 million aggregate;

- Boiler insurance for which the state retains the risk of $5,000 per occurrence;

- Food stamp bond for which the state retains the risk of $500,000 per occurrence;

- Aircraft fleet insurance for which the state retains the risk of up to $50,000 depending on the coverage elected by the agency covered; and

- Ocean marine/boat insurance for which the state retains the risk of up to $50,000 depending on the coverage elected by the agency covered.

The state has elected full coverage for the following:

- Comprehensive blanket bond subject to a $1,000 deductible; and

- General liability insurance with no deductible.

The state risk pool holds $500,000 for the Low-Level Radioactive Waste Authority in case of liability incurred by the authority. Although the money is in risk pool funds, no risk has been transferred to the state.

Self-insurance is provided through the Reserve Fund for Self-Insurance Retention Losses (an internal service fund). Fund revenues are primarily contributions from other fund groups and are planned to match expenses of insurance premiums for coverage in excess of self-insured amounts, claims resulting from the self-insurance program, and operating expenses. Risk Management Fund reserves totaled $6.6 million as of June 30, 1991. Estimated outstanding claim liabilities of $2.6 million have been accrued in the internal service fund.

17. **Interfund Assets and Liabilities**

Interfund assets and liabilities for each individual fund at June 30, 1991 are:

(Dollars in Thousands)

Fund Types/Fund	Interfund Assets		Interfund Liabilities	
	Due From	Advances To	Due To	Advances Payable
General Fund	$ 4,888	$ 2,871	$13,903	$ 2,000
Special Revenue Fund				
Highway	508	13,182	2,704	
Federal Expenditures	39		555	200
Other Special Revenue	6,653		3,454	425
Federal Block Grant			4	
Total Special Revenue Fund	7,200	13,182	6,717	625
Enterprise Funds				
State Forest Nursery Fund				75
Alcoholic Beverages			915	2,000
Prison Industries	45			
State Lottery Fund			2,397	
Total Enterprise Funds	45		3,282	2,075
Internal Service Funds				
Vehicle Rental	16		193	60
Highway Garage	2,172		3	13,182
Postal, Printing & Supply	1,415		6	111
Telecommunications	2,066		7	
Office of Information Services	7		12	
Risk Management	574	2,000	95	
Bureau of Data Processing	4,545		50	
Total Internal Service Funds	10,795	2,000	366	13,353
Trust and Agency Funds				
Employment Security	57			
Maine State Retirement			59	
Other Agency Funds	1,342			
Total Trust and Agency Funds	1,399		59	
Total All Funds	$24,327	$18,053	$24,327	$18,053

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

18. Segment Information for Enterprise Funds

The state maintains the following enterprise funds which are classified for segment reporting.

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. The Lottery has participated in the Multi-State Lottery since July 1, 1990. Net income is transferred to the General Fund.

Department of Transportation

This department operates the Augusta airport, the marine ports and the ferry services.

Other Enterprise Funds

Other enterprise funds include the following:

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

Financial segment information as of and for the year ended June 30, 1991 for the state's enterprise funds is:

(Dollars in Thousands)

	Bureau of Alcoholic Beverages	Maine State Lottery	Department of Transportation Services	Other Enterprise Funds	Total Enterprise Funds
Operating revenues	$87,409	$96,254	$1,464	$ 1,619	$186,746
Depreciation expense	104	(758)	1,197	67	610
Operating income (loss)	35,142	29,615	(3,031)	184	61,910
Operating transfers in (out)	(35,158)	(29,371)	2,987	-	(61,542)
Tax revenues	10,013	-	-	-	10,013
Net income (loss)	(15)	549	238	436	1,209
Capital contributions	-	-	334	(1,130)	(1,464)
Acquisition of property, plant and equipment (net)	46	3	4,329	144	4,522
Net working capital	1,524	80	708	2,512	4,823
Total assets	6,297	4,138	30,765	10,780	51,980
Total equity	170	413	30,616	8,493	39,692

19 .Commitments and Contingencies

Litigation

The State of Maine is presently involved in litigation regarding certain taxes assessed by the state. It is not possible for the Attorney General's office to determine the final outcome of the pending cases. Potential losses, should all of the cases have unfavorable outcomes, are approximately $5.1 million.

In addition, the state is party to other claims and litigation that occur in the normal course of governmental operations, some involving substantial amounts. Attorneys for the state have advised that adverse court decisions are not probable.

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, 1991 have not been completed. Accordingly, the state's compliance with grant requirements will be established at some future date. The amount of expenditures which may be disallowed, if any, by the grantor agencies cannot be determined at this time.

Deferred Payments

Chapter 121, Public Law 1991 deappropriated funds and deferred General Fund payments until after July 1, 1991 for the following:

		(Dollars in Millions)
°	Contributions to the Maine State Retirement System for Teachers' Retirement	$13.5
°	General Purpose Aid for Local Schools	40.8
°	Maine Maritime Academy	0.6
°	Maine Technical College System	2.0
°	University of Maine System	11.6
	Total Deferred	$68.5

No provision to pay any of the deferred amounts has been made in the accompanying financial statements.

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, 1991 amounts committed pursuant to these authorizations were approximately $48.5 million. In addition, the state has a $75 million reserve fund restoration commitment with FAME. As of June 30, 1991, FAME had committed to $25.3 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, 1991 the total principal amount of outstanding MSBA bonds was $1 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, 1991, the total principal amount of outstanding MSHA bonds was $919.6 million. The state has not been required to restore the reserve fund.

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, 1991 the total principal amount of outstanding MMBB bonds was $743.5 million. The state has not been required to restore the reserve fund.

AMHI Consent Decree

As a result of the settlement of a class action suit brought against the Augusta Mental Health Institute (AMHI), the state is responsible for compliance with the Consent Decree signed in August 1990. Compliance with the decree could cost $50-75 million over a number of years.

Insurance Reserve

As of June 30, 1991 Blue Cross/Blue Shield of Maine held $691,105 in a fluctuating reserve account as a reserve against possible future losses. Per agreement between Blue Cross/Blue Shield of Maine and the Maine State Employees Health Program dated May 1, 1989, any positive balances in the fluctuating reserve account will be returned to the program nine months after termination of the group master health insurance contract.

Other Obligations

The state is authorized under various articles of the constitution to guarantee obligations for the following purposes: $4 million in loans to students and parents of students attending institutions of higher education in the state; and $1 million in mortgage loans to members of the two tribes on the several Indian reservations. As of June 30, 1991 there were no bonds issued pursuant to these articles.

20. Fund Equity Restatement

Fund Equity at June 30, 1990 has been restated as:

(Dollars in Thousands)

	General	Enterprise	Internal Service	Expendable Trust	Nonexpendable Trust	Totals (Memorandum Only)
Fund Equity at June 30, 1990 as previously reported	$74,376	$(2,691)	$13,376	$235,147	$12,696	$332,904
Prior period adjustments	7,188	(722)	2,874	2,653	63	12,056
Fund Equity as restated July 1	$81,564	$(3,413)	$16,250	$237,800	$12,759	$344,960

Prior Period Adjustments

A. General Fund: The 1990 audited financial statements included the effects of an approved adjustment for $7.2 million to reduce revenues and increase the allowances for uncollectible taxes receivable. The state did not record the entry and in fiscal year 1991 did not approve any adjustment to increase the allowances. This resulted in a qualified auditor's report.

B. Enterprise Funds: Depreciation expense in the State Airport Fund was understated by $362 thousand. The cost of sales and services expense in the Prison Industries Fund was understated by $360 thousand due to an overstatement of work-in-process inventory.

C. Internal Service Funds: Revenues in the Motor Transport Service Fund were understated by $2.8 million due to not recording accrued revenues.

D. Expendable Trust Funds: Private Trust Fund assets were previously reported as agency fund assets.

E. Nonexpendable Trust Fund: Baxter State Park Authority financing sources were understated by $63 thousand due to incomplete valuation of donated fixed assets.

21. **Subsequent Events**

New Bond Issues and Authorizations

From November 1, 1991 to January 15, 1992 the State of Maine issued $30.2 million in general obligation bonds which carry interest rates of 5.20% to 8.00% and mature from November 1, 1992 to November 1, 2001. The bonds were issued (a) in the aggregate principal amount of $20.625 million to pay the principal amounts of certain general obligation bonds previously issued by the state; and (b) in the aggregate principal amount of $9.6 million to finance the acquisition, construction and improvement of certain public properties.

From March 2, 1992 to May 1, 1992 the State of Maine issued $51.2 million in general obligation bonds which carry interest rates of 4.60% through 6.75% and mature from March 1, 1994 through March 1, 2003. The bonds were issued (a) in the aggregate principal amount of $5.6 million to pay the principal amounts of certain general obligation bonds previously issued by the state; and (b) in the aggregate principal amount of $45.6 million to finance the acquisition, construction and improvement of certain public properties.

On November 5, 1991 and on June 9, 1992, voters authorized additional bond issues of $29.7 million and $79 million.

Tax Anticipation Notes   re A-19 Sec 14 Temp Loans 10% Undedicated Rev Gen'l Highway

On July 14, 1991 the State of Maine issued $150 million in tax anticipation notes which are backed by the full faith and credit of the state, to meet fiscal year 1992 General Fund expenditures.
Liability Accrued of Gen Fund 010 Fund

On July 1, 1992 the state issued $170 million in tax anticipation notes at 3.75% to mature on June 30, 1993. These notes were issued to improve the state's cash flow position.

Certificates of Participation

Pursuant to the Master Lease Purchase Agreement between the State of Maine and Fleet Bank of Maine, certificates of participation totaling $4,522,524 and $2,052,000 were issued September 12, 1991 and March 31, 1992 to finance the acquisition of data processing and telecommunications equipment, vehicles and real estate. The state is required to make lease payments consisting of basic rent, which is equal to the principal and interest on the certificates, and additional rent, which covers certain costs of ownership and operation of the leased property. The state's obligation to make lease payments and other obligations under the lease are dependent upon legislative appropriations. In the event of termination, all rights, titles and interest in the leased property shall be conveyed to the lessor. The 1991A certificates issued September 12, 1991 carry interest rates of 5.75% to 7.10% with final maturities between September 1, 1993 and September 1, 1996. The 1992A certificates issued March 31, 1992 carry interest rates of 3% to 4.8% with final maturities from September 1, 1992 to September 1, 1995.

An additional $1.1 million lease purchase proposal for acquisition and upgrade of telecommunications systems was authorized by the 116th Legislature. No certificates of participation have been issued under this authorization.

Fiscal Years 1992 and 1993 Budget-balancing Measures

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

On July 17, 1991 the 1992-1993 biennial budget was enacted and operations of state government resumed. This budget included a number of measures designed to reduce or defer state expenditures and to increase revenues. Based on the expected effect of these measures the fiscal year 1992 and 1993 budgets increased General Fund appropriations by $24 million and $133 million respectively.

In October 1991 the Governor announced that economic forecasts indicated that projected revenue for the 1992 and 1993 fiscal years would not be sufficient to meet budgeted expenditures. Legislation effective December 23, 1991 reduced General Fund fiscal year 1992 authorized expenditures by $53 million. This was accomplished by reducing funds budgeted for aid to local schools, employee health insurance, payments to the University of Maine System and municipalities, and eliminating the Office of Comprehensive Land Use Planning.

Legislation effective April 1, 1992 reduced the General Fund budget for fiscal year 1993 by $115 million. Among other measures, this was accomplished by:

- Continuing many reductions authorized for fiscal year 1992;
- Reducing and deferring payments to the University of Maine and Maine Technical College Systems;
- Reducing the state cost of the Medicaid program;
- Implementing changes in funding the adult portion of the Maine Health Care program;
- Refinancing general obligation bonds;
- Delaying a pay cycle to fiscal year 1994;
- Reducing the state employee work week by one hour;

- Imposing a one year freeze on merit raises for state employees; and

- Reducing overall expenses by .9%.

The legislature also increased estimates of amounts available to the General Fund based on new revenue sources, transfers of savings expected in other funds, and delays in certain payments.

Discontinued Joint Venture

Effective July 1, 1992 the State of Maine discontinued its participation in the Multi-State Lottery Association.

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 Schedule of Public Employee Retirement System Historical Trend Information

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

The accompanying Schedule of Public Employee Retirement System (PERS) Historical Trend Information is not a required part of the basic financial statements of the State of Maine but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Rodney L. Scribner, CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1992

(This page intentionally left blank)

State of Maine

Schedule A

Schedule of PERS Historical Trend Information
June 30, 1991

Available three and ten year historical trend supplementary information required by Governmental Accounting and Financial Reporting Standards is:

	Net Assets Available for Benefits	Pension Benefit Obligation	Percentage Funded	Unfunded Pension Benefit Obligation	Annual Covered Payroll	Unfunded Pension Benefit as a Percentage of Annual Covered Payroll	Employer Contributions as a Percentage of Annual Covered Payroll
	Dollars in Millions						
Maine State Retirement System							
1991	$1,256	$3,648	34.4%	$2,392	$986	242.6%	19.80%
1990	1,135	3,328	34.1	2,193	924	237.3	19.66
1989	952	3,041	31.3	2,089	830	251.7	19.68
1988	799	2,777	28.8	1,978	758	260.9	19.47
Judicial Retirement System							
1991	$ 11	$ 21	52.4%	$ 10	$ 4	250.0%	35.09%
1990	9	19	47.4	10	4	250.0	38.18
1989	7	18	38.9	11	4	275.0	41.81
Legislative Retirement System							
1991	$ 1	$ 1	100.0%	$ 0	$ 1	0%	12.66%
1990	1	1	100.0	0	1	0	13.59
1989	1	1	100.0	0	1	0	12.28

Analysis of the dollar amount of net assets available for benefits, pension benefit obligation, and unfunded pension benefit obligation in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the pension benefit obligation provides one indication of MSRS, JRS and LRS funding status on a going-concern basis. Analysis of this percentage over time indicates whether a system is becoming financially stronger or weaker, Generally, the greater this percentage, the stronger the PERS. Trends in the unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of MSRS, JRS and LRS progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller the percentage, the stronger the PERS.

(This page intentionally left blank)

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, 1991, and have issued our report thereon dated May 15, 1992. 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; Government Auditing Standards, issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether 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, 1992

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1991

Schedule B

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1991
		Major Federal Programs	
Department of Economic and Community Development			
U.S. Dept. of Housing and Urban Development	14.228	Community Development Block Grants/State's program	$ 9,359,254
Department of Education			
U.S. Dept. of Agriculture	10.550	Food Distribution Program (Note 3A)	3,393,064
	10.555	National School Lunch Program	12,557,680
U.S. Dept. of Education	84.010	Chapter I Programs – Local Educational Agencies	22,952,742
	84.011	Migrant Education – Basic State Formula Grant Program	3,924,666
	84.027	Special Education – State Grants	9,605,667
	84.048	Vocational Education – Basic Grants to States	5,216,358
			57,650,177
Executive Department – Division of Community Services			
U.S. Dept. of Health and Human Services	93.028	Low–Income Home Energy Assistance	16,850,148
Executive Department – State Planning Office			
U.S. Department of Energy	---	Petroleum Violation Escrow Funds	3,656,222
Department of Human Services			
U.S. Dept. of Agriculture	10.551	Food Stamps (Note 3B)	78,453,704
	10.557	Special Supplemental Food Program for Women, Infants, Children	11,871,004
	10.558	Child and Adult Care Food Program	6,514,181
	10.561	State Administrative Matching Grants for Food Stamp Program	5,559,681
U.S. Dept. of Education	84.126	Rehabilitation Services – Basic Support	7,611,639
U.S. Dept. of Health and Human Services	93.020	Family Support Payments to States – Assistance Payments	71,495,859
	93.021	Job Opportunities and Basic Skills Training	3,110,641
	93.023	Child Support Enforcement	8,641,273
	93.658	Foster Care – Title IV–E	7,528,217
	93.667	Social Services Block Grant	12,918,002
	93.778	Medical Assistance Program	328,494,329
	93.802	Social Security – Disability Insurance	3,304,263
			545,502,793
Department of Labor			
U.S. Dept of Labor	17.207	Employment Service	4,023,434
	17.225	Unemployment Insurance (Note 3G)	24,926,643
	17.250	Job Training Partnership Act	7,322,389
			36,272,466

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1991

Schedule B
(Continued)

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1991
		Major Federal Programs	
Department of Transportation			
U.S. Dept. of Transportation	20.205	Highway Planning and Construction	69,350,015
Total Major Federal Programs			$ 738,641,075

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1991

Schedule B
(Continued)

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1991
		Nonmajor Federal Programs	
Department of Administration			
General Services Administration	39.003	Donation of Federal Surplus Personal Property (Note 3E)	$ 1,923,471
U.S. Environmental Protection Agency	66.702	Asbestos Hazards Abatement (Schools) Assistance	76,131
			1,999,602
Department of Agriculture, Food and Rural Resources			
U.S. Dept. of Agriculture	10.025	Plant and Animal Disease, and Pest Control, and Animal Care	32,942
	10.561	State Adm. – Matching Grants for Food Stamp Program	72,000
	10.162	Inspection Grading and Standardization	449,756
U.S. Environmental Protection Agency	66.700	Consolidated Pesticide Compliance Monitoring & Prog. Coop. Agmts.	231,773
	---	Aroostook Water & Soil Management	4,000
			790,471
Department of the Attorney General			
U.S. Dept. of Health and Human Services	93.775	State Medicaid Fraud Control Units	205,553
Department of Conservation			
U.S. Dept. of Agriculture	10.025	Plant and Animal Disease, and Pest Control, and Animal Care	809
	10.063	Agricultural Conservation Program	4,096
	10.064	Forestry Incentives Program	633
	10.652	Forestry Research	74,827
	10.664	Cooperative Forestry Assistance	427,289
	10.901	Resource Conservation & Development	580
U.S. Dept. of Commerce – NOAA	11.420	Coastal Zone Management – Estuarine Research Reserves	1,329
U.S. Dept. of the Interior	15.808	Geological Survey–Research and Data Acquisition	65,538
U.S. Dept. of Energy	81.065	Nuclear Waste Disposal Siting	612
			575,713
Department of Corrections			
U.S. Dept. of Agriculture	10.550	Food Distribution	47,478
U.S. Dept. of Justice	16.540	Juvenile Justice & Delinquency Prev.–Allocation to States	330,682
	16.603	Corrections – Technical Assistance/Clearinghouse	40,376
U S Dept. of Education	---	Substance Abuse	41,256
	---	Cooperative Agreement Plan – Capital Improvements	418,221
U.S. Dept. of Health and Human Services	---	Helping Incarcerated Parents Project	107,600
			985,613

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1991

Schedule B
(Continued)

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1991
		Nonmajor Federal Programs	
Department of Defense and Veterans Services			
U.S. Dept. of Veterans Affairs	64.101	Burial Expenses Allowance for Veterans	53,531
Federal Emergency Management Agency	83.100	Flood Insurance	66,914
	83.503	Civil Defense – State and Local Emergency Management Assistance	244,507
	83.505	State Disaster Preparedness Grants	30,476
	83.509	Facility Survey, Engineering and Development	40,202
	83.514	Population Protection Planning	80,092
	83.516	Disaster Assistance	26,482
	83.522	Radiological Defense	86,358
	83.528	Emergency Management Institute – Field Training Program	93,266
			721,828
Department of Economic and Community Development			
U.S. Dept. of Housing & Urban Development	14.235	Supportive Housing Demonstration Program	221,128
U.S. Dept. of the Interior	15.916	Outdoor Recreation--Acquisition, Development and Planning	236,620
U.S. Dept. of Energy	81.041	State Energy Conservation	71,594
	81.050	Energy Extension Service	25,436
	81.052	Energy Conservation for Institutional Buildings	39,330
			594,108
Department of Education			
U.S. Dept. of Agriculture	10.553	School Breakfast Program	1,729,090
	10.556	Special Milk Program for Children	156,559
	10.559	Summer Food Service Program for Children	359,754
	10.560	State Admin. Expenses for Child Nutrition	224,441
	10.564	Nutrition Education and Training Program	51,179
U.S. Dept. of Education	84.002	Adult Education–State–Administered Basic Grant Program	913,087
	84.003	Bilingual Education	70,836
	84.004	Desegregation Assistance, Civil Rights Training, and Advisory Services	236,081
	84.009	Education of Handicapped Children in State Operated or Supported Schools	608,076
	84.012	Educationally Deprived Children–State Administration	371,032
	84.013	Chapter 1 Program for Neglected and Delinquent Children	217,063
	84.029	Special Education – Special Education Personnel Development	130,195
	84.049	Vocational Education – Consumer and Homemaking Education	193,948
	84.151	Federal, State, and Local Partnerships for Educational Improvement	2,215,864
	84.164	Eisenhower Mathematics and Science Education – State Grants	608,942
	84.173	Special Education – Preschool Grants	2,590,653
	84.174	Vocational Education–Community Based Organizations	73,008
	84.185	Robert C. Byrd Honors Scholarships	47,289
	84.186	Drug–Free Schools and Communities – State Grants	2,023,418
	84.192	Adult Education for the Homeless	180,470
	84.196	State Activities – Education for Homeless Children and Youth	50,711
	84.207	Drug–Free Schools and Communities – School Personnel Training	38,107
	84.215	The Secretary's Fund for Innovation in Education	89,264
	84.216	Capital Expenses	39,941
	84.218	State Program Improvement Grants	39,582
	84.223	English Literacy Program	23,053
	84.224	State Grants for Technology–related Assistance to Individuals with Disabilities	513,009

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1991

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1991
		Nonmajor Federal Programs	
Department of Education – (continued)			
U.S. Dept. of Health and Human Services	93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	236,061
	---	Center for Education Statistics	4,993
			14,035,706
Department of Environmental Protection			
U.S. Environmental Protection Agency	66.001	Air Pollution Control Program Support	1,037,599
	66.419	Water Pollution Control–State and Interstate Program Support	649,457
	66.433	State Underground Water Source Protection	57,699
	66.454	Water Quality Management Planning	160,452
	66.456	National Estuary Program	44,376
	66.458	Capitalization Grants for State Revolving Funds	563,309
	66.459	Nonpoint Source Reservation	419,033
	66.504	Solid Waste Disposal Research	20,948
	66.505	Water Pollution Control – Research, Development, and Demonstration	100,298
	66.801	Hazardous Waste Management State Program Support	371,583
	66.802	Hazardous Substance Response Trust Fund	458,083
	66.804	State Underground Storage Tanks Program	154,189
	66.805	Underground Storage Tank Trust Fund Program	494,154
			4,531,180
Executive Department – Division of Community Services			
U.S. Dept of Agriculture	10.568	Temporary Emergency Food Assistance Program – Administrative Costs	181,314
	10.569	Temporary Emergency Food Assistance – Food Commodities (Note 3D)	964,513
	10.571	Food Commodities for Soup Kitchens (Note 3D)	300,967
U.S. Dept. of Energy	81.042	Weatherization Assistance for Low–Income Persons (Note 3F)	1,491,436
U.S. Dept. of Health and Human Services	93.031	Community Services Block Grant	2,003,230
	93.032	Community Services Block Grants – Discretionary Awards	2,706
	93.034	Emergency Community Services for the Homeless	224,444
	93.600	Administration for Children, Youth and Families – Head Start	17,115
			5,185,725
Executive Department – State Planning Office			
U.S. Dept. of Commerce – NOAA	11.419	Coastal Zone Management Program Implementation and Enhancement Awards	1,816,355
	11.420	Coastal Zone Management Estuarine Research Reserves	287,256
U.S. Dept. of Housing & Urban Development	14.228	Community Development Block Grants/State's Program	57,823
U.S. Dept. of the Interior	15.612	Endangered Species Conservation	17,266
	15.910	National Natural Landmarks Program	4,600
U.S. Environmental Protection Agency	66.419	Water Pollution Control – State and Interstate Program Support	14,022
			2,197,322
Executive Department – Science & Technology			
National Science Foundation	47.069	Human Resource Development	355,177

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1991
		Nonmajor Federal Programs	
Executive Department – Substance Abuse			
U.S. Dept. of Health and Human Services	93.170	Community Youth Activity Demonstration Grants	159,598
Department of Human Services			
U.S. Dept. of Agriculture	10.550	Food Distribution Program (Note 3C)	627,931
U.S. Dept. of Justice	16.575	Crime Victim Assistance	409,323
U.S. Dept. of Labor	17.235	Senior Community Service Employment Program	407,184
U.S. Environmental Protection Agency	66.432	State Public Water System Supervision	410,736
ACTION	72.001	Foster Grandparent Program	198,451
Nuclear Regulatory Commission	77.001	Radiation Control – Training Assistance & Advisory Counseling	2,784
U.S. Dept. of Education	84.129	Rehabilitation Training	10,969
	84.132	Centers for Independent Living	66,135
	84.161	Client Assistance for Individuals with Disabilities	97,274
	84.169	Comprehensive Services for Independent Living	194,923
	84.181	Infants and Toddlers with Disabilities	35,408
	84.187	Supported Employment Services for Individuals with Severe Handicaps	64,100
U.S. Dept. of Health and Human Services	93.026	Refugee and Entrant Assistance – State Administered Programs	1,035,366
	93.029	Work Incentive Program/WIN Demonstration Program	47,412
	93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Programs	36,669
	93.118	Acquired Immunodeficiency Syndrome (AIDS) Activity	697,810
	93.127	Emergency Medical Services for Children	48,419
	93.130	Prim. Care Svs. – Resource Coodination & Development Cooperative Agreements	123,675
	93.146	Temporary AIDS Drug Reimbursements	17,431
	93.161	Health Program for Toxic Substances and Disease Registry	11,088
	93.165	Grants for State Loan Repayment	51,613
	93.171	Community Youth Activity Program Block Grants	159,671
	93.262	Occupational Safety and Health Research Grants	92,970
	93.268	Childhood Immunization Grants	232,784
	93.283	Centers for Disease Control–Investigations and Tech. Assist.	367,533
	93.399	Cancer Control	6,848
	93.553	Special Programs for the Aging – Long–term Care Ombudsman Services	9,032
	93.633	Special Programs for the Aging – Grants for Supportive Services & Senior Centers	1,501,847
	93.635	Special Programs for the Aging–Nutrition Services	1,991,413
	93.641	Special Programs for the Aging – In–home Services for Frail Older Individuals	34,897
	93.643	Children's Justice Grants to States	132,410
	93.645	Child Welfare Services – State Grants	1,362,665
	93.647	Social Services Research and Demonstration	6,358
	93.652	Administration for Children, Youth and Families – Adoption Opportunities	227
	93.659	Adoption Assistance	1,130,921
U.S. Dept. of Health and Human Services	93.668	Special Programs for the Aging–Training, Research & Discretionary Proj. & Prog.	211,047
	93.669	Admin. for Children, Youth and Families – Child Abuse & Neglect State Grants	68,457
	93.671	Family Violence Prevention and Services	85,010
	93.672	Child Abuse Challenge Grants	64,200
	93.673	Grants to States for Planning & Development of Dependent Care Programs	68,024
	93.674	Independent Living	462,739
	93.777	State Survey & Certification of Health Care Providers and Suppliers	1,282,509
	93.977	Preventive Health Services – Sexually Transmitted Diseases Control Grants	83,462
	93.987	Health Programs for Refugees	10,078
	93.988	Coop. Agm'ts. for State–based Diabetes Ctl. Prog. & Eval. of Surveillance Systems	232,543
	93.991	Preventive Health and Health Services Block Grant	800,230
	93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	2,836,225

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1991

Schedule B
(Continued)

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1991
		Nonmajor Federal Programs	
Department of Human Services – (continued)			
U.S. Dept. of Health and Human Services	93.994	Maternal and Child Services Block Grant	2,975,907
	---	New Vocational Rehabilitation Program–SSA	305,317
	---	Vital Statistics Cooperative Program	55,326
			21,165,351
Maine Human Development Commission			
U.S. Dept. of Health and Human Services	93.667	Social Services Block Grant	60,882
Department of Inland Fisheries and Wildlife			
U.S. Dept. of the Interior	15.600	Anadromous Fish Conservation	109,048
	15.605	Sport Fish Restoration	1,312,420
	15.611	Wildlife Restoration	1,450,499
	15.612	Endangered Species Conservation	51,045
U.S. Department of Transporation	20.005	Boating Safety Financial Assistance	248,344
U.S. Department of Commerce	---	Cooperative Agreement–National Marine Fisheries	132,067
			3,303,423
Judicial Department			
State Justice Institute	---	Court Security Grant	13,887
	---	Superior Court Law Clerk Automation Project	79,500
			93,387
Department of Labor			
U.S. Department of Labor	17.002	Labor Force Statistics	671,874
	17.202	Certification of Foreign Workers for Temporary Agricultural Employment	446,043
	17.245	Trade Adjustment Assistance – Workers	1,138,861
	17.246	Employment & Training Assistance – Dislocated Workers	1,184,049
	17.500	Occupational Safety and Health	246,402
	17.600	Mine Health and Safety Grants	58,495
	17.802	Veterans Employment Program	84,363
	---	Me. Occupational Information Coordination Committee	110,693
			3,940,780
Maine Arts Commission			
National Foundation on the Arts and the Humanities	45.003	Promotion of the Arts – Arts in Education	107,514
	45.007	Promotion of the Arts – States Program	344,631
	45.011	Promotion of the Arts – Inter–Arts	10,500
	45.015	Promotion of the Arts – Folk Arts	28,165
			490,810

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1991
		Nonmajor Federal Programs	
Maine Committee on Aging			
U.S. Dept. of Health and Human Services	93.633	Special Programs for the Aging – Grants for Supportive Svs. and Senior Centers	67,070
Maine Historic Preservation Commission			
U.S. Dept. of the Interior	15.904	Historic Preservation Fund Grants–In–Aid	454,709
Maine Human Rights Commission			
U.S. Dept. of Housing and Urban Development	14.401	Fair Housing Assistance Program–State and Local	28,667
Equal Employment Opportunity Commission	30.002	Employment Discrimination – State/Local Anti–Discrimination Agency Contracts	131,670
			160,337
Department of Marine Resources			
U.S. Dept. of Commerce	11.405	Anadromous and Great Lakes Fisheries Conservation	55,985
	11.407	Interjurisdictional Fisheries Act of 1986	168,434
U.S. Dept. of the Interior	15.600	Anadromous Fish Conservation	46,805
			271,224
Maine State Archives			
National Archives and Records Administration	89.003	National Historical Publications and Records Grants	24,205
Maine State Library			
U.S. Dept. of Education	84.034	Public Library Services	362,607
	84.035	Interlibrary Cooperation and Resource Sharing	171,828
	84.154	Public Library Construction & Technology Enhancement	174,616
	84.167	Library Literacy	4,698
	84.197	College Library Technology	56,950
			770,699
Department of Mental Health and Mental Retardation			
U.S. Dept. of Housing and Urban Development	14.235	Supportive Housing Demonstration Program	197,277
U.S. Dept. of Education	84.024	Early Education for Children with Disabilities	166,568
U.S. Dept. of Health and Human Services	93.125	Mental Health Planning and Demonstration Projects	638,457
	93.150	Projects for Assistance in Transition from Homelessness	257,404
	93.158	State Comprehensive MH Service Planning Development Grants	30,659
	93.242	Mental Health Research Grants	259,728
	93.244	Mental Health Clinical or Service Related Training Grants	86,935
	93.630	Adm. on Developmental Disabilities – Basic Sup & Advoc Grants	316,464
	93.667	Social Services Block Grant	1,190,632
	93.992	Alcohol & Drug Abuse & Mental Health Services Block Grant	1,793,712
	---	States Helping States	17,519
			4,955,355

State of Maine
Schedule of Federal Financial Assistance
For the Year Ended June 30, 1991

Schedule B
(Continued)

Recipient/Grantor	Federal Catalog Number	Program Title	Expenditures 1991
		Nonmajor Federal Programs	
Department of Public Safety			
U.S. Department of Justice	16.005	Public Education on Drug Abuse – Information	16,819
	16.550	Criminal Justice Statistics Development	161,293
	16.579	Drug Control and System Improvement – Formula Grant	1,675,924
	16.580	Drug Control and System Improvement – Discretionary Grant	148,174
U.S. Dept. of Transportation	20.218	Motor Carrier Safety Assistance Program	311,501
	20.600	State and Community Highway Safety	759,057
Federal Emergency Management Agency	83.008	Community Based Anti–Arson Program	12,060
	---	Presidential Detail	86,971
			3,171,799
Public Utilities Commission			
U.S. Dept. of Transportation	20.700	Pipeline Safety	9,759
Department of State			
U.S. Dept. of Transportation	20.218	Motor Carrier Safety Assistance Program	128,280
National Foundation on the Arts and the Humanities	45.149	Promotion of the Humanities – Office of Preservation	9,531
			137,811
Department of Transportation			
U.S. Dept. of the Interior – Bureau of Indian Affairs	15.145	Indian Grants – Economic Development	16,177
U.S. Dept. of Transportation	20.106	Airport Improvement Program	636,742
	20.308	Local Rail Service Assistance	23,295
	20.500	Urban Mass Transportation Capital Improvement Grants	1,488,325
	20.505	Urban Mass Transportation Technical Studies Grants	70,002
	20.507	Urban Mass Transportation Capital and Operating Assistance Formula Grants	857,965
	20.509	Public Transportation for Nonurbanized Areas	673,971
			3,766,477
Other Federal Assistance			
U.S. Department of Agriculture	---	Seed Potato Board	155,703
Total Federal Fianacial Assistance – Nonmajor Programs			75,337,377
Total Federal Financial Assistance – Major Programs			738,641,075
Total Federal Financial Assistance			$ 813,978,452

See accompanying notes to the Schedule of Federal Financial Assistance

(This page intentionally left blank)

STATE OF MAINE

NOTES TO THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

June 30, 1991

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, 1991. 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, con tracts, 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, 1991.

   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 Education - 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, 1991 was $423,777.

B. Department of Human Services - Food Stamps (CFDA #10.551): The reported total of federal financial assistance represents the value of food coupons issued. The value of inventory at June 30, 1991 was $16,675,844.

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

D. Executive Department - Division of Community Services - Food Distribution (CFDA #10.569): 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, 1991 was $165,414.

   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, 1991 was $55,738.

E. Department of Administration - Bureau of Purchases - Federal Surplus Property (CFDA #39.003): Distributions are reported at the federally assigned value. The value of inven tory at June 30, 1991 was $150,647.

F. Executive Department - Division of Community Services - Weatherization Assistance for Low-Income Persons (CFDA #81.042); As of April 1, 1991 the Maine State Housing Authority (MSHA) assumed all responsibilities for the program. Whereas MSHA is not included in the scope of our audit, total federal financial assistance reported is as of April 1, 1991.

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

U.I. Administrative Grant	$11,988,073
Trade Readjustment Act (FUBA)	1,170,143
Unemployment Compensation for Federal Employees	2,075,407
Unemployment Compensation for Ex-service Pernel	595,493
Unemployment Compensation for Ex-postal Workers	250,354
Extended Benefits	7,975,335
Total	$24,054,805

REPORTS ON INTERNAL CONTROL

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 Combined Report on Internal Control Structure

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, 1991, and have issued our report thereon dated May 15, 1992. We have also audited the State of Maine's compliance with requirements applicable to major federal financial assistance programs and have issued our report thereon dated May 15, 1992.

We conducted our audits 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 (OMB) Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement and about whether the State of Maine complied with laws and regulations, non-compliance with which would be material to a major federal financial assistance program.

In planning and performing our audits for the year ended June 30, 1991, we considered the State of Maine's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the State's component unit financial statements and on its compliance with requirements applicable to major federal financial assistance programs 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, 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, and that federal financial assistance programs are managed in compliance with applicable laws and regulations. Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance 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:

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
- Administrative requirements

Specific Requirements

- Types of services
- Eligibility
- Matching and level of effort
- Reporting
- Cost allocation
- Special requirements, if any
- Monitoring subrecipients

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

Because of the large number of nonmajor programs and the decentralized administration of these programs, we performed procedures to obtain an understanding of the internal control structure policies and procedures relevant to nonmajor programs on a cyclical basis. Our procedures during the current year covered 30 percent of the nonmajor programs administered by the State of Maine as a whole. The nonmajor programs not covered during the current year have been or are expected to be subject to such procedures at least once during the three year cycle.

During the year ended June 30, 1991, the State of Maine expended 91 percent of its total federal financial assistance under major federal financial assistance programs.

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements and amounts claimed or used for matching that are applicable to each of the State of Maine's major federal financial assistance programs, which are identified in the accompanying Schedule of Federal Financial Assistance. Our procedures were less in scope than would be necessary to render an opinion on these internal control structure policies and procedures. Accordingly, we do not express such an opinion.

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 and operation of the internal control structure that, in our judgement, could adversely affect the State of Maine's ability to record, process, summarize, and report financial data consistent with the assertions of management in the component unit financial statements or to administer federal financial assistance programs in accordance with applicable laws and regulations.

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 one or more of the 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 or that noncompliance with laws and regulations that would be material to a federal financial assistance program 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 matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audits of the State of Maine's component unit financial statements and of its compliance with requirements applicable to its major federal financial assistance programs for the year ended June 30, 1991, and this report does not affect our reports thereon dated May 15, 1992.

Finding: Accounting System Does Not Comply With GASB Principle One

GASB Principle One states,

> A governmental accounting system **must** make it possible both: (a) to present fairly and with full disclosure the financial position and results of financial operations of the funds and account groups of the governmental unit in conformity with generally accepted accounting principles (GAAP), and (b) to determine and demonstrate compliance with finance related legal and contractual provisions.

The State of Maine accounting system does not meet the GAAP requirements of GASB Principle One. Problem areas include:

1. The accounting system has not been programmed to summarize operating statement transaction detail for the Maine State Retirement System. The system reflects only the net results of operations in balance sheet accounts. Pension Trust Fund revenues and expenses must be recreated from either fiduciary reports or unsummarized detail accounting reports.

2. The Department of Finance does not have adequate controls to ensure that agencies establish allowance accounts for uncollectible receivables. For example: the Bureau of Taxation did not provide accurate information regarding the collectibility of sales, corporate and withholding taxes receivable. We have proposed an audit adjustment to increase the Allowance Account which would decrease General Fund Revenue/ Fund Balance by $32.1 million.

3. The reconciliation procedures that the Bureau of Taxation uses did not detect all reporting errors. In March 1992 the bureau charged General Fund revenue for $4.6 million to correct identified errors. It also made a second journal entry to transfer $2.7 million in cash receipts to the Highway Fund from the General Fund, where it had been recorded in error. Portions of both entries pertained to fiscal year 1991.

4. Certain agency funds are not recorded on official state accounting records. These include the Employee Deferred Compensation Plan and Representative Payee accounts administered by the departments of Mental Health and Mental Retardation, Human Services and Corrections. At June 30, 1991 Deferred Compensation Plan assets and liabilities were $57.7 million and Representative Payee aggregate account balances approximately $4.2 million. In addition, the Percival P. Baxter Trust Fund of $21.0 million held by Boston Safe Deposit and Trust Company is not recorded in official state accounting records.

5. In fiscal year 1991, the Department of Administration coordinated the issuing of $16.0 million in certificates of participation but did not reflect the proceeds and associated debt in official state accounting records.

6. The Bureau of Accounts and Control does not have a year-end closing package to ensure correct recording of accounting transactions. For example, at year-end bureau personnel recorded $7.6 million in the prepaid expense account to balance interfund receivables and payables. Also, it debited $7.6 million in tax refunds payable to prepaid expenses rather than to revenue. Before audit adjustment, assets (prepaid expense) were overstated by $15.2 million, revenue overstated by $7.6 million and expenditures/ expense understated by $7.6 million in the General Fund.

7. Centralized information is not sufficient to prepare all necessary financial adjustments and required note disclosures. For instance, current actuary studies are not available to estimate the state's liability for workers' compensation benefits. In addition, adjustments and note information for capitalized leases and lease commitments cannot be obtained at the Controller's office.

8. The General Fixed Assets Account Group (GFAAG) cannot be audited due to an absence of supporting records. The Bureau of Public Improvements (BPI) did not receive the June 30, 1991 Continuing Property Reconciliation Reports from 60% of state agencies. Audit testing disclosed: a) many agencies had not completed required annual physical inventories; b) agency records were incomplete; and c) agency records did not agree with amounts reported to BPI or with physical counts. Because records are not adequate we cannot express an audit opinion on the GFAAG.

9. There is no procedure in place and the accounting system cannot identify entries that comply with legal budget requirements but also require adjustments to properly present financial information on a basis consistent with generally accepted accounting principles (GAAP).

10. There is a significant difference in the accounting knowledge of personnel in various state agencies. State accounting personnel are generally knowledgeable about the budgetary basis of accounting but lack knowledge of generally accepted accounting principles and the associated reporting requirements. Nonroutine accounting entries are frequently incorrect.

Recommendation:

We recommend that the Commissioner of Finance provide accounting guidance, establish procedures and commit sufficient resources so that the financial position and results of financial operations of the funds and account groups of the State of Maine may be presented fairly and with full disclosure in conformity with generally accepted accounting principles.

To ensure that only qualified candidates are placed on employment registers, we recommend that the Bureau of Human Resources carefully review all accounting experience claimed by candidates for accounting position promotional opportunities. We further recommend that the Bureau of Human Resources limit promotional opportunities on registers for senior level accountant and financial management positions to those individuals who thoroughly understand GASB requirements, governmental generally accepted accounting principles and fund accounting for large governments.

Auditee Response:

Numbers 1-9

The Bureau of Accounts and Control is working toward complying with GASB Principle One at the end of 1994.

Number 10

We believe that the Bureau of Human Resources properly identifies prospective candidates that posses the necessary minimum qualifications for employment as accountants within State Government.

Each agency requesting to fill a position is furnished with a "register" of eligible candidates available for interview. It is up to each appointing authority to select the best qualified candidate through an evaluation of education, training, experience and test scores if applicable.

We will investigate with our Bureau of Human Resources and knowledgeable accountants within State Government to see what steps can be taken to improve professional development opportunities as well as upgrading the professional skills required.

Finding: Subrecipient Audits

The Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, requires the State of Maine to determine a) whether subrecipients of federal funds have met audit requirements; and b) whether the subrecipient spent federal funds provided in accordance with applicable laws and regulations.

Federal agencies hold the recipient, not the subrecipient, responsible for compliance at the subrecipient level. This includes repaying any federal financial assistance because the subrecipient failed to comply with federal laws and regulations. The state, recipient of federal assistance, is not in compliance with the subrecipient monitoring requirements of OMB Circular A-128.

The programs affected are:

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

The subrecipient audits of the Maine Department of Mental Health and Mental Retardation do not satisfy the requirements of OMB Circulars A-110 and A-133 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 Maine Department of Human Services has not performed subrecipient audits for the following federal programs within the two year requirement of 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

Social Services Block Grant
CFDA #93.667

Child Abuse and Neglect State
Grants
CFDA #93.669

Child Care Food Program
CFDA #10.558

Crime Victim Assistance
CFDA #16.575

Drinking Water Supply -
Technical Assistance
CFDA #66.425

Rehabilitation Services -
Basic Support
CFDA #84.126

Centers for Independent Living
CFDA #84.132

Sexually Transmitted Diseases
Control Grant
CFDA #93.966

Preventive Health and Health
Services Block Grant
CFDA #93.991

Alcohol and Drug Abuse and Mental
Health Services Block Grant
CFDA #93.992

Centers for Disease Control -
Investigations and Technical
Assistance
CFDA #93.283

Child Welfare Services - State
Grants
CFDA #93.645

Social Security - Research and
Demonstration
CFDA #93.812

Special Programs for the Aging -
Title IV
CFDA #93.668

Family Support Payments to
State - Assistance Payments
CFDA #93.020

Acquired Immunodeficiency
Syndrome (AIDS) Activity
CFDA #93.118

Primary Care Services - Resource
Coordination and Development
Cooperative Agreements
CFDA #93.130

High School Equivalency and
College Assistance Migrant Program
CFDA #93.141

Family Violence Prevention and
Services
CFDA # 93.671

Independent Living
CFDA #93.674

Health Program for Refugees
CFDA #93.987

Maternal and Child Health Services
Block Grant
CFDA #93.994

The Maine Department of Defense and Veterans Services does not have adequate controls to ensure that subrecipient audits are performed in accordance with federal regulations for the Emergency Management Assistance Program (CFDA #83.503), States and Local Emergency Operating Center (CFDA #83.512) and Disaster Assistance (CFDA #83.516).

The Maine Department of Corrections does not have adequate controls to ensure that subrecipient audits are performed in accordance with federal regulations for the Juvenile Justice and Delinquency Prevention Program (CFDA #16.540).

The state is subject to federal sanctions for noncompliance as outlined in §17 of OMB Circular A-128 which states, "In cases of continued inability or unwillingness to have a proper audit, federal agencies must consider other appropriate sanctions including:

- withholding a percentage of assistance payments until the audit is completed satisfactorily
- withholding or disallowing overhead costs, and
- suspending the Federal assistance agreement until the audit is made."

We directed audit findings to the various departments listed above. In addition, Title 5, MRSA, §1654 requires the Commissioner of Finance to issue guidelines for performance and standard audit practices to be used by the state agency responsible for directing and completing audits of each community agency.

Recommendation:

We recommend that the Commissioner of Finance ensure that audits of community agencies and other subrecipients are performed according to federal regulations and applicable auditing standards.

Auditee Response:

These specific issues will be discussed with each agency.

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, 1992.

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

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1992

(This page intentionally left blank)

State of Maine
Schedule of Reportable Conditions
For the Year Ended June 30, 1991

Department of Administration

(1) Bureau of Public Improvements (BPI)

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

The Bureau of Public Improvements is responsible for maintaining the detail records of all the land, buildings and equipment owned by the State. Currently BPI does not have adequate records of the state's fixed assets.

State agencies and organizations are required to submit annual reports of fixed assets to BPI. As of October 19, 1991 and for the fiscal year ended June 30, 1991, approximately 70% were submitted. However, 46% of the reports were not for the current fiscal year and only 40% were prepared on a timely basis. The lack of timely and complete financial reporting resulted in records that were not auditable. As in prior years, we could not examine sufficient evidential matter and consequently cannot an opinion on the General Fixed Assets Account Group.

Complete and reasonably accurate General Fixed Asset Account Group records are necessary for financial reporting and reducing the risk of misappropriated state property.

Recommendation:

As in the past, we recommend that BPI implement a comprehensive fixed asset system that will document, account for, and properly report fixed assets in accordance with generally accepted accounting principles.

Auditee Response:

Failure to submit reports on a timely basis will result in a memo prompting the delinquent agency. This is followed by additional letters to the department, and the commissioner of that department. Present statute does not provide any mechanism to compel compliance.

(2) Bureau of Purchases

Finding: Potential transfer of $750,000 to the General Fund

Over the past three years the Bureau of Purchases Internal Service Fund Miscellaneous Suspense Account has increased from $467,429 to $748,961. The primary purpose of this account is for temporarily recording transactions from the sale of surplus property. Once the agency that provided the surplus property is identified, the suspense account should be reduced and the related revenue credited to that agency. The General Fund, as well as BPI's Internal Service Fund, shares the proceeds of the sale as prescribed by BPI policies and procedures.

We conducted a detailed review of the miscellaneous suspense account and noted that part of the account balance dates back to March 1984. Since a suspense account is normally a temporary holding account, it is unusual to have old items included in the account balance and for the balance to increase significantly over time.

Recommendation:

We recommend that the Bureau of Purchases review the miscellaneous suspense account in detail and make the appropriate accounting entries. In addition, we recommend that BPI analyze the account monthly so that income from the sale of surplus property can be posted promptly. If lack of detail prevents making the needed accounting entries, we suggest closing the suspense account and crediting the General Fund with $750,000 revenue, the amount in the suspense account. The suspense account could then be maintained with a minimal balance and transactions could be posted in the correct fiscal year, as required by generally accepted accounting principles.

Auditee Response:

We agree with the recommendation. The bureau will review the detail comprising the current balance of the suspense account and make the appropriate accounting entries. In those cases where insufficient detail exists to support the balance in the suspense account, the bureau will take the proper action to reconcile the account. In addition we will make every reasonable effort to make the appropriate distribution of the remaining balance in the account.

(3) Risk Management Division

Finding: Estimated losses not accrued

In accordance with Governmental Accounting and Financial Reporting Standards (GASB) Section C50.115, and the Financial Accounting Standards Board (FASB) Statement 5, proprietary funds should accrue estimated losses. The Risk Management Division routinely estimates potential losses but does not account for the potential losses in the financial records of the Reserve Fund for Self-Insured Retention Losses. The estimated claims liability on June 30, 1991 was $2.6 million.

Recommendation:

We recommend that the division report the estimated potential losses in the Reserve Fund for Self-Insured Retention Losses.

Auditee Response:

We will ensure that the estimated claims liability is reported in accordance with applicable standards.

Department of Agriculture, Food and Rural Resources/Department of Finance

(4) Maine Milk Commission/Bureau of Accounts and Control

Finding: Inappropriate fund type for Maine Milk Pool (Prior Year Finding)

The Governmental Accounting and Financial Reporting Standards 1300.104 states that an agency fund is created to act as a custodian for other funds, governmental units, or private entities. Assets are recorded by the agency fund, held for a period of time as determined by legal contract or circumstances, and then returned to the owners.

Funds collected from the Maine milk producers and paid into the Maine Milk Pool are credited to a special revenue account rather than an agency fund. These funds are redistributed to the Maine milk producers in accordance with a formula mandated by the Legislature. The amount of the redistribution is coded as an expenditure and charged to the special revenue account. At fiscal year-end 1991 special revenue fund revenues/expenditures were overstated by $3.7 million.

Recommendation:

We recommend that monies collected from milk dealers be credited to an agency fund. The promotion fee that is transferred, per statutory authority, from the Maine Milk Pool to the Maine Dairy Promotion Board and the Maine Dairy and Nutrition Council should be recognized as other special revenue by these entities. Further, the commission should recognize the administrative fee that the Maine Milk Commission is entitled to as special revenue.

Auditee's Responses:

Maine Milk Commission:
The Maine Milk Commission is in agreement...

Bureau of Accounts and Control:
We are in agreement and will initiate the changes in July.

Department of Human Services

(5) Finding: Controller's records do not include $1.1 million of public guardianship/conservatorship accounts

The Department of Human Services (DHS) administers public guardianship/conservatorship accounts. At June 30, 1991 these accounts totalled approximately $1.1 million. These funds were not reflected on the official accounting records of the state. The DHS has no central record of funds administered.

Recommendation:

So that state accounting records will present a more accurate record of agency activity and financial liabilities, we recommend that the DHS compile the information on all the funds or assets in the custody of its individual agencies, and have the data recorded on the official accounting records of the state.

Auditee Response:

The department will work with the Controller to resolve this finding.

Department of Corrections

(6) Maine State Prison (MSP)

Finding: Account balances not in agreement with Controller's records (Prior Year Finding)

The following Prison Industries Fund account balances did not agree with the Controller's balances as of June 30, 1991. In addition, the Prison Industries Fund account balances were not periodically reconciled to the Controller's records.

Account	Overstatement (Understatement)
Raw material	($ 20,700)
Inventory - state finished goods	(346,420)
Inventory - custom orders	934,246
Buildings	1,439
Equipment	(25,480)
Reserve for depreciation	11,685
Sales	153,491
Cost of goods sold	(302,394)

Recommendation:

We recommend that MSP promptly communicate the correct financial activity of the Prison Industries Fund to the Controller and periodically reconcile Prison Industries Fund accounts to the Controller's records.

Auditee Response:

Entries have been written to correct the overstatement and understatement of accounts to bring the accounts in balance. Journals improperly recorded have been corrected. The reconciliation of accounts will be done on a monthly basis to insure compliance with this finding.

---

(7) Finding: Controller's records do not include $1.6 million of inmate/benefit funds

The State of Maine is accountable for restitution account funds and for inmate/benefit funds at state institutions. At June 30, 1991 these sources totalled approximately $1.6 million. These funds were not reflected on the official accounting records of the state.

Recommendation:

So that state accounting records will present a more accurate record of agency activity and financial liabilities, we recommend that the Department of Corrections compile the information on all the funds or assets in the custody of its individual agencies and institutions and have the data recorded on the official accounting records of the state.

Auditee Response:

The restitution account funds have been transferred to an interest bearing account under the supervision of the Treasury Department effective July 1, 1992.

Department of Finance

(8) Bureau of Accounts and Control (A&C)

Finding: Transaction summaries not available (Prior Year Finding)

Maine State Retirement System (MSRS) records income from investment transactions, retirement contributions, benefit payments, refunds, etc., directly to various trust reserve accounts rather than to operating accounts. As a result of this recording process, and a deficiency in the design and implementation of the MFASIS computer system, no transaction detail summaries are available in the Controller's records.

Using MSRS data and MFASIS detail transaction reports, we were able to construct summary information for auditing and financial reporting purposes. Without such summary information it is impossible for the Controller's office to prepare meaningful and accurate financial statements and pension trust activity reports at fiscal year-end.

Recommendation:

We recommend that the Controller's office develop a program within MFASIS using income and expense reporting codes which will summarize transactions recorded by MSRS. By summarizing income and expense items when recorded, auditable figures will be available at year-end without needing to reconstruct records. In addition, summary information will be available at fiscal year-end for the Controller to prepare financial statements and reports.

Auditee Response:

The MSRS accounting systems accumulate detail and the output from that system is recorded in the Controller's system.

(9) Bureau of Accounts and Control (A & C)

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

The Bureau of Accounts and Control incorrectly used the prepaid expense account to a) offset interfund payables and receivables; b) to offset tax refunds paid in the new year but posted in error to the old year; c) to alleviate deficit account balances; and d) to generate post-dated Aid to Families with Dependent Children (AFDC) checks. At June 30, 1991, prepaid expense incorrectly included the following amounts:

Interfund payables/receivables	$ 7.6 million
Tax refunds	7.6
AFDC	9.1
Total	$24.3

The correct use of prepaid expenses is to account for current outlays to benefit a future period. Interfund payables and receivables should be offset to expenditures or revenues respectively. Expenditures should be recognized in the period in which they are incurred. AFDC and tax refund checks should be reported as of check date, rather than the date generated.

Recommendation:

We recommend that A & C use prepaid expense only for those current outlays that benefit a future period.

Auditee Response:

We will report these appropriately in our GAAP statement in future reports.

---

(10) Bureau of Accounts & Control (A&C)

Finding: Deferred Compensation Plan assets/liabilities of $57.7 million not recorded on Controller's books (Prior Year Finding)

The State of Maine is accountable for participant contributions to the Deferred Compensation Plan. The practice of the Bureau of Accounts and Control has been to record the cash value of the plan assets and liabilities in the State of Maine Annual Financial Report and not in its accounting records. Consequently, as of June 30, 1991 the bureau had not recorded assets and liabilities of $57.7 million on the state accounting records. According to Government Accounting and Financial Reporting Standards (GASB) Statement 2 Section 9, "...deferred compensation plan balances should be displayed in an agency fund of the government employer who had legal access to the resources...."

Recommendation:

We recommend that A&C record the assets and liabilities of the Deferred Compensation Plan in an agency fund.

Auditee Response:

We intend to set up a fund in the near future.

---

(11) Bureau of Accounts and Control (A&C)

Finding: Misstatement in the General Fixed Assets Account Group (GFAAG) balance

The fiscal year 1991 Annual Financial Report for the state reported the General Fixed Assets Account Group balance as $344.6 million. The balance was calculated using either department or agency detail records for June 30, 1990 plus fiscal year 1991 capital equipment additions. However, the calculations did not include capital equipment retirements which occurred during the year. As noted elsewhere in our report, agency GFAAG records are not complete and are not up-to-date.

Recommendation:

For financial reporting purposes, we recommend that the Controller use due care in compiling information.

Auditee Response:

We carefully review all available data to prepare our report. This function is the responsibility of another agency that we have no control over.

(12) Bureau of Accounts and Control (A&C)

Finding: Clearing of incorrect payroll withholding accounts

Errors in clearing payroll withholding accounts amounting to $4.4 million were made by coding payment vouchers to incorrect withholding accounts. The bureau's internal control procedures failed to detect the errors. As a result, liabilities in four accounts were misstated.

Recommendation:

We recommend that the bureau reemphasize the need for staff personnel to correctly code payment vouchers and balance accounts.

Auditee Response:

The Bureau has worked diligently over the last several months and has completed reconciliations of all payroll withholding accounts. *These accounts are now reconciled on a weekly and monthly basis.*

(13) Office of the Commissioner

Finding: Maine Uniform Accounting and Auditing Practices Act (MAAP) not effectively administered (Prior Year Finding)

Title 5, MRSA, Chapter 148-B established MAAP which sets forth standard accounting practices and uniform criteria for audits of all funds provided to community agencies by the state and federal governments. Title 5, §1654 4(A) defines the responsibilities of the commissioner of Finance who is responsible for providing guidelines and criteria for standard audit practice; for maintaining registers of all qualified community agencies; and of all grants or contracts to community agencies; and for ensuring that annual training is available. The commissioner is 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 not assigned full time personnel to implement the act; it has not developed procedures that ensure audits of community agencies meet MAAP requirements; and it has not maintained a usable grants register. Examples of inconsistent or nonexistent MAAP applications are:.

1. The 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 subrecipient audits. They do not accept responsibility for assuring that expenditures of funds from other agencies comply with state and federal requirements;

3. Without a usable grants register, lead agencies consider only their own contract amounts when determining the need to audit even though federal and state audit thresholds are based on aggregate funding. This could exclude a community agency from an audit and therefore not comply with federal or state audit requirements; and

4. Contracts from certain state agencies are categorically excluded from audit coverage because state departments, particularly those without audit staff, frequently elect not to participate in an audit.

Recommendation:

In order to comply with all MAAP requirements we recommend that the commissioner commit the resources necessary to provide oversight of the agencies responsible for coordinating and conducting audits of community agencies.

Auditee Response:

We acknowledge your prior year finding related to the administration of the Maine Uniform Accounting and Auditing Practices Act. Since fiscal year 1991 the Department of Finance and the Department of Administration have merged into a single Department of Administrative and Financial Services. The MAAP responsibilities have been assigned to the Division of Financial Services. The division will attempt to maintain the program objectives by assigning the MAAP responsibilities to the Director and one other senior staff person from within the division.

(14) Bureau of Taxation

Finding: Allowance for estimated uncollectible taxes receivable understated by $32.1 million (Prior Year Finding)

The Bureau of Taxation has not provided the Bureau of Accounts and Control (A & C) with accurate information so that reasonable allowance accounts for estimated uncollectible taxes receivable can be established. Because of the inaccurate information, June 30, 1991 allowance account balances are insufficient to reasonably allow for the amount of recorded revenues that may not be collected. General Fund revenues and fund balance available for appropriation have been overstated by $32.1 million, the amount of adjustment necessary to establish reasonable allowance account balances.

1. Individual Income Taxes

The Bureau of Accounts and Control determines allowance account balances by the sum of 100% of the accounts over one year past due; 50% of accounts over six months past due; 25% of accounts over ninety days past due; and none of the current accounts.

Accounts and Control establishes allowances for estimated uncollectible accounts in March for the current fiscal year since the due date of individual income 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.

At June 30, 1991 the Controller reported the receivable balance for individual income taxes as $26.2 million and the allowance for uncollectible accounts as $14.5 million. Audit estimated the allowance for uncollectible accounts as $15.4 million.

The Bureau of Taxation maintains three other individual income taxes receivable systems (FEDEX, CP2000, and R.A.R.). It does not report balances from these other systems on the aging report to the Bureau of Accounts and Control. At June 30, 1991 receivable balances on these three systems totaled $2.8 million. No allowance for uncollectible accounts was established by the Controller. The estimated allowance for uncollectible accounts is $1.3 million.

2. Sales, Withholding and Corporate Income Taxes

The direct write-off method is used for sales, withholding and corporate income taxes. For these, the Business Services Section of the Bureau of Taxation reports as delinquent only those accounts that the Enforcement Division has attempted to recover and has determined to be uncollectible. All other accounts are reported as current, regardless of age or collectibility. This method is unsatisfactory since it results in a significant mis-matching of revenues and expenses.

At June 30, 1991 the receivable balances and allowances reported by the Controller and estimated by the auditor were as follows:

		Allowance for Uncollectible Accounts ($ Millions)	
Tax	Receivable Amount	Reported by Controller	Estimated by Auditor
Sales	$29.2	$0.5	$20.3
Withholding	8.1	0.1	3.6
Corporate	23.2	0.1	6.1

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:

This finding is essentially the same as reported in the 1990 FY audit. Again our response is that improved aging detail will be developed for each tax type as it is converted to the Maine Automated Tax System (MATS). Presently, we are converting corporate income tax receivables to MATS. We expect to have all receivables which arose prior to MATS converted into MATS this summer. Thereafter, our monthly corporate income tax report will provide receivable aging summaries. The detail behind the summaries will be available monthly upon the implementation of specific procedures to produce such detail

---

(15) Bureau of Taxation

Finding: Inadequate tax reconciliations

The Bureau of Taxation has inadequate reconciliation procedures for tax revenue, taxes receivable, and cash. Tax revenues and receipts represent 90% of General Fund revenue and 60% of Highway Fund revenue.

The bureau has reconciliation procedures in effect for certain taxes but they do not allow for complete reconciliation and will not detect all recording errors or any misuse of funds. Reconciliations are attempted for individual income, sales, withholding, and corporate income taxes. Certain other taxes, such as excise and estate taxes, are not reconciled.

For example, we identified entries that caused General Fund revenues and taxes receivable to be overstated at fiscal year-end. The Bureau of Taxation made a journal entry for $4.6 million in March 1992 to correct the identified errors. We also identified a $2.7 million error that occurred subsequent to fiscal year-end whereby Highway Fund cash receipts were deposited to the General Fund. This error was not detected prior to our audit.

We noted that during the time of our audit the bureau was able to completely reconcile Highway Fund gasoline taxes and has assigned personnel to address reconciliation concerns.

Recommendation:

The Bureau of Taxation has been advised of this situation and has allocated time and personnel to develop different reconciliation procedures.

Auditee Response:

The bureau has reviewed reconciliation procedures for individual income, withholding and highway gasoline taxes. Review of sales tax, corporate income tax, excise taxes and property tax reconciliation procedures will be undertaken after completion of the current review in progress of estate and inheritance tax. Corporate income tax accounting was transferred to the new Maine Automated Tax System in February 1992 and the improved automated reporting will facilitate reconciliations in the future, once outstanding receivables are entered.

The bureau has reviewed revenue accounts and recommended revised reconciliation procedures for individual income tax, withholding and motor fuel tax as outlined below. We are monitoring bureau progress in following these recommendations on a monthly basis.

A. Individual Income Tax

The accounts receivable balances were reconciled from January 1991 to January 1992. An adjusting entry to reduce revenue and accounts receivable by $4.6 million due to duplicated journal entries has been made in conjunction with the correction of a math error from October 1991 which decreased revenue and accounts receivable by $58,351.

Changes were recommended in the reconciliation procedure. As a result, the starting point for reconciliation is now the accounts receivable computer runs. The accounts receivable has been reconciled through April 1992 with the exception of a $79,000 journal entry which is currently being reviewed.

It was also determined that journal entries be made monthly. A check list has been developed for all recurring journal entries.

The income tax system is now being reconciled monthly.

B. Withholding Tax

The withholding taxes were not reconciled for December 1991 and prior. Reconciliation procedures have been set up for January 1992 and forward. In addition, the following procedures were implemented:

1. *Existing balances should be reviewed for large and unusual balances; the Income Tax Section is currently reviewing large balances and adjusting where necessary;*

2. *A weekly report should be generated for accounts with large changes. These balances should be reviewed for unusual items or errors;*

3. *Payment and liability amounts should continue to be batch balanced; and*

4. *Computer printouts of account balances should be retained for a period of one year by revenue processing.*

Currently, withholding receivables are being reviewed and corrected as necessary. Once this review is complete, later this year a reconciling adjustment will be made to the Controller's books and we will reconcile to the Controller's balance on a monthly basis.

C. Highway Gasoline Taxes

The highway gasoline taxes have been reconciled. The \$2.7 million error identified in the audit finding did not affect either the general fund revenues or the gasoline fund revenues. The error occurred when due to a keypunch error a cash receipt was credited to a general fund accounts receivable account instead of the gasoline fund. This resulted in the general fund accounts receivable being understated and the gasoline fund accounts receivable overstated.

The reconciliation identified several other cash receipts which were either miscoded or keypunched into the wrong account. The monthly reconciliation procedures now in effect will disclose these errors.

(16) Bureau of Taxation

Finding: Tax Amnesty Program losses of $3.2 million not recorded on Controller's records

Sales and withholding taxes receivable on the Controller's records were not adjusted to the actual carrying amount as shown on the Bureau of Taxation's receivable listings. Taxes receivable per agency records were reduced by the tax amnesty program which waived all penalties and one half of the interest for those tax payers who participated. However, it appears that Accounts and Control was not informed of these changes.

If these two taxes had been adjusted to accurately represent financial transactions in the bureau, General Fund accounts receivable and revenue would have been reduced by $3.2 million.

Recommendation:

We recommend that the Bureau of Taxation provide the Bureau of Accounts and Control information so that their records may be adjusted to actual.

Auditee Response:

The original concern with receivables forgiven under amnesty amounted to about $7 million. We have satisfied ourselves that the $3.6 million associated with income tax receivables was written off as the returns were processed through the computer system. The remaining $3 million plus are almost all sales tax and withholding receivables....

---

(17) Bureau of Taxation

Finding: No listing of corporate taxes receivable (Prior Year Finding)

The Bureau of Taxation did not retain a detail listing of corporate taxes receivable as of fiscal year-end. Therefore, we were unable to determine the total amount owed to the state.

We had specifically requested and obtained agreement that bureau personnel make this information available for audit use. Bureau personnel prepared the listing but disposed of it rather than provide it to us. The stated reason for this action was that the listing was incorrect. Bureau personnel subsequently provided us with an October 1991 listing. That listing reflected a corporate taxes receivable balance of $5.7 million, a difference of $4.8 million from that as shown on the records of the state Controller as of that date.

Bureau procedures are to reflect corporate taxes receivable on the Controller's records at the time payment is received. Corporate taxes receivable resulting from bureau tax audits and tax returns filed without an accompanying payment are established in internal bureau records but not always in the Controller's records. The Controller's records therefore do not contain complete information.

Recommendation:

To improve internal control and help avoid any diversion of corporate taxes receivable we recommend that:

1. Bureau personnel obtain and reconcile detail listings to a control total, which should be the sum of all individual corporate taxes receivable, and reconcile the control total to the state Controller; this reconciliation should be done by someone independent of the income tax division; and

2. Bureau personnel retain fiscal year-end detail listings, control totals and reconciliations for audit use.

Auditee Response:

This finding is essentially the same as reported in the 1990 FY audit. Last year we agreed to produce a 1991 fiscal year-end report and provide it to the staff of the State Auditor. The report was produced in the summer of 1991 and was available to audit staff in the fall. Subsequent to that time the report appears to have been inadvertently lost. It has also been pointed out that, since a number of corporate *assessments were not entered to the system at the time that the report was generated, it was not entirely adequate.*

Currently, the corporate income tax has been converted to the Maine Automated Tax System (MATS). We are hopeful that most, if not all, unpaid assessments (receivables) will be converted to MATS by the end of June 30, 1992.

As soon as all receivables are introduced to MATS we will commence reconciliation of the system detail to a control and, in turn, to the Controller's total. We will retain records of this process.

Department of Mental Health and Mental Retardation

(18) Finding: Controller's records do not include $1.7 million of patient/benefit funds

The Department of Mental Health and Mental Retardation (MHMR) administers the representative payee fund and patient/benefit funds at state institutions. At June 30, 1991 these sources totalled approximately $1.7 million. These funds were not reflected on the official accounting records of the state. MHMR has no central record of funds administered.

Recommendation:

So that state accounting records will present a more accurate record of agency activity and financial liabilities, we recommend that the MHMR compile the information on all the funds or assets in the custody of its individual agencies and institutions. This information should then be recorded on the official accounting records of the state.

Auditee Response:

Agency did not respond.

Maine State Retirement System

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

The Maine State Retirement System (MSRS) 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:

	Millions
Cash	$ 9.2
Accounts receivable	4.6
Accounts payable	13.8

Recommendation:

We recommend that MSRS correctly record pending transactions as accounts payable or accounts receivable until the transaction settlement date. Alternatively, if this unduly compromises the integrity of data routinely processed through the investment transaction system, we recommend that for financial reporting purposes MSRS provide the amount of pending purchases and sales transactions to the Controller, as of the end of the fiscal year.

Auditee Response:

Extra journal entry transactions are needed to maintain the accounts payable/receivable for investment trade date items; past practice has dictated that all purchases and sales be netted against fiduciary Cash. Until an automated General Ledger accounting system is available at the Retirement System, posting these extra transactions manually invites the introduction of errors to the MFASIS and takes additional time which, with the shutdown, furlough days and reduced work week hours, is not now available.

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.

It is still anticipated that at some point in the future an automated general ledger accounting system will be installed on the Retirement System computer.

(20) Finding: Accrued interest and dividend income not recorded (Prior Year Finding)

The Maine State Retirement System (MSRS) did not record dividend income of $1.1 million and accrued interest of $69,383. As a result, assets and operating revenues were understated.

Recommendation:

We recommend that the MSRS correctly record all interest and dividends receivable at year-end.

Auditee Response:

The Retirement System agrees with your finding.

Accrued interest of $69,383 was omitted from the journal entries establishing accrued interest at June 30, 1991. However, in view of the system's combined assets, this amount has to be judged immaterial and, by recognizing this amount as received, the system's financial condition is not *significantly altered. Accrued dividends have not been recorded as income by the Retirement system for the last twenty years. The system considers accrued dividends as immeasurable due to the fact that, 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 the Retirement System's annual income.*

Department of Transportation

(21) Bureau of Transportation Services

Finding: Expense items charged to equipment and other funds

In fiscal year 1991, the Department of Transportation (MDOT) charged $267,118 in Ferry Service Fund expenses to the Ports and Marine Fund; in fiscal year 1992 it journaled $210,624 back to the Ports and Marine Fund and $210,624 in expenses back to the Ferry Service Fund. The Ports and Marine Fund absorbed the remaining expenses of $56,494. In addition, MDOT charged $249,858 of Ferry Service Fund expenses to equipment rather than expenses.

According to MDOT accounting personnel, the expenses were accounted for in this way because of a lack of expense allotment and a cash flow problem in the Ferry Service Fund.

As a result, Ferry Service Fund expenses for fiscal year 1991 are understated by $516,976 and Ports and Marine Fund expenses are overstated by $267,118.

The Ferry Service Fund had a net operating loss, after adjustments, of $142,000.

Recommendation:

We recommend the Department of Transportation account for operating expenses in the proper period to which they apply and in the fund to which they apply. In addition, an adjustment should be made to transfer the $56,494 of Ferry Service Fund expenses absorbed by the Ports and Marine Fund.

Auditee Response:

We have transferred funds from the Ports and Marine account to the Maine State Ferry Service. Every effort will be made to use appropriate budget categories in the period in which they apply.

(22) Ports and Marine Fund

Finding: Value of dry dock understated by $4.5 million

The State of Maine expended $15.0 million from the proceeds of bond sales and $4.6 million from the sale of the state pier toward the purchase and renovation of the dry dock. Bath Iron Works expended $4.5 million toward the purchase/renovation of the dry dock, but, per agreement, ownership remains with the state. The dry dock is recorded on the Ports and Marine Fund records only for the amount expended by the state.

The cost for the state owned dry dock was $24.1 million. The value of the dry dock as recorded in the equipment records of the Ports and Marine Fund is $19.6 million, an understatement of $4.5 million. The dry dock should be recorded at its full value.

Recommendation:

We recommend that the Ports and Marine Fund record the full value of the dry dock and the related accumulated depreciation.

Auditee Response:

We concur with the auditor's recommendation and have made appropriate entries to reflect total value of the dry dock.

Office of Treasurer of State

(23) Finding: Wire transfers of $2.1 million incorrectly recorded as vouchers payable

Because of the method used in processing wire transfers, a cash transfer is made prior to recording the transaction on the books of the Controller. Wire transfers were incorrectly recorded as vouchers payable when cash had already been reduced. Consequently, at year-end both cash and vouchers payable were overstated by $2.1 million.

Recommendation:

We recommend that the Treasurer's office inform the Bureau of Accounts and Control when wire transfers are made just prior to the fiscal year-end so that the bureau may adjust its financial statements accordingly.

Office of Treasurer of State (cont.)

Auditee Response:

Treasury is converting to a journal entry recording system to instantly record investments. This will eliminate vouchers payable and thus eliminate this from happening again.

The Deputy Controller and Treasurer are in the process of starting up the usage by July 1992.

(This page intentionally left blank)

REPORTS ON COMPLIANCE

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 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, 1991, and have issued our report thereon dated May 15, 1992.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of Office of Management and Budget Circular A-128, Audits of State and Local Governments. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether 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, 1992.

This report is intended for the information of management, the legislature, and the Office of Audit Services - 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, 1992

(This page intentionally left blank)

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 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, 1991; as discussed in Note 3F to the Schedule of Federal Financial Assistance we have audited the Division of Community Services' Weatherization Assistance for Low-Income Persons Program for the period from July 1, 1990 through April 1, 1991.

- 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
- Administrative requirements

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 Audit Services - 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, 1992

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 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, 1991; as discussed in Note 3F to the Schedule of Federal Financial Assistance we have audited the Division of Community Services' Weatherization Assistance for Low-Income Persons Program for the period from July 1, 1990 through April 1, 1991. 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 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 OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures 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.

Finding: Subrecipient Audits

The Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Government, requires the State of Maine to determine a) whether subrecipients of federal funds have met audit requirements; and b) whether the subrecipient spent federal funds provided in accordance with applicable laws and regulations.

Federal agencies hold the recipient, not the subrecipient, responsible for compliance at the subrecipient level. This includes repaying any federal financial assistance because the subrecipient failed to comply with federal laws and regulations. The state, recipient of federal assistance, is not in compliance with the subrecipient monitoring requirements of OMB Circular A-128.

The programs affected are:

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

The subrecipient audits of the Maine Department of Mental Health and Mental Retardation do not satisfy the requirements of OMB Circulars A-110 and A-133 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 Maine Department of Human Services has not performed subrecipient audits for the following federal programs within the two year requirement of 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

Social Services Block Grant
CFDA #93.667

Child Abuse and Neglect State Grants
CFDA #93.669

Child Care Food Program
CFDA #10.558

Crime Victim Assistance
CFDA #16.575

Drinking Water Supply - Technical Assistance
CFDA #66.425

Sexually Transmitted Diseases Control Grant
CFDA #93.966

Preventive Health and Health Services Block Grant
CFDA #93.991

Alcohol and Drug Abuse and Mental Health Services Block Grant
CFDA #93.992

Centers for Disease Control - Investigations and Technical Assistance
CFDA #93.283

Child Welfare Services - State Grants
CFDA #93.645

Social Security - Research and Demonstration
CFDA #93.812

Rehabilitation Services - Basic Support
CFDA #84.126

Centers for Independent Living
CFDA #84.132

Family Support Payments to State - Assistance Payments
CFDA #93.020

Acquired Immunodeficiency Syndrome (AIDS) Activity
CFDA #93.118

Primary Care Services - Resource Coordination and Development Cooperative Agreements
CFDA #93.130

High School Equivalency and College Assistance Migrant Program
CFDA #93.141

Special Programs for the Aging - Title IV
CFDA #93.668

Family Violence Prevention and Services
CFDA # 93.671

Independent Living
CFDA #93.674

Health Program for Refugees
CFDA #93.987

Maternal and Child Health Services Block Grant
CFDA #93.994

The Maine Department of Defense and Veterans Services does not have adequate controls to ensure that subrecipient audits are performed in accordance with federal regulations for the Emergency Management Assistance Program (CFDA #83.503), States and Local Emergency Operating Center (CFDA #83.512) and Disaster Assistance (CFDA #83.516).

The Maine Department of Corrections does not have adequate controls to ensure that subrecipient audits are performed in accordance with federal regulations for the Juvenile Justice and Delinquency Prevention Program (CFDA #16.540).

The state is subject to federal sanctions for noncompliance as outlined in §17 of OMB Circular A-128 which states, "In cases of continued inability or unwillingness to have a proper audit, federal agencies must consider other appropriate sanctions including:

- withholding a percentage of assistance payments until the audit is completed satisfactorily
- withholding or disallowing overhead costs, and
- suspending the Federal assistance agreement until the audit is made."

We directed audit findings to the various departments listed above. In addition, Title 5, MRSA, §1654 requires the Commissioner of Finance to issue guidelines for performance and standard audit practices to be used by the state agency responsible for directing and completing audits of each community agency.

Recommendation:

We recommend that the Commissioner of Finance ensure that audits of community agencies and other subrecipients are performed according to federal regulations and applicable auditing standards.

Auditee Response:

These specific issues will be discussed with each agency.

The results of our audit procedures disclosed other 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, 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, 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, 1991.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1992

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 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 1991 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, 1991.

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 Audit Services - 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, 1992

(This page intentionally left blank)

SCHEDULE OF FINDINGS & QUESTIONED COSTS

State of Maine
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 1991

Department of Administration

(24) Bureau of Human Resources

CFDA #: Various Federal Programs **Questioned Costs:** $615,437

Finding: Excess grant money owed to the federal government

Blue Cross/Blue Shield of Maine provided health insurance coverage for state employees in fiscal year 1991. The state has claim to $2.9 million of excess premiums resulting from fiscal year 1991 operations. Of that amount, $615,437 are excess premiums paid by federal programs managed by state agencies. The Office of Management and Budget (OMB) Circular A-87 Cost Principles for State and Local Governments, Attachment B, Paragraph 13.b states that health insurance is an allowable cost. However, according to Attachment A, Paragraph c and g the total cost should be net of credits, i.e., excess premiums.

Recommendation:

We recommend that the state credit to future expenditures of those programs the $615,437 in excess premiums paid by federal programs.

Auditee Response:

We are cognizant of the requirements stipulated by OMB Circular A-87. The bureau will analyze the experience of our Group Accident Sickness and Health Insurance Program to determine whether or not the federal government has any claim to our offset of future expenditures.

---

(25) Bureau of Purchases

Donation of Federal Surplus Personal Property
CFDA #: 39.003 **Questioned Costs**: None

Finding: Inaccurate federal surplus property records/Non-compliance with federal regulations

Our review of federal surplus property records revealed two instances of non-compliance with the Office of Management and Budget (OMB) Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule), subpart C, paragraph b(3) which states, "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." Out of twenty-five federal surplus property inventory items tested we found nine variances to the records. The department did not reconcile the detail records with the April to June 1991 Quarterly Federal Surplus Report On Hand. The July to September 1991 report was reconciled.

Recommendation:

We recommend that the department a) document all federal surplus property transactions; and b) verify and sign for the items received. We also recommend that it clearly mark all items with the state allocation number, and reconcile detail records of federal surplus property to each quarterly report.

Auditee Response:

We agree with the finding with the exception of marking all items, many are small and in large quantity. We do not feel it would be cost effective to implement that portion of your recommendation. We will establish procedures to reconcile detail records to quarterly reports.

Department of Agriculture, Food and Rural Resources

(26) Seed Potato Board

CFDA#: None Assigned **Questioned Costs:** None

Finding: Improperly written construction contract

The Seed Potato Board received a federal grant to construct and renovate an office/laboratory at the seed potato farm. The board contracted with a local construction firm to perform the work without including contract provisions pertaining to payment of the prevailing wage. For contracts in excess of $2,000, the Davis-Bacon Act requires that all laborers and mechanics employed by contractors or subcontractors working on construction projects financed by federal assistance must be paid wages not less than those established for the locality by the Secretary of Labor.

Recommendation:

We recommend that the Seed Potato Board incorporate appropriate provisions of the Davis-Bacon Act in construction contracts, when applicable.

Auditee Response:

Construction contracts are processed through and approved by the Bureau of Public Improvements on their contract forms. We presume them to be complete with respect to language, permits, legal provisions, etc. The board's secretary obtained and forwarded a copy of the prevailing wage rate for construction projects in Aroostook County to the Director of Seed Board Programs at the Porter

Farm, who forwarded it to the contractor. Therefore, we believe laborers were paid wages in compliance with the Davis-Bacon Act, even absent the Davis-Bacon Act clause in the contract.

Maine Arts Commission

(27) Promotion of the Arts - States Program
CFDA #: 45.007 **Questioned Costs:** None

Finding: Late submission of federal financial reports

The department submitted the year-end financial report for the Promotion of the Arts - States Program on October 2, 1990. It should have been submitted prior to October 1, 1990.

Recommendation:

We recommend that the commission submit federal financial reports on or prior to the required submission dates.

Auditee Response:

You note that one financial report was submitted one day late. We shall endeavor to file all reports in a timely manner or request appropriate extensions from the appropriate federal agency.

---

(28) Promotion of the Arts - States Program
CFDA #: 45.007 **Questioned Costs:** $89,197

Finding: Failure to allocate costs to federal grant funds

Staff personnel work on a variety of federal and state funded grants. Time sheets do not show which grants employees worked on. In addition, travel claims do not show the reasons for travel or which grants the travel was for.

As a result, it is not possible to correctly allocate expenditures for personal services and travel. In fiscal year 1991 the commission charged $89,197 in personal services to federal grants.

Recommendation:

We recommend that the Maine Arts Commission (a) adopt the National Endowment for the Arts recommended time sheet for recording hours worked; (b) ensure that travel claims identify the grant and specific purpose of the travel for which claim is made; and (c) allocate costs for personal services to the appropriate federal or state program based on time allocated to federal or state funded programs.

Auditee Response:

Currently the Maine Arts Commission is experimenting with a new format for allocating staff time to individual federal grants. We will be working during the current fiscal year to better track staff time per appropriate federal grant in terms of hours worked, travel claims and appropriate allocation of personal services.

Department of the Attorney General

(29) CFDA #: Various Federal Programs **Questioned costs:** None

Finding: Legal services not included in cost allocation plan

The Department of the Attorney General provides legal services for other state agencies which, in part, are for various federal programs. The charges to federal programs are not included in the Bureau of the Budget's statewide cost allocation plan.

The U.S. Department of Health and Human Services serves as the cognizant agency for the state's statewide cost allocation plan. Its manual, Procedures for Establishing Cost Allocation Plan, states:

> "Regardless of how treated, a government agency that wishes to charge support service costs to federal grants and contracts must first prepare a central service cost allocation plan to allocate the central service costs to the departments or units which they benefit".

Recommendation:

We recommend that any charges for legal services to federal programs be included in the statewide cost allocation plan.

Auditee Response:

This matter has been referred to the Bureau of the Budget for instruction.

(30) Crime Victim Assistance
CFDA #: 16.575 **Questioned Costs:** $2,000

Finding: $2,000 expenditure not documented

Of twenty-five charges to other state agencies which we reviewed, one amounting to $2,000 was paid with federal funds and did not have appropriate supporting documents.

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

Recommendation:

We recommend the department ensure that all invoices are supported by adequate documentation.

Auditee Response:

The specific exception has been corrected by documentation from Human Services, and controls have been put in place to prevent problems from occurring in the future.

Department of Corrections

(31) CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: No system to ensure that subrecipients expend pass-through funds correctly

The Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, requires that state governments that provide $25,000 or more of federal financial assistance in a fiscal year to a subrecipient must determine:

1. Whether subrecipients have met the audit requirements of Circular A-128 or A-133, as applicable;

2. Whether the subrecipient spent federal assistance funds in accordance with applicable laws and regulations; and

3. Ensure that federal noncompliance issues receive corrective action within six months.

In addition, the Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP), Title 5, MRSA, Chapter 148-B requires a financial and compliance audit conducted in accordance with generally accepted auditing standards and government auditing standards for all funds contracted between the state and a community agency.

The Department of Corrections awarded $2,259,519 to subrecipients; $272,047 of this total were federal funds. The department has no audit staff to participate in coordinated audits. Funds passed through the department are generally excluded from audit coverage when audits are performed by other state departments. The department has no procedures in place to ensure that required audits are conducted nor to ensure that, if conducted, the required standards have been followed. The Department of Corrections, therefore, has very limited or no assurance that funds have been expended in accordance with regulations.

Recommendation:

We recommend that the department commit adequate resources to fulfill its responsibility as a grantor of state and federal funds.

Auditee Response:

Community agencies that sign written agreements with the department must comply with the reporting requirements of submitting quarterly financial and progress reports to the Department of Corrections. The Department of Corrections monitors subrecipients to determine that financial assistance is expended in accordance with laws and regulations and that subrecipients have met the requirements of OMB Circular A-128 or OMB Circular A-110, whichever is applicable.

The Department of Corrections does not have an audit staff to conduct or participate in on-site financial reviews for all contracted funds. The department will continue to review independent audit reports which are submitted and take corrective action if a subrecipient's auditor's report identifies noncompliance with federal laws and regulations.

Due to the financial constraints placed upon the budgets of state department and agencies and the commitment of available resources to higher priority needs, it is unlikely that the department will be authorized new resources for audit purposes. In light of this, the department will communicate with other state departments to determine if any audit coordination options are available which may be accomplished without incurring additional costs.

Department of Economic and Community Development

(32) Office of Community Development

Community Development Block Grants/State's Program
<u>**CFDA #:**</u>14.228 <u>**Questioned Costs:**</u> $12,526

<u>**Finding**</u>: Costs not distributed based on benefit to grant program (Prior Year Finding)

The Department of Economic and Community Development (DECD) 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. Office of Management and Budget (OMB) Circular 87, <u>Cost Principles for State and Local Governments</u>, 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 is currently in the process of finalizing a cost allocation plan.

<u>**Recommendation**</u>:

We recommend that DECD continue to finalize 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.

<u>**Auditee Response**</u>:

Due to a similar finding in the prior year's audit report, the staff continue to complete time distribution records in order to document the time spent on all projects. The Department of Housing and Urban Development (HUD) has agreed to accept 97.21% of time spent by staff CDBG activities as well as Job Opportunity Zones, Homeless, Affordable Housing, Tax Increment Financing, Community Industrial Building and review of Comprehensive Plans.

DECD is working on a response to HUD to account for the 2.79% of time not allowed by HUD. The department has collected time distribution records from the central service staff since July 1, 1991 and will be able to determine the percentage of time they have spent on CDBG activities after June 30, 1992. If the central service staff time accounts for more than 2.79% of CDBG related time, HUD will most likely agree that the State of Maine is in compliance. Time distribution records will be maintained by pertinent staff to be reviewed annually to ensure that we continue to meet our time and efforts requirement.

(33) Office of Community Development

Community Development Block Grants/State's Program
CFDA #: 14.228 **Questioned Costs:** None

Finding: Subrecipient monitoring requirements not fulfilled (Prior Year Finding)

The Department of Economic and Community Development (DECD) is responsible for ensuring that subrecipient activities are carried out according to Title 24, CFR Part 570.

We note the following with respect to the 25 subrecipient monitoring reviews that we audited:

1. Eleven letters communicating the results of the reviews were not released in a timely manner;

2. One review did not include written communication of the results of the review; and

3. Three reviews had findings/observations which were not resolved.

Recommendation:

We recommend that DECD promptly communicate, in writing, the results of all subrecipient monitoring reviews and ensure that all monitoring requirements are met.

Auditee Response:

A tracking system has recently been developed to ensure that required monitoring letters are written in a timely manner. The information for the tracking system is entered by the Project Development Specialist and reviewed by the Program Manager on a monthly basis.

Department of Education

(34) Division of Compensatory Education

Migrant Education/Educationally Deprived Children
CFDA#: 84.011/84.012 **Questioned Costs:** None

Finding: Incorrect cost allocation

The cost of 5,000 square feet of office space occupied by the Division of Compensatory Education is shared equally by two federal programs at $12 per square foot per month. One thousand square feet of this office space is used as a conference room.

According to the State Educational Agency's (SEA) records, the conference room is rented to various divisions/bureaus of the department as well as to education affiliated agencies at $50 per day. Income is netted against program expenditures.

A review of the conference room log book revealed that it was used for 92 out of 253 business days during the audit period. The SEA's total conference room fees collected for the period were $1,385 versus the annual rental cost of $12,000. Rental costs for the conference room, therefore, did not always benefit the programs which initially absorbed the space costs due to periods of nonoccupancy.

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"

Recommendation:

We recommend that measures be adopted to either reduce the periods of nonoccupancy or reduce the rental costs associated with the conference room space.

Auditee Response:

The department will attempt to reduce the nonoccupancy.

---

(35) Division of Finance

Vocational Education - Basic Grants to States
Drug-Free Schools and Communities - State Grants
CFDA #: 84.048/84.186 **Questioned Costs:** None

Finding: Unexplained adjustments of reported program outlays

The U.S. Department of Education's Financial Management Service uses the Payment Management System (PMS) to monitor, on a grant by grant basis, all federal cash outlays to recipients. A review of the PMS report for the quarter ended March 31, 1991 revealed the following variances between the reported amounts and the state's accounting records.

CFDA#:	Federal Share of Disbursements Reported for the Quarter 1/1/91-3/31/91	Federal Outlays per the Accounting Records	Variance:
84.048	$179,435.85	$286,535.25	($107,099.40)
84.186	($ 8,923.78)	($ 14,235.65)	$ 5,311.87
84.186	$ 47,782.93	$ 43,927.96	$ 3,854.97
84.186	$ 18,735.92	($129,476.11)	$148,212.03

Accounting personnel within the Division of Finance reported amounts by making adjustments to the accounting records but were unable to explain the underlying reason for them.

Recommendation:

We recommend that the department a) determine the reasons for adjustments to reported outlay amounts in PMS reports; and b) adequately document and explain the reasons for future audit purposes.

Auditee Response:

All of the 84.186 grants will have their cumulative expenditures corrected on the May 1992 report. The 84.048 cumulative expenditures will be corrected on the June 1992 report, as they are currently being reconciled. Documentation is available in the division to show how the correct figures were determined.

(36) Division of Finance

CFDA#: Various Federal Programs **Questioned Costs:** None

Finding: Late submission of Payment Management System (PMS) report (Prior Year Finding)

The U.S. Department of Education's Financial Management Service monitors all federal cash outlays to recipients on a grant-by-grant basis under the Payment Management System.

For cash accountability purposes, the U.S. Department of Education's Program Financing Branch prepares certain basic reports on a quarterly basis which are forwarded to each recipient for both data comparison and reconciliation purposes. The recipient is then required to compare the PMS reports to its own cash and disbursement records, note any differences and return the reports within 45 days after the close of each quarter.

The state agency submitted the ED/PMS 272 report for the quarter ending September 1990 one day after the required due date.

Recommendation:

We recommend that the State Educational Agency prepare and submit the quarterly PMS reports within the required time frame.

Auditee Response:

The ED PMS272 report is now transmitted electronically by the 25th of the month. This procedure began in January, 1992.

---

(37) Division of Finance

CFDA#: Various Federal Programs **Questioned Costs:** None

Finding: Excess federal cash on hand (Prior Year Finding)

Subparagraph (a), Section 205-4 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 of the U.S.D.A. letter of credit 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
1/91	$ 27,312	$ 116,670	4.27
3/91	39,844	210,708	5.29
4/91	185,574	2,866,825	15.45
5/91	181,868	868,573	4.78
6/91	68,512	429,074	6.26

Recommendation:

We recommend that the department reevaluate its cash forecasting procedures so that it limits U.S. Treasury funds to the immediate cash need of the various federal programs involved.

Auditee Response:

During fiscal year 1992, the Division of Finance modified its cash drawdown procedures. We are now drawing cash each day as required.

(38) Division of Finance

Educationally Deprived Children -
State Administration
CFDA#: 84.012 **Questioned Costs:** $27,189

Finding: Employee compensation costs allocated incorrectly (Prior Year Finding)

Under the provisions of the Office of Management and Budget (OMB) Circular A-87, Attachment B, Paragraph 10 (b), "Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records." It further states that methods of distributing time should be equitable.

The major purpose of the Division of Finance is to support the goals and objectives of the various programs of the department while applying sound fiscal management principles. The compensation costs for two of the division's grants management accounting staff were charged 100% to this program. These individuals, however, only spent only 30 to 35% of their time on activities directly benefiting the program. This resulted in overcharging the program $27,189.

Recommendation:

We recommend that compensation costs for Division of Finance staff be allocated according to actual time worked.

Auditee Response:

The Division of Finance furnishes budget, accounting and audit services to the federal program for Educationally Deprived Children. Two division staff members that spend 30% and 35% of their time, respectively, on this program are charged full-time to it while other division and department members that also provide supportive services are not charged to it.

Periodic analysis over the years has disclosed that uncharged supportive services more than offset the cost of the two employees' time not spent on the program....

The department, however, recognizes that the cost of the two employees should be borne in another manner and has secured an approved indirect cost plan from the federal Department of Education. It is the intention of the department to recover sufficient funds from all federal programs to bear the costs of the two employees in question.

(39) Division of Compensatory Education

Migrant Education
CFDA #: 84.011 **Questioned Costs:** None

Finding: Noncompliance with eligibility procedures

According to 34 CFR § 201.30:

> The State Educational Agency (SEA) and its operating agencies are responsible for implementing procedures that ensure correct information which they and the Migrant Student Record Transfer System (MSRB) or other systems rely on. In doing so, the SEA shall .. ensure that the information is recorded on any certificate of eligibility...that contains the minimum information needed to determine eligibility....

According to the SEA Recruiter's Guide:

> Acceptable documentation of a Certificate of Eligibility (COE) will always contain the specific activity performed within a broader range of activities. It will also designate that the activity is either seasonal or temporary, and, if temporary, will give an explanation of why.

According to the SEA's quality control procedures in its project application, the Recruiter/Eligibility Specialist should review and tentatively approve all COE forms. In addition, the coordinator of the Migrant Education program should review, approve, and initial all COE forms.

A review of twenty-five sets of recruitment and identification records revealed:

1. Five COE's contained qualifying activities which were too general;
2. Seven COE's did not designate whether employment was seasonal or temporary.
3. Three COE's indicated the work was temporary but there were no explanations.
4. Seven COE's were not reviewed or approved by the Recruiter/Eligibility specialist.
5. Nine COE's were not reviewed or initialled by the program coordinator.

Although COE forms did not adequately document eligibility, the department provided information which showed that qualifying activities were according to program regulations.

Recommendation:

We recommend that the SEA properly document eligibility of program applicants on the COE form.

Auditee Response:

The SEA will follow established procedures that insure correct information is used to determine eligibility.

(40) Division of Compensatory Education

Migrant Education
CFDA #: 84.011 **Questioned Costs:** None

Finding: Violation of subgrant determinations/Incorrect source documents used

The Hawkins-Stafford Amendments of 1988, P.L. 100-297 state, "...children who are currently migrant (ages 3-21 inclusive) shall be given priority in the consideration of programs and activities contained in applications submitted...."

Final grant award amounts are determined from migrant teachers' May School Activity Reports based on the number of migrant students.

A review of twenty-five subgrant files revealed the following:

1. Ten subgrants were awarded in instances where there was an insufficient number of migrant children to warrant the awards;

2. The award process focused only on the total number of children to be served without ensuring that the number of current students was enough to comply with the prescribed funding formula;

3. The number of eligible students indicated on seventeen subgrant applications did not agree with the May School Activity Reports.

It should be noted that the state educational agency implemented in fiscal year 1992 a new funding formula that appears to comply with the applicable federal statutory provision cited above.

Recommendation:

We recommend that the division obtain from the May School Activity Reports the number of eligible migrant students used in the grant determination process.

Auditee Response:

The state educational agency has implemented a new funding formula as noted above.

(41) Division of Compensatory Education

Migrant Education
CFDA#: 84.011 **Questioned Costs:** None

Finding: Inadequate subgrantee cash management procedures (Prior Year Finding)

A review of twenty-five subgrant financial reports revealed that at the 1991 fiscal year-end three Local Educational Agencies (LEA) submitted financial reports showing federal cash on hand in excess of ten percent of the amount allocated. These unobligated funds totalled $51,943.

According to Subpart C, § -.20 (b)(7) of the Office of Management and Budget's (OMB) Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule), "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used."

Recommendation:

We recommend that the department make payments according to the LEA's immediate cash needs.

Auditee Response:

The Department and the Division have adopted procedures which deal with excess cash on hand at the LEA level.

---

(42) Division of Compensatory Education

Chapter 1 Programs - Local Education Agencies
CFDA#: 84.010 **Questioned Costs:** None

Finding: Local Education Agency (LEA) compliance not adequately monitored (Prior Year Finding)

Our review of twenty-five reports revealed:

1. Seven LEAs submitted annual financial reports showing federal cash on hand in excess of fifteen percent of the amount allocated;

2. Eighteen LEAs submitted late financial reports; and

3. Six LEAs submitted late carry-over requests.

Title 34 CFR 80.20 says that a state must expend and account for grant funds in accordance with state laws and procedures for expending and accounting for its own funds.

The state Chapter I manual requires that LEAs submit the Annual Financial Report of program expenditures no later than fifteen days after project completion; and submit the application for use of carryover funds no later than August 31.

Recommendation:

We recommend that the division make payments according to the LEAs immediate cash needs and strengthen procedures to ensure that subgrantees submit financial reports on time.

Auditee Response:

The department and division have instituted procedures to insure compliance.

---

(43) Bureau of Adult and Vocational Secondary Education/Division of Finance

Vocational Education - Basic Grants to States
Vocational Education - Consumer and Homemaking Education
CFDA #: 84.048/84.049 **Questioned Costs:** None

Finding: Incorrect reporting of program outlays (Prior Year Finding)

In the previous audit, we noted that the department incorrectly reported the federal share of disbursements for 24 categories on the ED-PMS-272 report for the quarter ending June 30, 1990. According to department personnel, the Division of Finance used preliminary accounting documents in order to submit the report on time. During the audit period, eighteen of the categories were adjusted to reflect actual expenditures in the report period. The department has not adjusted the six remaining categories for CFDA 84.048 and 84.049 to compensate for the preliminary amounts used for reporting purposes.

Recommendation:

We again recommend that the department make the necessary adjustments to the accounting records and include revised amounts on a subsequent PMS report.

Auditee Response:

The reconciliation of the Vocational Education grants was the last one to be done. It is currently *being completed. The last six categories for 84.048 and 84.049 will be corrected on the June 1992 PMS272 report.*

---

(44) Bureau of Adult and Secondary Vocational Education

Vocational Education - Basic Grants to States
CFDA#: 84.048 **Questioned Costs:** None

Finding: Financial status report submitted late

The Division of Finance, which prepares the Financial Status Report (FSR), did not submit the grant's annual report until January 3, 1992, three days after the required due date.

Title 34 CFR, §74.73(d) states, "When required on an annual basis, [the report] shall be due 90 days after the grant year."

Recommendation:

We recommend that the department submit the year-end Financial Status Report to the federal grantor agency no later than 90 days after the grant year.

Auditee Response:

The Division of Finance will make every effort to submit the FSR for the Carl Perkins grant by the required due date.

---

(45) Bureau of Adult and Secondary Vocational Education

Vocational Education - Basic Grants to States
CFDA #: 84.048 **Questioned Costs:** None

Finding: Incorrect reporting of program outlays (Prior Year Finding)

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

Functions/Activities	Type of Outlay	Amount
Adults	Federal	$ 37,404
Corrections	Federal	66
Guidance	Federal	34,826
Handicapped	Federal	2
Program improvement	Non-Federal	15,350
Staff development	Non-Federal	500
Total Under reported		$88,148

The SEA also over reported the following program outlays on its year-end financial report:

Functions/Activities	Type of Outlay	Amount
State administration	Federal	$11,904
State administration	Non-Federal	17,164
Adults	Non-Federal	26,042
Total Over reported		$55,110

The SEA subsequently submitted a revised financial report to the federal agency which reflects the proper adjustments for the amounts over and under reported.

Recommendation:

We recommend that the department exercise more care when preparing federal financial reports.

Auditee Response:

The Division of Finance has revised the report in question. Copies have been sent to the U.S. Department of Education.

---

(46) Finance Division

Bureau of Adult and Secondary Vocational Education

Vocational Education - Basic Grants to States
CFDA #: 84.048 **Questioned Costs:** None

Finding: Unexpended grant not refunded to federal government

According to the Code of Federal Regulations, 34 CFR § 76.705 subparagraph (a), "If a state or subgrantee does not obligate all of its grant or subgrant funds by the end of the fiscal year for which congress appropriated the funds, it may obligate the remaining funds during a carryover period of one additional fiscal year." According to subparagraph (b), "The state shall return to the Federal Government any carryover funds not obligated by the end of the carryover period by the state and its subgrantees."

An examination of cash receipt records revealed that $12,535 in unexpended 1989 grant year funds were not returned to the grantor agency after the period of availability had expired.

A questioned cost was not developed since the funds were returned to the U.S. Department of Education in June of 1992.

Recommendation:

We recommend that the department obligate grant funds within the required time frame. If not obligated within the required period we recommend that the department return funds to the federal government.

Auditee Response:

The amounts returned to this department by subrecipients after the closing date of the 1989 grant will be refunded to the federal government on June 3, 1992. The Division of Finance will make every effort to return unused funds to the U.S. Department of Education in a more timely manner.

---

(47) Bureau of Adult and Secondary Vocational Education

Vocational Education - Basic Grants to States
CFDA #: 84.048 **Questioned Costs:** None

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

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

1. At year-end three of the subrecipients had cash balances exceeding ten percent of the award amount and totalling $3,953;

2. Thirteen year-end financial reports were submitted late; and

3. Project progress reports for fifteen subgrants were submitted late; four additional progress reports were either undated or the dates indicated were indecipherable.

Section 205.4, Subparagraph (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...." According to Subparagraph (e), "Cash advances made by primary recipient organizations to secondary recipient organizations shall conform substantially to the same standards...."

Year-end financial reports must be submitted to the State Educational Agency (SEA) within 15 days of the expiration of the grant period. Interim project progress reports must be submitted to the SEA by December and April 1 of the project year. The final project progress report is due by July 1 of each year.

Recommendation:

We recommend that the bureau monitor subrecipient advances and payment requests to ensure that only their immediate cash requirements are met. We further recommend that it strictly enforce the subrecipients' reporting requirements.

Auditee Response:

1. *To avoid excessive cash balances at year-end, the department has implemented cash management procedures. All subrecipients are required to submit cash on hand reports on a periodic basis. Payments are withheld if subrecipients are found to have excess cash on hand at the end of any reporting period.*

2. *The department continues to remind subrecipients that year-end financial reports must be submitted on a timely basis. This requirement will be enforced by withholding payments to subrecipients whose year-end reports are in arrears.*

3. *The department continues to remind subrecipients that project progress reports must be submitted on a timely basis. This requirement will be enforced by withholding payments to subrecipients whose project progress reports are in arrears.*

(48) Division of Management Information

Vocational Education - Basic Grants to States
CFDA #: 84.048 **Questioned Costs:** None

Finding: Original source documents destroyed prior to audit

According to Title 34, CFR §76.731, "A state and a subgrantee shall keep records to show its compliance with program requirements." Section 76.734 also states, "Unless a longer period is required under 34 CFR Part 74, a state and a subgrantee shall retain records for five years after completion of the activity for which they use grant or subgrant funds."

Our review of program funds distributed for handicapped and disadvantaged individuals revealed that source documents used to identify the number of individuals for allotment calculation purposes were destroyed prior to being audited. We did not question costs since the agency, through alternative sources, substantiated the number of individuals used for computing allocations.

Recommendation:

We recommend that the department maintain source documents used in determining local allocations for handicapped and disadvantaged individuals for five years after which it can compile the information for computing allocations.

Auditee Response:

We concur. A memorandum has been issued to all federal program directors clarifying E.D.G.A.R. and G.E.P.A. record retention requirements and specifying a minimum retention period of five years or longer for records directly associated with resolution of audit findings.

---

(49) Division of Special Education

Special Education - State Grants
CFDA#: 84.027 **Questioned Costs:** None

Finding: Inadequate accounting used to identify matching expenditures

The Division of Special Education did not adequately identify expenditures for federal support services that qualify for state matching. The percentage of program funds that a state uses for direct and support services must be matched by the state from funds other than federal funds. State expenditures that qualify for federal matching are commingled with other state expenditures that do not qualify. This makes it difficult to review state matching expenditures.

Recommendation:

We recommend that the Division of Special Education develop and implement a procedure to identify, in the Controller's records, the expenditures that are considered state matching for support services. The procedure will enhance the ability of interested third parties to review state matching expenditures.

Auditee Response:

The divisions of Special Education and Management Information will jointly develop and implement procedures to identify, in the Controller's records, state expenditures that are considered state match for support services.

The Division of Special Education will also require that personnel who participate in any training activities identify the school system they are from and whether their positions are funded with state or federal funds.

---

(50) Division of Special Education

Special Education - State Grants
CFDA#: 84.027 **Questioned Costs:** None

Finding: Incorrect reimbursement of travel expense (Prior Year Finding)

The State of Maine Manual of Financial Procedures §40.7 states that travel expenses between official headquarters and personal residence will not be reimbursed.

According to Attachment A, C(I), 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."

During fiscal year 1991 the division reimbursed an employee $125 for travel expenses which were incurred for travel between their official headquarters and their personal residence. A questioned cost was not developed since the employee subsequently reimbursed the division.

Recommendation:

We recommend that the Division of Special Education monitor the travel expense voucher reimbursements for allowable costs.

Auditee Response:

The Department has recovered from the employee the amount that was incorrectly reimbursed for travel.

---

(51) Division of Special Education

Special Education - State Grants
CFDA#: 84.027 **Questioned Costs:** None

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

Office of Management and Budget (OMB) Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local government (Common Rule) states that the grantee must draw down funds as close as possible to the time of disbursement. The grantees must monitor cash drawdowns to assure that subgrantees conform substantially to the same standards on advances that apply 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 part of a pre-audit review or 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. Of the twenty-five subrecipients reviewed:

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

2. Ten did not file the annual financial report of federal program expenditures by the due date of July 31, 1991.

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.

Auditee Response:

After requesting clarification from the auditor concerning the requirement that no more than 15% of program funds may be carried over in a given year, we were informed that the 15% is the arbitrary guideline they used to quantify excess carryover amounts (letter of 2/28/91).

Currently, the Division is employing a cash management procedure that has been adopted by the Department of Education which will eliminate excess cash at the subrecipient level.

(52) Division of School Nutrition and Food Distribution Programs

Food Distribution
CFDA#: 10.550 **Questioned Costs:** None

Finding: Lack of review procedures (Prior Year Finding)

Title 7 CFR, § 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.

Maine's Food Distribution Program has no procedures to ensure a review of recipients of commodities, other than schools.

Recommendation:

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

Auditee Response:

The division does review the commodity program of nonprofit summer camps for children that operate the National Milk Program and/or the Summer Feeding Program. The division does not administer the Commodity Distribution Program for the Nutrition Program 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 clerical positions.

The division is currently in the process of requesting a waiver from the regional office of the United States Department of Agriculture from 7CFR 250.19 (b) (i) for charitable institutions receiving less than $250 commodity value per year.

(53) Division of School Nutrition and Food Distribution Programs

Food Distribution
CFDA#: 10.550 **Questioned Costs:** None

Finding: Performance reports submitted late (Prior Year Finding)

There were sixty performance reports due in fiscal year 1991. The distributing agency received eight reports late; two of them were more than one week late. Title 7 CFR, § 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 report period.

Recommendation:

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

Auditee Response:

Date of receipt of performance report is determined by date of receipt in the division office. Late reports were mailed prior to the end of the month but because of state office shutdown procedures, the receipt date was after the first day of the month.

The department is meeting its 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 requirements of Title 7, Code of Federal Regulations, §250.30(n).

(54) Office of Substance Abuse Clearing House (OSA)

Alcohol and Drug Abuse and
Mental Health Services Block Grant
CFDA#: 93.992 **Questioned Costs:** $102

Finding: Overpayments to a vendor

The Office of Substance Abuse Clearing House overpaid a vendor $102 for grant related services. The overpayments were caused by personnel approving both invoices and monthly statements as payment documents.

Recommendation:

We recommend that OSA contact the vendor to correct the overpayments and use invoices, not statements, to approve vendor charges for payment.

Auditee Response:

We concur with this finding. OSA's intent is to correct any and all overpayments and to use invoices to approve charges for payment.

---

(55) Office of Substance Abuse Clearing House (OSA)

Alcohol and Drug Abuse and
Mental Health Services Block Grant
CFDA#: 93.992 **Questioned Costs:** None

Finding: Inadequate fiscal control (Prior Year Finding)

The United States Code (USC), Title 42, §300X-2 (a)(1) states, "For each fiscal year, the secretary shall make payments...to each state...from amounts appropriated for that fiscal year." In addition, USC §300X-5 (b)(1) states, "Each state shall establish fiscal control and fund accounting procedures as may be necessary to assure proper disbursal of and accounting for federal funds paid to the state under §300X-2 of this title and funds 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 segregate expenditures for a specific grant award. It accumulates them on a state fiscal year basis when as many as three specific grant awards with different regulations may be in effect. Therefore it is not possible to monitor spending limitations according to the grant award.

Recommendation:

We recommend the Office of Substance Abuse implement fiscal control procedures necessary to identify expenditures by grant award.

Auditee Response:

We concur with this finding. It is the intent of the Office of Substance Abuse to develop and implement fiscal control and procedures to verify expenditures based on each federal award period.

The Legislature recently approved an additional fiscal staff position (Accountant II) for OSA in state fiscal year 1993. Also, OSA is working cooperatively with the Department of Human Services' Division of Financial Services for the purpose of transferring all fiscal responsibilities to OSA. With the new position and the transfer of fiscal responsibilities, OSA can better control procedures necessary to identify expenditures by each federal grant award period.

In addition, the Division of Financial Services maintains the Bureau of Accounts and Control's Fiscal Analysis Sheets/Analysis Report (Report ID: B906) and Detail Listings/Appropriation Account Transaction Listing (Report ID: G901) 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, OSA can monitor spending limitations according to the grant award (i.e., administration expenditures, and prevention, drug, alcohol, women, and I.V. expenditures). It is the intent of OSA to use this system in the development and implementation of fiscal controls and procedures to verify expenditures.

---

(56) Office of Substance Abuse Clearing House (OSA)

Alcohol and Drug Abuse and
Mental Health Services Block Grant
CFDA#: 93.992 **Questioned Costs:** None

Finding: Unrecorded attendance on time sheets (Prior Year Finding)

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." Four of seven time sheets reviewed for two OSA employees did not reflect hours worked.

Recommendation:

We recommend OSA require all employees to record on their time sheets all hours worked and not worked.

Auditee Response:

We concur with this finding. OSA has already implemented policies and procedures that require all employees to record on their time sheets all hours worked and not worked. All time sheets are reviewed and approved by supervisory staff.

---

(57) Division of Community Services (DCS)

CFDA #: Various Federal Programs **Questioned Costs**: None

Finding: Affirmative action plans not submitted (Prior Year Finding)

According to the Division of Community Service's Affirmative Action Plan, "...the subgrantee will annually file a copy of its Affirmative Action Plan with the Division." In 1991, two of the division's thirteen subgrantees had no Affirmative Action Plan on file. The division does not maintain records on the submission dates. The basis for requiring an annual submission of an Affirmative Action Plan is not known.

Recommendation:

We recommend that DCS review the policy of requiring an annual submission of subgrantees' Affirmative Action Plans and, if the policy remains, ensure that all subgrantees annually submit Affirmative Action Plans.

Auditee Response:

The Division's policy requiring that each subgrantee file a copy of its Affirmative Action Plan was determined to be unnecessary prior to fiscal year 1991. Therefore, this policy was not enforced and should have been deleted prior to that fiscal year. (Note: The Office of Community Services will be abolished as of June 30, 1992. We have provided the successor agency responsible for the designation of Community Action Agencies with copies of all relevant audit findings for its consideration.)

---

(58) Division of Community Services (DCS)

CFDA#: Various Federal Programs **Questioned Costs:** None

Finding: No system to assure subrecipient audits meet federal requirements (Prior Year Finding)

The Division of Community Services does not have an established system to assure that audits of its subrecipients meet the requirements of the Office of Management and Budget (OMB) Audits of State and Local Governments Circular A-128, Paragraph 9 which states:

> State or local governments that receive Federal financial assistance and provide $25,000 or more per fiscal year to a subrecipient shall: a.determine whether state and local subrecipients have met the 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 is taken within six months after receipt of the audit report in instances of noncompliance with Federal laws and regulations; d. consider whether subrecipient audits necessitate adjustment of the recipient's own records.

Recommendation:

We recommend that the state agency a) establish a system to assure that audits of the subrecipients meet the OMB requirements; b) ensure timely corrective action on subrecipient audit findings where there is noncompliance with federal laws and regulations; and c) ensure that grantee financial records are adjusted, if necessary, for questioned costs of the subgrantee.

Auditee Response:

In accordance with Maine State Public Law, Chapter 622, enacted on December 23, 1991, responsibility to administer the Low-Income Home Energy Assistance Program was assigned to the Maine State Housing Authority (MSHA) over four months ago, effective January 1, 1991. Pursuant to that law, all relevant files, documents, contracts, reports, and equipment pertinent to the LIHEAP program have been transferred to MSHA. We have provided MSHA with copies of all audit findings intended to strengthen internal controls or to ensure the resolution of any past questioned costs.

---

(59) Division of Community Services (DCS)

Food Commodities for Soup Kitchens
CFDA#: 10.571 **Questioned Costs:** None

Finding: Inadequate inventory procedures for food commodities (Prior Year Finding)

A physical inventory of food commodities revealed that perpetual inventory records were misstated by $2,051.

Recommendation:

We recommend that the division carefully record the receipt and issuance of food commodities in perpetual inventory records.

Auditee Response:

Responsibility for the Food Commodities for Soup Kitchens program, along with the food commodities and their perpetual inventory records were transferred to the Maine Department of Agriculture on July 1, 1991, more than 10 months ago. Given that our agency is to be abolished in less than two months and that we have not had responsibility for the perpetual records for food commodities for more then ten months, we are unable to comply with the audit recommendation.

---

(60) Division of Community Services (DCS)

Low Income Home Energy Assistance Program (LIHEAP)
CFDA#: 93.028 **Questioned Costs:** None

Finding: Insufficient fiscal monitoring

The department did not monitor two of eleven community action agencies during the program year as required by the 1991 LIHEAP final rules, and the federal fiscal year 1991 LIHEAP state plan.

Recommendation:

We recommend that during the program year DCS monitor the fiscal management of each community action agency receiving LIHEAP funds.

Auditee Response:

Refer to finding number 58.

---

(61) Division of Community Services (DCS)

Low Income Home Energy Assistance Program (LIHEAP)
CFDA#: 93.028 **Questioned Costs:** None

Finding: Recognition of LIHEAP expenditures in the incorrect account

Early in the 1991 program grant year state legislation authorized a working capital advance to LIHEAP. A special revenue account was established to control advances and expenditures. When federal LIHEAP money was received the advance was repaid. All LIHEAP expenditures therefore were paid with federal funds. The division incorrectly recognized the expenditures in the special revenue account. When the working capital advance was repaid, expenditures should have been journaled to the federal LIHEAP account. The effect was to overstate expenditures in the special revenue account by $8 million and understate expenditures in the federal LIHEAP account by the same amount.

Recommendation:

We recommend that the division carefully perform accounting functions to ensure that expenditures are correctly recorded.

Auditee Response:

We agree with the audit finding that the expenditures were misclassified with the LIHEAP revenue account as opposed to the LIHEAP federal grant account. We fully concur with the audit recommendation. Also, refer to finding number 58.

(62) Division of Community Services (DCS)

Low Income Home Energy Assistance Program (LIHEAP)
CFDA#: 93.028 **Questioned Costs:** None

Finding: Failure to submit required LIHEAP financial report

Title 45 CFR 96.81 requires the U.S. Department of Health and Human Services to receive a report from grantees by August 1 stating the amount of money the grantee will carry forward to the next grant year, the reason, and how it will be used. The division did not submit this report.

Recommendation:

We recommend that the division establish procedures to ensure the submission of required reports.

Auditee Response:

We understood that information provided by our staff in telephone conversations with HHS had satisfied the required reporting cited in the audit finding. For future LIHEAP reporting by Maine State Government, refer to finding number 58.

---

(63) Division of Community Services (DCS)

Low Income Home Energy Assistance Program (LIHEAP)
CFDA#: 93.028 **Questioned Costs:** None

Finding: 1991 LIHEAP carryover funds not known

The Department of Health and Human Services authorizes the grantee/division to carry forward 15% of previous year grant funds. We were unable to determine the approved carryover amount from grant year 1990 to 1991 and 1991 to 1992. Consequently, we could not verify compliance with the 15% rule. The current account structure does not provide for identifying grant funds by a specific grant year.

Recommendation:

We recommend that the division revise the account structure and obtain financial reports on a grant year basis in order to identify funds by grant year and accurately develop the carryover amount between grant years.

Auditee Response:

Refer to finding numbers 58 and 62.

---

(64) Division of Community Services (DCS)

Low Income Home Energy Assistance Program (LIHEAP)
CFDA#: 93.028 **Questioned Costs:** None

Finding: Incorrect recognition of revenue

Our audit noted the following errors:

1. During fiscal year 1991 community action agencies returned to the division $75,119 which had been recorded as grant expenditures. According to the Governmental

Accounting and Financial Reporting Standards (GASB) Section 1800.103.b, returned funds should be classified as reductions to those expenditures; the division recorded these funds as revenue;

2. A $20,000 federal drawdown on May 5, 1991 was not recorded in the LIHEAP account until September 11, 1991, a nearly four month delay in recognition of revenue; and

3. Of the total $25.2 million in LIHEAP revenue recognized in fiscal year 1991, $2.2 million was misclassified by using the wrong revenue source code.

Recommendation:

We recommend that the division institute procedures to ensure a) that reductions of expenditures be correctly recorded; b) that federal revenue be recognized promptly; and c) that federal revenue be posted consistently to the correct account and by the correct revenue source code.

Auditee Response:

We agree with the audit finding. Refer to finding number 58.

---

(65) Division of Community Services (DCS)

Weatherization Assistance for Low Income Persons (WAP)
CFDA#: 81.042 **Questioned Costs:** None

Finding: No detail or reasons for expenditure reallocation

Expenditures for fiscal year 1991 in the WAP program federal account in the "all other" category, excluding grants, are recorded as a credit balance indicating a reallocation of expenditures to other accounts. A review of two journals which reallocated expenditures to the Petroleum Violation Escrow (PVE) account showed that no detail existed to verify the reallocation. The stated reason for the reallocation was to transfer Training and Technical Assistance expenditures to the PVE account. Training and Technical Assistance expenditures in the WAP program are not separately recorded and therefore cannot be identified from other expenditures.

Recommendation:

We recommend that the division document reallocation of expenditures by using sufficient detail to verify correct and proper reallocation. We also recommend that the reason for the reallocation be clearly and correctly stated on the journal.

Auditee Response:

We concur with the audit finding and recommendation.

---

(66) Division of Community Services (DCS)

Petroleum Violation Escrow (PVE)/
Weatherization Assistance Program
for Low Income Persons (WAP)
CFDA #: 81.042 **Questioned Costs:** $81,304

Finding: Inadequate accounting records

The Division of Community Services accounting records are not adequate to determine compliance with federal requirements for use of PVE funds. Federal authorizing legislation requires that PVE funds be used as if received under various energy-related programs. DCS used the PVE funds to support the Weatherization Assistance Program. WAP program rules limit expenditures to 10% for training and technical assistance. Additionally, court approved PVE settlement agreements limit the Stripper Well funds used for administrative expenses to 5% and do not allow Exxon funds to be used for such purposes.

The division commingled Stripper Well and Exxon funds and did not segregate administrative from training and technical assistance expenditures. Grant year 1991 non-grant expenditures were $81,304 or 5.2% of total account expenditures. The Stripper Well 5% administrative limit may have been exceeded and Exxon funds may have been expended for administrative expenses.

Recommendation:

We recommend that the division establish separate accounts for the various PVE funds to assure compliance with funding requirements.

Auditee Response:

In our opinion, all of the $81,304 of non-subgrant expenditures questioned in the audit finding are allowable under the provisions of the grants. Based on our review of the relevant cost objects charged within the PVE fund, it appears that at least $65,767 of these costs were related to training and technical assistance and are therefore allowable costs under the PVE grant. Assuming the remaining $15,537 were administrative in nature, then these expenditures would also be allowable since this amount is less than $20,750 which is 5% of the $413,000 of Stripper Well funding received during the FY 91 grant year.

In regard to the audit's recommendation, we fully concur that our use of separate accounts would enhance our ability to insure compliance with funding requirements. Since the responsibility for

Weatherization has been transferred from this agency, an expanded use of the account structure to better track costs will be done on other programs for which we are responsible, where beneficial.

---

(67) Division of Community Services (DCS)

Petroleum Violation Escrow (PVE)/
Weatherization Assistance Program
for Low Income Persons (WAP)
CFDA #: 81.042 **Questioned Costs:** None

Finding: Energy conservation program transfer not timely

Public Laws of 1991, Chapter 9, §I-10, effective March 14, 1991 transferred responsibility for the energy conservation program from the Division of Community Services to the Maine State Housing Authority.

The Division of Community Services continued to receive and expend funds for the Weatherization Assistance Program, including Petroleum Violation Escrow funds, through June 1991.

Recommendation:

We recommend that the division comply with the law and transfer all energy conservation program operations to the Maine State Housing Authority.

Auditee Response:

We concur and will insure future compliance with the audit finding. We wish to note that the expenditure activity which occurred after the statutory transfer date resulted from cost obligations incurred prior to that transfer date.

---

(68) State Planning Office

Petroleum Violation Escrow (PVE)
CFDA #: None assigned **Questioned costs**: None

Finding: Petroleum violation escrow report late

The Multi-District Litigation No. 378 approved by the U.S. District Court for the District of Kansas on July 7, 1986, requires the State of Maine to report to the court and to the U.S. Department of Energy within 30 days from the close of the state fiscal year regarding the amount of Stripper Well funds spent and how those funds were spent. The State Planning Office submitted a report on Stripper Well funds for fiscal year 1991 which was 53 days late.

Recommendation:

We recommend that the State Planning Office submit the report on Stripper Well expenditures by the court imposed deadline.

Auditee Response:

The State Planning Office fully intends to comply with federal reporting requirements, which in this case was 30 days following the close of the State's fiscal year. July of 1991 was not a typical month, and the report was inadvertently not prepared timely. We have instituted procedures to ensure timely filing of reports.

Department of Finance

(69) Bureau of Accounts and Control

Social Services Block Grant
CFDA #: 93.667 **Questioned Costs:** None

Finding: Data processing errors

Title 45 CFR, § 96.30, Fiscal and Administrative Requirements state:

> 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.

On August 8, 1990, the Department of Human Services (DHS) drew down $17,111 from the U.S. Department of Health and Human Services against a Preventive Health Block Grant (PRVS). DHS correctly coded the transaction and reported the drawdown on a cash receipt statement the same day.

The Controller incorrectly posted the revenue to the monthly cash report as a fiscal year 1991 beginning balance for PRVS. The same revenue was also posted to the Social Services Block Grant (SSBG) as collected revenue.

DHS has properly expended the funds against the PRVS but the Controller continues to carry them as a cash balance in the SSBG. DHS is monitoring the incorrect cash balance to ensure there are no overexpenditures to the SSBG.

Recommendation:

We recommend that the Controller correct the data processing problem and adjust the balance from the state records.

Auditee Response:

Agency did not respond.

Department of Human Services

(70) Bureau of Social Services/Division of Child & Family Services

Child & Adult Care Food Program
CFDA #: 10.558 **Questioned Costs:** None

Finding: Inaccurate claim records and missing documents for FNS-44 Report

Title 7 CFR, Subpart D, Paragraph 3015.21 states, (a) "...records shall be kept for 3 years from the starting date specified in paragraph 3015.22". According to 7 CFR Subpart H, Paragraph 3015.61 a recipient's financial management system must provide for "complete, accurate, and current disclosure of the financial results for each...program." Our review of the USDA FNS-44 report and supporting records revealed the following weaknesses: a) Source documents used for part of the October 90 FNS- report were discarded and the information could not be verified. b) One of twenty-five tested claims was calculated incorrectly; and c) three of sixteen part E meal count categories on the October 90 FNS-44 report did not agree to the detail totals.

Recommendation:

We recommend that the department retain all records for audit purposes and comply with federal regulations. Also, we recommend that the department review its financial management system for processing meal reimbursements so that the calculations are accurate, and detail records can be verified and agree with the FNS-44 report.

Auditee Response:

We met with the auditor for clarification on the three areas cited and will address each individually: a) The auditor indicated that source documents for October 1990 were discarded. After reviewing this with the account clerk who handles these records, we feel they were probably misfiled rather than discarded. In any event, all concerned individuals will be notified, by memo, of this finding to ensure that all pertinent records will be readily available for future audits.

b)After reviewing the inaccurate claims with the auditor, we feel that the error is a result of flaws in the current system and not an input error. The system presently used to calculate claims is quite limited in its ability to round-up or down correctly when percentage points are involved in the transactions. We are in the process of converting to a new system which should eliminate these errors in future audits. The target date for start-up of the new system is September 1, 1992.

c) After discussing this point with the auditor we feel, again, that this is a problem inherent in the current system. The auditor based this finding on a summary report that we use only as a reference for estimates because of the fact that there is certain data that cannot be captured in this report due to the nature of the current system. We are confident, however, that the individual agency records are completely accurate and do agree with the FNS-44 report in question. We are hoping, with the implementation of the new system, that a summary report can be generated which will capture all the information contained in the individual agency records.

(71) Various Bureaus

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Time sheets did not reflect hours worked (Prior Year Finding)

During our payroll test at the Department of Human Services, three of twenty-five timesheets tested were incomplete. Of the three, one was charged to CFDA #93.778, Medical Assistance Program and two were charged to accounts which are allocated through the department's cost allocation plan.

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...."

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:

As we have done before, we will once again issue directives detailing the proper method of filling out time sheets, i.e., showing both time worked and not worked.

---

(72) Various Bureaus

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: No system for coordinated subrecipient audit resolution (Prior Year Finding)

The Single Audit Act of 1984 requires that an agency receiving and providing $25,000 or more in federal financial assistance to a subrecipient "...shall ensure that appropriate corrective action is taken within six months after receipt of the audit report in instances of noncompliance with federal laws and regulations."

The department has not coordinated a system for prompt corrective action where there is noncompliance. Currently, agency management officials resolve financial findings. Consequently, there is no single source to determine balances due the department that result from subrecipient audits. The recipient's systems for audit follow-up, resolution, and monitoring for corrective action are not coordinated. A draft of policies and procedures to correct this was available but not implemented at the time of our audit.

Recommendation:

We again recommend that the department implement a system to resolve subrecipient audit findings within the required six month period.

Auditee Response:

The department is finalizing the policy and procedures for a coordinated system to address subrecipient audit resolutions within a six month period.

We expect to be current by the middle of fiscal year 1993.

---

(73) Various Bureaus

CFDA #: Various Federal Programs **Questioned Costs:** $75,387

Finding: Noncompliance with subrecipient audit resolution requirements

Paragraph 9 of the Office of Management and Budget (OMB) Circular A-128 states,

> ... 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 six months after the receipt of the audit report in instances of noncompliance with Federal laws and regulations....

On December 13, 1990 the Department of Human Services signed a memorandum of understanding thereby agreeing to cooperate in following the procedures it described. According to part III, subparagraph D of this memorandum:

> ...resolution actions are considered completed when the State's position (s) on the audit findings and the community agency's response are communicated to the grantee; in the case of an appeal, resolution of the appeal closes the audit report. For the purpose of completing departmental resolution actions on audit reports, findings involving questioned costs are resolved when financial settlement actions are completed, and findings involving no questioned costs are resolved when the community agency notifies the state in writing that it will or has taken the actions requested by the State.

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

1. Fourteen audit reports disclosed reportable conditions and/or material internal control weaknesses; however, the recipient requested no written responses regarding correc tive action planned or taken;

2. One audit report required the subrecipient to file a corrective action plan but the subgrantee had not submitted the plan twelve months after the recipient had received the report;

3. Ten reports disclosed grant overpayment and/or questioned costs of federal funds but the recipient had not taken any corrective action. Since all of these reports were issued at least six months prior to our review date, we question the following amounts:

Special Supplemental Food Program for Women, Infants, and Children CFDA #10.557	$ 2,735
Crime Victim Assistance CFDA #16.575	140
Rehabilitation Services - Independent Living Services for Older Blind Individuals	

CFDA #84.177	3,378
Centers for Disease Control - Investigations and Technical Assistance CFDA #93.283	4,597
Social Services Block Grant CFDA #93.667	1,064
Medical Assistance Program CFDA #93.778	2,449
Social Security - Research and Demonstration CFDA #93.812	705
Preventive Health and Health Services Block Grant CFDA #93.991	18,744
Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA #93.992	40,438
Maternal and Child Health Services Block Grant CFDA #93.994	1,137
Total Questioned Costs:	$75,387

4. Four subsequent audit reports identified grant overpayment and/or questioned costs of state funds but the department had not taken any corrective action. In addition, we could not identify as state or federal the amounts due from two subrecipients to settle previous audits. The aggregate $46,309 had not been collected nor the audit findings resolved.

5. Seven audit reports disclosed settlement amounts which the state collected. Only two balances due were collected within six months of receiving or issuing the reports.

Recommendation:

We recommend that the Department of Human Services ensure corrective action is taken within six months after receiving/issuing subrecipient audit reports that cite instances of noncompliance with federal laws and regulations.

Auditee Response:

The department has completed a new policy with procedures to comply with the Single Audit Act of 1984.

---

(74) Various Bureaus

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Uniform collection procedures not implemented (Prior Year Finding)

Previous audits disclosed that the department had not uniformly implemented follow-up procedures for collecting amounts that, as a result of subrecipient community agency audits, were determined to be due to the state. The department has not yet finalized or implemented procedures related to this problem.

Recommendation:

We again recommend that those units which administer subrecipient agreements also implement collection procedures to ensure timely repayment of disallowed costs and grant overpayments.

Auditee Response:

The department has completed new policy and procedures to correct this finding.

---

(75) Division of Financial Services

CFDA #: Various Federal Programs **Questioned Costs**: None

Finding: Inadequate cash management practices

Subparagraph (a) Section 205.4 of 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 five of the letters of credit pertaining to major federal programs that the Department of Human Services administers revealed the following:

Federal Grantor Agency	Letter of Credit #	Number of Days Cash on Hand April	May	June	Average
HHS	5753	8.30	12.71	9.93	10.31
HHS	V639	10.93	22.05	20.21	17.73
HHS	4578	7.22	9.80	29.69	15.37
USDE	8021	8.00	12.67	12.13	10.93
USDA	12-35-2371	1.18	1.05	3.75	1.99

Recommendation:

We recommend the department re-evaluate and revise its cash management procedures so that funds are limited to immediate cash needs.

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. The bill does not get paid for 10 days after entry. We continue to work with Accounts and Control to find ways to refine the process in order to meet federal guidelines.

---

(76) Division of Financial Services

Rehabilitation Services - Basic Support
CFDA #: 84.126 **Questioned Costs:** None

Finding: Federal financial reports not submitted on time

Title 34, CFR 80.41 (c) states that the Federal Cash Transactions Report must be submitted within 15 days of the end of the quarter.

The following Federal Cash Transactions Reports were not submitted within the required time.

Report Period	Due Date	Submission Date	No. of Days Late
07/01/90-09/30/90	10/15/90	11/29/90	44
10/01/90-12/30/90	01/15/91	02/07/91	23
01/01/91-03/30/91	04/15/91	05/17/91	32
04/01/91-06/30/91	07/15/91	07/29/91	14

Recommendation:

We recommend that the Department of Human Services submit the required federal financial reports on a timely basis and maintain them on file for audit purposes.

Auditee Response:

Reports were late due to personnel problems.... We will attempt to meet deadlines as required.

---

(77) Division of Financial Services

Child and Adult Care Food Program
CFDA #: 10.558 **Questioned Costs:** None

Finding: Failure to make indirect cost adjustments

The Department of Human Services failed to make indirect cost adjustments to account for the difference between the provisional and final rate for the state fiscal year 1989.

Section 3015.61 (a) of 7 CFR requires "...complete, accurate and current disclosure of the financial results of each U.S.D.A. sponsored...program."

Recommendation:

We recommend that the department make the necessary adjustments and promptly complete any future adjustments.

Auditee Response:

Department of Human Services concurs with the finding. Revised Financial Status Reports have been completed by the Division of Financial Services. An adjusting indirect cost journal has also been completed.

---

(78) Division of Financial Services

CFDA #: Various Federal Programs **Questioned Costs**: None

Finding: Quarterly financial reports submitted late (Prior Year Finding)

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

Of the 31 financial reports tested, 15 were submitted beyond the required due date.

Program Name/CFDA #	CFR Citation	No. of Quarterly Reports Late	Average No. of Days Late
AFDC CFDA #93.020	45 CFR §201.5(a)(1)	1	28
Food Stamp Program CFDA #10.561	7 CFR §277.11(c)(4)	3	7
Foster Care - Title IV-E CFDA #93.658	45 CFR §74.73	2	10
Medical Assistance Program CFDA #93.778	42 CFR §430.30(c)(1)	4	17
Rehabilitation Services - Basic Support CFDA #84.126	34 CFR §80.41(b)(4)	1	21
JOBS CFDA #93.021	45 CFR §201.5(a)(1)	2	32
Child Support Enforcement CFDA #93.023	45 CFR §74.73	2	4

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:

The department attempts to file its federal reports on time. For a variety of reasons, some beyond our control, there are delays in submitting reports. In some cases we have verbally asked for, and received, extensions. In other cases, while we have asked for extensions, they have not always been granted.

We will continue to attempt to comply with time frames and ask for extensions, as needed.

(79) Division of Financial Services

Social Services Block Grant
CFDA #: 93.667 **Questioned Costs:** None

Finding: Coding errors and inappropriate revenue transfers

Various coding errors and inappropriate revenue transfers to the Social Services Block Grant were included in the Controller's fiscal year 1991 cash report. Journal entries were written after fiscal year 1991 to transfer the revenue to the correct accounts. Errors and inappropriate transfers totalling $119,301 affected only federal revenue.

Recommendation:

We recommend that the department more closely monitor the Controller's reports and reconcile any differences so that revenue will be posted to the correct accounts and grant activity can be monitored through correct codings.

Auditee Response:

The department will take steps to more closely monitor the Controller's reports and to reconcile any differences in order to ensure that postings are made correctly.

(80) Division of Financial Services

Foster Care - Title IV E
CFDA #: 93.658 **Questioned Costs:** $8,478

Finding: Incorrect federal participation rate

The division applied the incorrect federal participation rate to the expenditures of the Foster Care State and Local Administration for the quarter ended September 30, 1990. The result was an overstatement of $8,478 on the state's Quarterly Report of Expenditures and Estimates. Section 1356.60 (c) of 45 CFR states, "Federal financial participation is available at the rate of fifty percent for administrative expenditures...."

Recommendation:

We recommend that the division adjust administrative expenditures on a subsequent financial report and charge the correct federal financial participation rate in the future.

Auditee Response:

The adjustment was made on the report for the quarter ending December 31, 1991.

---

(81) Division of Financial Services

CFDA #: Various Federal Programs **Questioned Costs:** None

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."

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.

Auditee Response:

Due to lack of staff, shutdowns, furloughs, etc. we have been unable to conduct a physical inventory. If/when this situation is mitigated, we would expect to comply with this rule.

---

(82) Bureau of Rehabilitation

Rehabilitation Services - Basic Support
CFDA #: 84.126 **Questioned Costs:** None

Finding: Client expenditures not correctly documented (Prior Year Finding)

Title 34 CFR 361.41 states:

> Each individualized written rehabilitation program (IWRP) must include....the specific rehabilitation service to be provided...and the projected dates for the initiation of each vocational rehabilitation service and the anticipated duration of service.

Of the twenty-five vocational rehabilitation cases reviewed that were provided to the client, seven did not have the specific rehabilitation service listed in the IWRP. Also, the time period that the client would require the service was not included in the IWRP.

Of the seven deficiencies noted above, three of the files did not contain evidence in the counselor's case notes to correspond either to the specific rehabilitation service provided to the client or to the projected time periods that the client would require the service. The aggregate expenditures not correctly documented was $875.

Recommendation:

We recommend that the bureau only authorize expenditures for those services included in the IWRP.

Auditee Response:

The Bureau's Vocational Rehabilitation Policy Manual requires that specific rehabilitation services to be provided in order to achieve the established rehabilitation objectives be listed in the Individual Written Rehabilitation Program (IWRP). Our case review process reviews a sampling of cases to monitor the compliance to this requirements. Our case review guidelines require that any major expenditure must be part of the services listed in the IWRP or its amendments. Any minor expenditure must be justified somewhere in the case record if not on the IWRP or its amendments. Feedback is provided to staff when deficiencies are noted with corrections required whenever possible. In response to our case review findings, we are placing increased training and supervisor support to rehabilitation counselor on meeting the federal IWRP requires.

Regional Managers have reviewed the seven cases that were noted in the Audit that did not have the specific service or time period in the IWRP and found the following:

Region	*Case*	*Findings*
Region I	*3 Cases*	*Audit exceptions were found in all three cases. Services were provided that were not included in the IWRP or IWRP were not updated to cover extensions.*
Region II	*3 Cases*	*IWRP time frames do not match service dates. Plans were not updated to cover purchases.*
Region IV	*1 Case*	*Only services purchased were job coaching and transportation. Job coaching is covered in the IWRP and transportation as a supportive service is addressed in case narrative. Dates for job coaching should have been extended since services were provided beyond date speci fied on IWRP.*

We agree with the findings for the three cased noted in Region I as services were provided that were addressed in the case record. Technical errors were noted in the other four cases in that services continued beyond the dates specified ont he IWRP. These findings have been shared with Regional staff, and we will be addressing these efficiencies through our ongoing case review process.

(83) Bureau of Income Maintenance

Family Support Payments to States-Assistance Payments
CFDA #: 93.020 **Questioned Costs:** $948.00

Finding: Inaccurate federal financial report

The Department of Human Services submitted an incorrect quarterly financial report for the period ended September 30, 1990. Program regulations published in Title 45 CFR Part 240 define federal participation rates for various activities. Job Search expenditures eligible for federal financial participation at a rate of 65.20% were over reported by $6,240. These expenditures were allowable only at a rate of 50%. The excess federal share is questioned.

Recommendation:

We recommend that the department take greater care when it prepares financial reports.

Auditee Response:

Since the rules under which this error occurred were for WIN programs, no corrective action is required concerning the participation rate procedures currently in use. As far as we can determine, current procedures, developed for the JOBS program implementation, are using the correct federal financial participation rates for various Title IV-F, Title IV-A, and Food Stamps Employment and Training component expense categories. The department will exercise due care in the preparation of federal financial reports in the future.

(84) Bureau of Income Maintenance

Family Support Payments to States-Assistance Payments
CFDA #: 93.020 **Questioned Costs:** None

Finding: Delinquent submission of Quarterly Expenditures Report

Title 45 CFR Part 201.5 (a) (1) requires that the department forward the quarterly report to the Office of Family Support Administration no later than 30 days after the end of the quarter. The department did not complete the report due for the quarter ended June 30, 1991 until September 9, 1991.

Recommendation:

We recommend that the department submit reports as required.

Auditee Response:

The department makes every attempt to submit reports as required.

---

(85) Bureau of Income Maintenance
Division of Budget and Administration - Quality Assurance Unit

Family Support Payments to States-Assistance Payments
CFDA #: 93.020 **Questioned Costs:** None

Finding: Noncompliance with quality assurance transmittal requirements

Title 45 CFR 205.40(b)(2)(ii)(c) requires that the state agency shall dispose of and submit 100% of the cases within 120 days of the end of the sample month. The Division of Budget and Administration - Quality Assurance Unit exceeded the time requirement in seven of the twenty-five cases sampled.

Recommendation:

We recommend that the department continue its efforts to eliminate the backlog of unfinished cases and take steps to ensure that results are reported as required.

Auditee Response:

Our unit has taken the following steps to eliminate the backlog of unfinished cases.

1. *At each supervisors' meeting, each program is updated by the appropriate supervisor as to its current status in relationship to the deadlines.*

2. *Recently we became fortunate enough to fill four of the ten positions that we have been down since October 1990 (one position was the Medicaid supervisor and three Questioned Costs Workers). This should help our unit to eliminate the backlog of cases.*

---

(86) Bureau of Income Maintenance

Child Support Enforcement
CFDA #: 93.023 **Questioned Costs:** $154

Finding: Finance charge payment an unallowable cost

Of the twenty-five vouchers that we examined at the Department of Human Services (DHS), one voucher included a payment of $57 which represented both a late penalty charge and an interest finance charge. In addition, we noted two other voucher payments to the same vendor which had finance charges totaling $97.

Attachment B, Subparagraph D, of the Office of Management and Budget (OMB) Circular A-87 Cost Principles for State and Local Governments, states that fines, penalties, interest and other financial costs are unallowable costs.

Recommendation:

We recommend that a) DHS personnel review invoices to ensure that the charges are according to OMB Circular A-87; and b) ensure that only invoices containing allowable costs are processed for payment.

Auditee Response:

We agree and will take the necessary steps to resolve this finding.

---

(87) Bureau of Income Maintenance - Division of Finance

State Administrative Matching
Grants for Food Stamp Program
CFDA #: 10.561 **Questioned Costs:** None

Finding: Receiving reports not found

In a sample of twenty-five payments that we tested the receiving reports for two vendor payments totalling $2,342 were not found. The supplies were reported as received based upon inquiry to the Food Stamps Issuance Unit. However, Department of Human Services (DHS) financial staff who processed invoices did not routinely check receiving reports before approving payments.

Recommendation:

We recommend that all DHS units report their deliveries and that the DHS financial staff check for material receipts before approving payments.

Auditee Response:

Department of Human Services does not concur with the audit finding. The payments in question did have a receiving official's signature. The invoices that are being questioned were partial orders. When full order was in fact received the receiving official signed the purchase order.

---

(88) Bureau of Income Maintenance - Division of Financial Services

Child Support Enforcement
CFDA #: 93.023 **Questioned Costs:** None

Finding: Non-compliance with state purchasing procedures

Attachment A, Subparagraph C of the Office of Management and Budget (OMB) Circular A-87, Cost Principles for State and Local Governments, states that 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."

Title 5, MRSA Section 1812 requires that the State Purchasing Agent purchase or contract all services, supplies, materials and equipment that departments need.

Of twenty-five vouchers we examined, four invoices did not evidence either a contract for special services or a lease agreement. During the 1991 fiscal year the department paid $404,120 to these vendors.

Recommendation:

We recommend that when purchasing goods and services department personnel comply with the state purchasing procedures as required by Title 5, MRSA §1812.

Auditee Response:

The bureau is in the process of doing RFP's and contracts for services in order to comply with state law.

---

(89) Bureau of Income Maintenance

Job Opportunities and Basic Skills Training (JOBS)
CFDA #: 93.021 **Questioned Costs:** None

Finding: Delinquent submission of quarterly financial report

The JOBS program is regulated by Title 45 CFR, Part 250.76 which applies existing departmental regulations under Part 201.5 (a)(1). These regulations require that the state forward the quarterly report to the Office ofFamily Support Administration no later than 30 days after the end of the quarter. The department did not complete the reports due for the quarter ended March 31, 1991 until June 30, 1991; and did not complete the June 30, 1991 report until September 9, 1991.

Recommendation:

We recommend that the department submit reports as required.

Auditee Response:

As the result of reduced staff, shutdowns and furlough days, there will be occasions when reports will not be filed on time.

We will make every attempt to meet the required deadlines.

(90) Bureau of Income Maintenance

Job Opportunities and Basic Skills Training (JOBS)
CFDA #: 93.021 **Questioned Costs:** $8,025

Finding: Expenditures over reported

Expenditures reported for federal financial participation were overstated by $8,025 due to an error made during report preparation. An advance payment to a subrecipient was included in error when compiling expenditures for November 1990.

Recommendation:

We recommend that the department implement a procedure to verify that the distribution of expenditures is complete and accurate.

Auditee Response:

The Department of Human Services concurs with the audit finding. The department will be submitting *a revised jobs report to correct the overstated contract amount.*

---

(91) Bureau of Income Maintenance

Job Opportunities and Basic Skills Training (JOBS)
CFDA #: 93.021 **Questioned Costs:** None

Finding: Unreturned cash balance

The Bureau of Income Maintenance has not collected an unspent cash balance of $76,737 from a subrecipient whose agreement terminated September 30, 1991.

Recommendation:

We recommend that the bureau make more aggressive efforts to collect this balance in order to meet cash needs of ongoing program activities.

Auditee Response:

The Bureau of Income Maintenance is pursuing collection of the unexpended cash balance.

---

(92) Bureau of Income Maintenance

Job Opportunities and Basic Skills Training (JOBS)
CFDA #: 93.021 **Questioned Costs:** None

Finding: Federal match claimed at less than the allowable rate

Title 45 CFR, §250.73 describes the allowable federal match for various JOBS activities. JOBS component activities are eligible for matching at the higher of 60% or the state's Medicaid matching rate. The department expended $341,586 for training activities eligible for federal match at the rate of 63.49%. The department only requested federal participation at the rate of 50%. Applying the correct rate will create an additional reimbursement of $46,080 to the General Fund.

The department may also be able to collect additional amounts for subrecipient expenditures which were not reported at the highest eligible rate.

Recommendation:

We recommend that the department submit revised financial reports requesting federal match at the higher rate.

Auditee Response:

The Bureau of Income Maintenance's interpretation of the applicable federal regulations and discussions with federal representatives led the bureau to believe that 50/50 was the appropriate match rate. The bureau is seeking written clarification from federal representatives. If the FMAP rate is the applicable match rate we will request that revised financial claims be submitted for reimbursement.

---

(93) Bureau of Income Maintenance

Family Support Payments to States - Assistance Payments
CFDA #: 93.020 **Questioned Costs:** $84

Finding: Supportive services payments exceed maximum allowable

Title 45 CFR §255.4 limits federal financial participation for the cost of child care to the amount established in the state's Supportive Services Plan. Seven of the nineteen child care payments included in our expenditure test were incorrect. These overpayments totalled $84.

Recommendation:

We recommend that the department establish procedures to ensure that payment approvals are only for those invoices that comply with allowable limits.

Auditee Response:

Due to the sheer volume and complex/cumbersome nature of the day care payment system it is inevitable that mistakes will be made. The bureau will remind the regional offices of the importance of properly coding bills.

---

(94) Bureau of Income Maintenance

State Administrative Matching
Grants for Food Stamp Program
CFDA #: 10.561 **Questioned Costs:** None

Finding: Employee time records do not reflect attendance and leave activity (Prior Year Finding)

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 state 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...." Of five time sheets tested three did not reflect attendance and leave activity.

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:

Effective January 3, 1992, several new changes were implemented that will provide a breakdown of each day's total hours worked and not worked.

Because this Auditor's Report is for the year ended June 30, 1991, and our changes are not retroactive, it may remain an issue in a future report.

(95) Bureau of Income Maintenance

Food Stamps
CFDA #: 10.551 **Questioned Costs:** $2,441

Finding: Documentation of case files insufficient (Prior Year Findings)

We reviewed twenty-five case files and noted that six either contained incomplete documentation or lacked required evidence to verify eligibility and benefit level determination. Two of the six case files had deficiencies resulting in questioned costs of $2,441.

Title 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."

Recommendation:

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

Auditee Response:

We question the amount of questioned costs as the lack of documentation makes it impossible to know whether this determination was correct.

Lack of documentation is an issue the bureau has addressed in the past and continues to try to resolve. With decreased staff time and increased caseloads, documentation suffers although questioned costs findings indicate that budget amounts are correct.

The Food Stamp Program Manager will shortly be sending a memo to unit supervisors reminding them of the importance of documenting information in the case record and asking them to pay particular attention to this activity in case readings.

---

(96) Bureau of Data Processing

Family Support Payments to States-Assistance Payments
CFDA #: 93.020 **Questioned Costs:** None

Finding: No reductions of AFDC payments for overpayments

Federal regulations require that recoveries of overpayments and uncashed checks be returned promptly to the federal government. The department has a procedure by which a reduction is made in the current payment to recapture prior overpayments. Collections using this method average approximately $40,000 a month. An alteration was made to the computer program which resulted in not recapturing overpayments for the month of July 1990.

Recommendation:

We recommend that the department institute appropriate controls before implementing computer program changes.

Auditee Response:

No reductions of AFDC payments for prior overpayments were indeed made in July, 1990. This was a human error which occurred due to reduced staff and increased software change demands. The error occurred in spite of what we thought were appropriate controls and was corrected as soon as discovered. It should be noted that July's lapse in the collection process did not mean a loss of collections but rather a one-month extension in the length of time for collection.

---

(97) Division of Audit

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Noncompliance with desk review procedures/Audit and compliance requirements not referenced in subgrant agreements

According to established procedures, a recipient should complete the preliminary screening checklist within 60 days after receiving financial statements in order to determine whether subrecipient audit reports meet minimum reporting standards. Upon preliminary acceptance the affected departments should perform desk reviews of the financial statements and/or audit reports.

Contract amendments, required for active grant agreements on January 1, 1990, reference pertinent state audit requirements and specific program compliance supplements. The text of compliance supplements should be included as part of standard grant agreements.

We reviewed twenty-five subrecipient audit reports which had desk reviews during the audit period. We note the following:

1. The recipient did not complete five preliminary screening checklists (PSCs) within 60 days of receiving the financial statements;

2. A reviewer did not date one PCS so we could not determine whether the screening process was timely; and

3. We could not locate three PCSs and one desk review checklist.

We reviewed subrecipient grant agreements related to the audits. We note the following:

1. Six grant agreements did not reference the audit and compliance requirements nor include the compliance requirements text; and

2. We could not locate two grant agreements.

Recommendation:

We recommend that:

1. The department complete PSCs on time;
2. The Audit Division personnel note the date of their analysis on the review documents;
3. Subgrant agreements include references to state audit requirements and the text of compliance supplements; and
4. For federal audit purposes, the department retain grant agreements and documents of all reviews.

Auditee Response:

We agree with the finding and recommendation. It should be noted that staffing shortages and furlough days are taking their toll on timeliness of desk reviews.

---

(98) Division of Audit

CFDA # Various Federal Programs **Questioned Costs:** None

Finding: Continuing education requirements not satisfied

According to Government Auditing Standards, an audit organization should have a program to ensure that its staff maintain professional proficiency through continuing professional education (CPE) and training. To satisfy this requirement and increase professional proficiency, auditors responsible for planning, directing, conducting, or reporting on government audits must complete at least 80 CPE hours every two years. At least 20 hours must be completed in any one year of the two year period. The standards also state that all CPE requirements should be met within two years of the effective date, January 1, 1989. As of December 31, 1990 auditors who were subject to the effective date must have met the CPE requirements for the first two-year period.

We reviewed the CPE records for the department's audit staff. We note the following:

1. Of the 960 CPEs that should have been met, 824 were completed; of the twenty-four staff auditors, twelve did not complete the 80 hour CPE requirement for the two-year period;
2. Three staff auditors did not complete a minimum of 20 hours in one year.

Recommendation:

We recommend that the department ensure that all staff auditors complete the continuing education requirements.

Auditee Response:

We agree with the finding and recommendation and we will strive to meet the GAS standard for continuing professional education requirements. However, shutdown days, furlough days and lack of department funds for continuing education purposes make this task very difficult.

---

(99) Division of Audit

CFDA #: Various Federal Programs **Questioned Costs:** None

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 2L requires that an audit be performed ".... usually annually, but not less frequently than every two years."

A review of the status of subrecipient audits at the department's Audit Division revealed that, for agency fiscal years which ended prior to December 31, 1989, the division had not met the audit frequency requirements for 77 subrecipient organizations. Unaudited federal funds (budgeted contract amounts) totaled $10,751,934 as of April of 1992. The individual programs and amounts of unaudited funds are:

Program/CFDA #	
Special Supplemental Program for Women, Infants and Children CFDA #10.557	$3,270,114
Child and Adult Care Food Program CFDA #10.558	677,167
Crime Victim Assistance CFDA #16.575	90,575

Department of Human Services (cont.)

Drinking Water Supply - Technical Assistance <u>CFDA #66.425</u>	11,500
Rehabilitation Services - Basic Support <u>CFDA #84.126</u>	201,397
Centers for Independent Living <u>CFDA #84.132</u>	50,357
Family Support Payments to States - Assistance Payments <u>CFDA #93.020</u>	84,895
Acquired Immunodeficiency Syndrome (AIDS) Activity <u>CFDA #93.118</u>	3,167
Primary Care Services - Resource Coordination and Development Cooperative Agreements <u>CFDA #93.130</u>	56,250
High School Equivalency and College Assistance Migrant Program <u>CFDA #93.141</u>	149,250
Centers for Disease Control - Investigations and Technical Assistance <u>CFDA #93.283</u>	2,400
Child Welfare Services - State Grants <u>CFDA #93.645</u>	6,750
Social Services Block Grant <u>CFDA #93.667</u>	2,164,429
Special Programs for the Aging - Title IV - Training, Research and Discretionary Projects and Programs <u>CFDA #93.668</u>	8,300
Administration for Children, Youth and Families - Child Abuse and Neglect State Grants <u>CFDA #93.669</u>	59,404

Family Violence Prevention and Services CFDA #93.671	35,625
Independent Living CFDA #93.674	91,423
Preventive Health Services - Sexually Transmitted Diseases Control Grants CFDA #93.977	1,660
Social Security - Research and Demonstration CFDA #93.812	1,525,722
Health Programs for Refugees CFDA #93.987	5,150
Preventive Health and Health Services Block Grant CFDA #93.991	165,068
Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA #93.992	47,700
Maternal and Child Health Services Block Grant CFDA #93.994	1,387,338

In addition, we found $656,293 in unaudited federal funds for programs not listed in the Catalog of Federal Domestic Assistance.

Recommendation: We recommend that the division complete on time those audits of subrecipients, who receive federal financial assistance.

Auditee Response:

We agree with the finding and recommendation. It should be noted that the field work has been completed on approximately half of the 77 subrecipients cited and that only the supervisory reviews and report typing remained on these cases. We are addressing the remaining portion of cases and we will give it top priority.

However, staffing shortages and furlough days are taking their toll on timeliness of audits. We additionally believe we are understaffed.

(100) Division of Audit

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Medicaid provider audits/cost settlements are not prompt (Prior Year Finding)

Our review to determine the current status of Medicaid provider audits revealed the following:

Final Audits/Settlements not Completed for Those Facilities with Operating Periods Ending During the Following Calendar Years:

Provider/Facility Type	1984 to 1987	1988	1989	1990	(Approximate) Total Number of Provider/ Facility Types
Intermediate Care Facilities (Nursing Homes)	2	5	5	26	145
Intermediate Care Facilities for the Mentally Retarded			1	9	43
Hospitals			13	40	45
Rural Health Centers		7	7	17	22
Home Health Centers	2	2	6	22	23
Totals	4	14	32	114	278

For 1990 audits not completed we note that providers have twelve months after the date of service to submit claims and then twelve months more to resolve any rejected claims. This process has to occur before any audit may be conducted.

Recommendation:

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

Auditee Response:

We are in agreement with the numbers that are presented in this report and we are in the process of conducting the audits on some of the older years that were not completed. The reason for the delay *in the prior years on a few of the providers is due to difficulties encountered obtaining information from a small amount of providers prior to 1990.*

For Hospitals, Rural Health Centers and Home Health Centers who are also involved with Medicare patients the department has a common audit agreement with Medicare and because of this cannot complete the Medicaid portion of the audit until Medicare finalizes their audits which many times is a year or longer after the providers fiscal year is completed. This means that the audits for the years ending in 1990 will not be able to be completed until 1992.

Intermediate Care Facilities (nursing homes) and Intermediate Care Facilities for the Mentally Retarded are required to be audited but under federal regulations there is actually no specific number to be completed annually but the requirement is that the Department of Human Services will do audits. State of Maine requirements state that audits will be done on an annual basis but do not have to be done each year as long as each reporting year is audited. The Division of Audit will complete the audit of every facility for every year but in some cases may do two years audit work in one year.

---

(101) Division of Audit

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Incomplete data used for subrecipient audits/Noncompliance with state mandated Single Audit requirements (Prior Year Finding)

Title 5, MRSA §1653 (9) requires that all community agencies receiving $25,000 in revenue from state and federal sources, excluding Medicaid, must be audited. The designated lead agency is responsible for coordinating the audit. For scheduling audits, the Division of Audit of the Department of Human Services (DHS) uses an internal listing of subrecipients. These only reflect grants awarded by DHS and not revenue received from other state departments. One source may not exceed the $25,000 requirement but the aggregate could. Consequently, the division might not audit all subrecipients receiving $25,000 from all state and federal sources. In addition, the division does not use an independent verification that all funds have been audited.

Title 5, MRSA §1654 paragraph B states that the lead agency is responsible for coordinating and conducting the Single Audit and issuing the Single Audit report. The 1986 Maine Uniform Accounting and Auditing Practices for Community Agencies defines a Single Audit as "...one financial and compliance audit of all funds contracted for between the state and community agency, excluding Medicaid." The DHS Audit Division conducted audits and issued Single Audit reports that excluded funds that subrecipients received from other state departments which elected not to participate.

Recommendation:

We recommend that:

1. Prior to scheduling audits the division should obtain complete subrecipient revenue information; if data is not available, the division should document the department's position and forward this to the Department of Administrative and Financial Services which has the relevant oversight responsibility;

2. The division either perform Single Audits as required or aggressively try to involve non-lead agencies; if not successful, the division should notify the Commissioner of the Department of Administrative and Financial Services.

Auditee Response:

We agree with parts of your finding and we disagree with other parts.

We agree "One source (department) may not exceed the $25,000 requirement but the aggregate could. Consequently, the division (DHS) might not audit all subrecipients receiving $25,000 from all state and federal sources".

We disagree with several parts of this finding because we believe the responsibility belongs to the Department of Administrative and Financial Services. We are forwarding a copy of your finding along with our reply to their office. We do not believe we can be more aggressive than informing them of your finding. Our department has.... brought up many issues surrounding this finding at advisory committee meetings.... The parts to which we disagree are as follows:

1. *To include a finding in the DHS segment of the A-128 which says "Incomplete data used for subrecipient audits/Noncompliance with state mandated Single Audit requirement", and in addition, "the division does not use an independent verification that all funds have been audited" is in our opinion a misplaced finding....*

2. *To include a finding which says "Title 5, MRSA 1654 Paragraph B states that the lead agency is responsible for coordinating and conducting the single audit" is erroneous. Our copy of the statute says "The lead agency shall (1) direct, coordinate or conduct the single state audit or coordinate the state's interest in the conduct of agency wide audits. Please note the use of the words "or" and not "and". Additionally, please see the example of a single audit report to use whenever a state department chooses not to audit (see MAAP page 103 the suggested explanatory paragraph at the bottom of the page). We believe, we are following the procedures outline in MAAP.*

(102) Division of Audit

CFDA#: Various Federal Programs **Questioned Costs**: $366,882

Finding: Duplication of audit efforts/Inequitable distribution of audit staff salary costs between federal and state accounts

Under several audit options promulgated in the Maine Uniform Accounting and Auditing Practices for Community Agencies, the Division of Audit of the Department of Human Services is responsible for auditing agreements with social service providers for compliance with state requirements. In addition, the division:

1. Tracks amounts distributed to its subrecipients from each federal financial assistance program;

2. Determines and disseminates applicable audit requirements for/to its subrecipients;

3. Coordinates audit efforts with the subrecipients' independent auditors; and

4. Evaluates audit quality for compliance with audit requirements of both the state and federal government for those audits prepared by the independent auditors.

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

Some of the subrecipient's opt for a combination audit wherein the Department of Human Services (DHS) builds upon a financial audit performed by an independent public accountant (IPA). The IPA financial audit includes auditing for federal compliance with direct and indirect federal funds received by the subrecipients. DHS is then responsible for auditing for compliance related to state funds. Its examination also includes auditing for compliance with state requirements related to pass-through federal funds. Since the IPA has already performed an organization-wide financial and compliance audit, that part of the examination performed by DHS auditors ,to determine compliance with OMB Circular A-122, Cost Principles for Nonprofit Organizations, is duplication of effort.

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 efforts."

Audit staff payroll costs are distributed as follows:

1. Compensation costs of three social services unit auditors are charged to the General Fund and;

2. The six remaining personnel are charged to a federal appropriation (other special revenue) account.

The Audit Division does not maintain time distribution records allocating staff time associated with determining compliance with federal versus state requirements. Therefore, we question the entire amount of personal services costs charged to the department's federal account.

Recommendation:

We recommend that the cost of audit efforts not directly benefiting or contributing to federal program operations be segregated to produce a more equitable distribution of audit costs to the applicable cost objectives. We further recommend that duplicative audit efforts be avoided.

Auditee Response:

We disagree....

1. Duplication of audit effort

We disagree that under the MAAP combination audit option 2-a there is a finding to be written regarding duplication of audit effort. A more appropriate finding would be to say that the single audit requirement to "build upon other auditor's work" sometimes leads to an overlap of duties or a duplication of audit effort. We believe this issue to be very microscopic in total and also one which is unavoidable. For example when the IPA tests for the specific requirement for A-122 compliance, he is insuring that CFDA reporting on the Schedule of State and Federal Assistance is accurate. When the state auditor tests for this same procedure, they are testing to insure that Grant reporting on the Schedule of State and Federal Assistance is accurate.

2. Inequitable distribution of Audit staff salary costs between Federal and State sources

We agree there are no specific time studies conducted which allocate auditor time on a subrecipient audit between state versus federal. We do not agree you should question $366,882 on this basis as there are no real conclusive scientific cost allocation methods known other than indirecting costing based on overall split between total state dollars versus federal dollars.

Auditor's Concluding Remarks:

We believe that DHS audit charges to federal funds are duplicative and not allowable to the extent that DHS audit work a) reexamines agencies already audited by an independent auditor according to federal regulations, and b) is not performed according to OMB Circular A-110, Uniform Administrative Requirements for Grants and Other Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations and OMB Circular A-133, Audits of Institutions of Higher Education, Hospitals and Other Nonprofit Institutions. We recognize that federal regulations allow for a coordinated audit approach but, as stated in OMB Circular A-133, Section 12(a), such an approach must be agreed upon between the independent auditor, the recipient and the cognizant agency or oversight agency.

(103) Department of Human Services

Division of Audit

CFDA #: Various Federal Programs **Questioned Costs:** None

Finding: Noncompliance with state single audit requirements/Acceptance of substandard subrecipient audit reports

Federal regulations require that the recipient determine whether subrecipients have met the audit requirements of the federal government. According to Attachment F, Subparagraph h of OMB Circular A-110, Grants and Agreements With Institutions of Higher Education, Hospitals, and other Nonprofit Organizations, "...examinations in the form of audits... should be conducted on an organization-wide basis to test the federal integrity of financial transactions, as well as compliance with the terms and conditions of the federal grants and other agreements." Title 5, MRSA, §1654 requires state agencies designated as the lead agency to "...direct, coordinate or conduct the single state audit or coordinate the state's interest in the conduct of agency-wide audits".

Our review of subrecipient audit reports revealed the following:

1. The department did not perform or obtain a compliance audit of one subrecipient for the 1989 fiscal year and therefore did not comply with the Maine Uniform Accounting and Auditing Practices Act for Community Agencies. DHS awarded $4,192,315 of federal monies and $4,442,997 in state monies to the subrecipient.

2. The department performed desk reviews of two fiscal year 1989 subrecipient audits which revealed substantial deficiencies which we consider not to be in accordance with OMB Circular A-110. In addition, the audit reports in question did not appear to meet the reporting standards promulgated in Government Auditing Standards. Although the deficiencies were identified by the department, it did not reject the audit reports and return them for corrective action. For fiscal year 1989, aggregate federal financial assistance awarded to the two subrecipients was $1,888,678.

Recommendation:

We recommend that the department fulfill its responsibilities to ensure that audits of its subrecipients meet both state and federal audit requirements.

Auditee Response:

We agree. Corrective action for the need for organization-wide audits for Circular A-110 for the *entire State of Maine did not occur until Community Agency fiscal years ending June 30, 1990. The finding does not only apply to two subrecipients but rather to the entire State of Maine. The mandate of Circular A-110 for State of Maine subrecipients did not occur until the implementation of MAAP II. Since very few Maine subrecipients received direct federal assistance the subrecipients were not knowledgeable of Circular A-110's existence until the implementation of MAAP II. We still have some 1988 and 1989 audits to complete; therefore this finding will repeat itself until all DHS audits are done for fiscal years ending prior to June 30, 1990.*

(104) Department of Human Services

Bureau of Medical Services

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Durable medical equipment not inventoried (Prior Year Finding)

Title 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.

In accordance with Medicaid procedures, the Bureau of Medical Services furnishes durable medical equipment to qualified recipients. As described in the prior year audits, durable medical equipment is not inventoried nor recovered for reuse when no longer needed. Corrective action was taken, effective December 24, 1991, when the Maine Medical Assistance Manual, Section 60.06-4 (2)(a) was revised to state, "Once an item is purchased, it becomes the property of the recipient."

Recommendation:

None

Auditee Response:

Not necessary.

(105) Bureau of Medical Services - Division of Medicaid Policy and Programs

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Late submission of reports

The Health Care Financing Administration (HCFA) as stated in the state Medicaid Manual, Part 2, Section 2700.6 requires annual reports on home and community-based waivers.

For each approved waiver, HCFA requires a separate initial report for the reporting period and if applicable, a separate lag report covering the prior period. The reports are due within 180 days after the anniversary of the effective date of the waiver.

The Division of Medicaid Policy and Programs has three waiver programs: one for the elderly; one for persons with mental retardation; and one for the physically disabled. Each waiver required an initial report and a lag report for the reporting period.

The initial report and lag report for the waiver for persons with mental retardation were both submitted to HCFA 53 days late. The initial report and lag report for the waiver for the physically disabled were both submitted to HCFA 104 days late.

Recommendation:

We recommend that the division submit all waiver reports as required by HCFA regulations.

Auditee Response:

These HCFA-372 reports were sent to HCFA late because of problems in obtaining the necessary data in the required format from data processing. I understand that the auditor spoke with Maine's HCFA regional office representative regarding these reports. Our HCFA representative confirmed our statements made to the auditor that Maine's reports are usually timely and, in addition, if they are late, HCFA imposes no penalty. In fact, HCFA staff are not concerned if a report is late as long as the reports are submitted by the time a waiver is due for renewal.

We accept this recommendation. However, we believe no corrective action is necessary.

(106) Bureau of Medical Services

Medical Assistance Program
CFDA #: 93.778 **Questioned Costs:** None

Finding: Noncompliance with refund procedures (Prior Year Finding)

Subparagraph (a)(1) and (2) of Title 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. Of the thirty-four overpayments to providers of Medicaid services that we tested, nine were not recorded on the HFCA-64 report within the proper time period;

2. Of the thirty-four overpayments tested, five made to hospitals had not been established on the accounts receivable records. According to department personnel the department's accounting personnel responsible for posting the accounts receiv able records do not always receive the Final Decision and Order Overpayment notifications.

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 the bureau record all overpayments on the accounts receivable records.

Auditee Response:

The financial control unit in the Medical Claims Review Division, in the Bureau of Medical Services, identifies each amount owed by any hospital on the accounts receivable list, maintained in the Bureau of Medical Services, immediately when it is notified via the Decision and Order. The Decision and Order was routinely mailed to the Department's accounting unit at the Central Office by the financial control unit in Medical Claims Review. However, during the period covered by this audit the Bureau of Medical Services staff was transitional. The bureau's accountant had left and the work was being covered by personnel not trained in the procedures of the position, thus some of the Decision and

Orders were not properly forwarded to the central office accounting unit.

Procedures have been established in the Bureau of Medical Services to prevent this from recurring. The Decision and Orders are directly submitted to central office accounting as well as the financial control unit in the Bureau of Medical Services by the Financial Services Unit who originally receive the Decisions and Orders within the Bureau of Medical Services. The amounts listed on the Decisions and Orders is immediately placed on the accounts receivable list of the Department of Administrative and Financial Services, Bureau of Accounts and Control, by the staff of the Department of Human Services Central Office Financial Services Unit.

This will enable the federal government to receive the correct amounts in the appropriate quarter.

The accounts receivable list maintained by the Bureau of Medical Services Medical Claims Review Division is summarized and submitted to the Department's Central Office Accounting Unit on a monthly basis as a checking mechanism.

The department will make every effort to comply with the audit findings.

---

(107) Department of Human Services

Bureau of Child and Family Services/Division of Purchased and Support Services

Social Services Block Grant
CFDA #: 93.667 **Questioned Costs:** None

Finding: Grant expenditure variance

The United States Code, 42USC §1397(e) requires annual activity reports which include expenditures for the Social Services Block Grant.

There were expenditure variances totalling $129,489 in three of six categories tested in the report for fiscal year 1990 when compared with the Controller's monthly reports from which report expenditures were extracted. Although the variances represent only 1% of the reported expenditures, one category, training, had a variance of 31%. Documentation used to compile the report was not on file.

Recommendation:

We recommend that the department determine the reason for the variances and file a revised report if necessary. We further recommend that it retain report documentation.

Auditee Response:

The two larger variances, totalling $120,400, were in two categories: Department Administration and Social Services Training.

The Department Administration discrepancy of $30,898 can only be attributed to a calculation error in reconciling three Expenditure Analysis reports: September, 1989; June, 1990; and September 1990.

The Social Services Training discrepancy of $89,502 was caused by a duplication error. The Bureau of Administration Training account includes a Bureau of Child & Family Services initiated contract for child care training in the amount of $89,000. In completing the SSBG Utilization Report, these contract expenses were erroneously added to the Social Services Training category, thereby counting these contract expenditures twice.

The fiscal reports utilized in completing the SSBG report are the expenditure reports generated by the state's computerized fiscal system. These reports are on file in the Department's Division of Finance and with the Bureau of Child & Family Services' Fiscal Manager. As such, the reports are readily available for audit purposes. The grants manager responsible for the SSBG report retains copies of workpapers used in completing the report.

The Division of Purchased & Support Services is currently completing the SSBG fiscal year 1991 report. A correction to the fiscal year 1990 report will be submitted with the fiscal year 1991 report.

(108) Department of Labor

Bureau of Employment and Training Programs (BETP)

Job Training Partnership Act (JTPA)
CFDA#: 17.250 **Questioned Costs:** None

Finding: No documentation for eligibility verification process

Title 20 CFR, Part 629.35(c) states that records shall be maintained of each participant's enrollment in a JTPA program in sufficient detail to demonstrate compliance with the relevant eligibility criteria.

The Jobs Training Administrative Office (JTAO) Operations Manual, Volume I requires that the eligibility of ten percent of all new enrollees in each quarter of the program year be verified by county.

We examined twenty-five participant files which were selected from the ten percent eligibility verification process. Twenty-two of the eligibility verification records lacked the required supporting documentation and fifteen lacked the required supervisory approval.

Recommendation:

We recommend that the Jobs Training Administrative Office require its direct delivery field offices to properly review, document and verify the eligibility of ten percent of all new enrollees in each quarter of the program year.

Auditee Response:

A letter has been written to the JTAO to request a corrective plan be submitted to BETP within ten working days and that all corrective action be completed within sixty days.

---

(109) Bureau of Employment and Training Programs (BETP)

Job Training Partnership Act (JTPA)
CFDA#: 17.250 **Questioned Costs:** None

Finding: Subrecipients' audits do not meet federal requirements (Prior Year Finding)

The Office of Management and Budget (OMB) Audits of State and Local Governments 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 OMB Circular A-128 or OMB Circulars A-133 Audits of Institutions of Higher Education and Other Nonprofit Institutions.

During our audit we found that BETP did not have a system to assure that subrecipient audits meet the requirements of OMB Circulars A-128 or A-133.

Recommendation:

We again recommend that BETP develop a system which assures that audits of the subrecipients meet the requirements of OMB Circulars A-128 or A-133.

Auditee Response:

The Deputy Director for Administration position is vacant presently but will be filled in June 1992. This position will be assigned the responsibility of reviewing subrecipient audits for compliance with OMB Circulars A-128 and A-133. This review will cover the Training Resource Center (This may entail coordinating with the Department of Human Services which also performs this function) and the Training and Development Corporation. In addition, the new Deputy will ensure that the Jobs Training Administrative Office (JTAO) performs reviews for Western Maine Community Action, Aroostook County Action Program and the Coastal Economic Development Agency (These also may require collaboration with the audit divisions of other state agencies). The JTAO review functions are presently required by the BETP Administrative Manual.

(110) Bureau of Employment and Training Programs (BETP)

Job Training Partnership Act (JTPA)
CFDA#: 17.250 **Questioned Costs:** None

Finding: No equitable basis for distributing indirect costs (Prior Year Finding)

The Office of Management and Budget (OMB) Cost Principles for State and Local Governments Circular A-87, Attachment A, F(1) states that a cost is allocable to an objective to the extent of benefits received.

Section II of the state JTPA administrative manual states that indirect costs charged to the grant must be supported by an indirect cost plan and be allocated in compliance with OMB Circular A-87.

BETP's administrative and accounting staff provide 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.

Recommendation:

We again 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:

Presently, we are waiting to hear from the U.S. Department of Labor regarding approval of our cost allocation plan based on their recent monitoring visit. It is our understanding that if they accept our plan, it will also be accepted by the Department of Audit.

We will also be checking to see if the federal government received JTAO's plan and that of their Direct Delivery Division (DD). JTAO/DD has been satisfactory in the past, especially given DD's historically liberal co-enrollment policy.

(111) Bureau of Employment and Training Programs (BETP)
Office of Administrative Services (OAS)

Job Training Partnership Act (JTPA)/
Employment Service/Unemployment Insurance
CFDA#: Various Federal Programs **Questioned Costs:** None

Finding: No physical inventory of capital equipment

BETP and OAS have 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".

Recommendation:

We recommend that BETP and OAS conduct a physical inventory at each location every two years and that they reconcile the results to the property records.

Auditee Response:

BETP:

BETP has hired a project worker to construct a capital equipment inventory and reconcile with the Bureau of General Services records. This project should be done in the Next 3-6 months. A physical inventory will be completed by June 30, 1993.

OAS:

A schedule for physical capital inventory for all locations within the Office of Commissioner, Bureau of Employment Security and Maine Occupational Information Coordinating Committee is prepared. We anticipate it will be completed by September 30, 1992. A reconciliation with the computerized property system will be done after inventory completion.

---

(112) Bureau of Employment and Training Programs (BETP)

Job Training Partnership Act (JTPA)
CFDA#: 17.250 **Questioned Costs:** None

Finding: Capital equipment records do not support ending balance

The Office of Management and Budget (OMB) Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule) requires that recipients comply with state laws and procedures for the acquisition, management and disposal of equipment. The Bureau of Employment and Training Programs has not maintained nor reconciled the detail equipment records to the control records.

Recommendation:

We recommend that the BETP maintain and reconcile the detail equipment records to the control record and submit an annual capital equipment reconciliation report to the Bureau of Public Improvements.

Auditee Response:

After the capital equipment inventory is completed, the inventory will be reconciled with the Bureau of General Services and amended annual capital equipment reconciliation reports will be submitted as necessary.

---

(113) Office of Administrative Services

Employment Services/Unemployment Insurance
CFDA#: 17.207/17.225 **Questioned Costs:** None

Finding: Time distribution reports not retained

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

> Payrolls must be supported by time and attendance or equivalent records for individual employees. Salaries and wages of employees chargeable to more than one grant program or other cost objective will be supported by appropriate time distribution records.

Of the sixty time and attendance records that we examined we found that five lacked supervisory approvals.

In addition, Department of Labor (MDOL) personnel did not retain the time distribution reports for the 1991 fiscal year. This data is entered into the cost allocation system which generates the information used to report expenditures to the federal government.

Recommendation:

We recommend that MDOL review all time sheets for accuracy and supervisory approval. We further recommend that MDOL retain the time distribution reports so they will be available for auditing.

Auditee Response:

Supervisory Approval: The Office of Human Resources has begun reviewing all time sheets for *accuracy and supervisory approval.*

Time Distribution Reports (BM-3) Retained: The Time Distribution Report is submitted to the Office of Administrative Services by employees after approval by their supervisors and used for data entry into the cost accounting system. The data is available on the Time Distribution Report TD-04 and available for audit examination (computer printouts and microfiches). Due to the inordinate amount of paper, the input document is not retained. We do not plan any change to this policy until future automation plans are implemented.

(114) Bureau of Employment Security

Employment Services/Unemployment Insurance
CFDA#: 17.207/17.225 **Questioned Costs:** None

Finding: Invoice amount exceeded contract price

Of the twenty-five vouchers that we examined one invoice included an additional charge for shipping and handling which was in excess of the quoted bid price.

The quoted bid price which was negotiated between the Department of Administration-Bureau of Purchases and the vendor included transportation charges. Subsequent to the audit, Department of Labor (MDOL) personnel received reimbursement from the vendor for the shipping and handling charges.

Recommendation:

We recommend that personnel from the MDOL Office of Administrative Services compare the terms of the purchase order with the invoice in order to improve the internal controls for processing invoices.

Auditee Response:

The vendor was notified of the error and reimbursed our account. Staff will compare purchase orders and other supporting documents with vendor invoices making sure payment is made according to the intent of the purchase document.

(115) Bureau of Employment Security

Employment Services/Unemployment Insurance
CFDA#: 17.207/17.225 **Questioned Costs:** None

Finding: Inaccurate data on the Contributions Operations Report

The U.S. Department of Labor - Employment and Training Administration requires that states submit a Contributions Operations Report (form ETA-581) on a quarterly basis.

On June 30, 1991 the unemployment compensation taxes receivable reported on the ETA 581 report were understated by $2,471,515. Total receivables should have been $4,637,622.

This variance was due to: a) the aging of accounts report, used to generate the data for the ETA-581 report, was not correctly formatted to provide current data; and b) MDOL personnel did not include the receivable balance for accounts in bankruptcy status.

Subsequent to the audit period, MDOL personnel formatted the aging of accounts report to reflect current data and included this data along with the bankruptcy accounts on the ETA-581 report for the quarter ending December 31, 1991.

Recommendation: None

Auditee Response:

The ETA 581 report, sent quarterly to the U.S. Department of Labor (USDOL), now contains accurate data for all report elements. The aging of accounts has been reformatted and receivables now include amounts due from employer accounts involved in bankruptcy proceedings. The regional representative from the USDOL clarified the report requirements after the audit period closed. Quarterly ETA-581 reports, since the quarter ending December 31, 1991, have contained accurate data. As indicated in the audit recommendation, no further corrective action is necessary.

Maine State Library

(116) Public Library Services/Interlibrary Cooperation and Resource Sharing
CFDA #: 84.034/84.035 **Questioned Costs:** $117,328

Finding: Inadequate administration of federal grant funds

A grant payment to the City of Bangor-Bangor Public Library for $50,000 in federal funds lacked any source documentation to support the reason for the expenditure. In addition, the Maine State Library did not monitor the subrecipient in accordance with Title 35 CFR 80.40 nor review the independent audits of the City of Bangor-Bangor Public Library in accordance with Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments.

Three positions at the library are fully funded by $67,328 in Library Service and Construction (LSCA) funds. A review of time sheets and the type of work performed revealed that employees in these positions did not appear to work full time on federal programs. Charges to these programs were not supported by time and attendance records as required by Title 34 CFR 80.20 (b)(6) nor allocated as required by OMB Circular A-87, Cost Principles for State and Local Governments.

Recommendation:

We recommend that the library institute procedures to ensure that the provisions of OMB Circulars A-128 and A-87 and 34 CFR 80 are followed for the administration of the LSCA Grant.

Auditee Response:

The $50,000 grant payment to Bangor Public Library was used to incorporate the vast Area Reference and Resource Center (AEEC) materials collections into the statewide URSUS system (a public access catalogue). The project was monitored on a regular basis by tracking the number of items entered into the system. Failure to review the independent audits of the City of Bangor regarding this project will be corrected and future audits conducted according to OMB requirements.

We take exception to the finding that employees in LSCA positions did not appear to work full time on Federal Programs. The record shows that these employees worked full time on federal projects in that federal projects include most of the library's specific LSCA functions; Books-By-Mail; Reference and Information; Collection Services; Library Development; Regional Services; Film/ Video Services; Institutional Library Services; Talking Books for the Blind; Large Print Services; and Administration.

---

(117) Public Library Services/Interlibrary Cooperation and Resource Sharing
CFDA #: 84.034/84.035 **Questioned Costs:** $356,169

Finding: Federal expenditure report late/Does not agree with state records

Expenditures reported for federal fiscal year 1990 Library Services and Construction Act (LCSA) grant do not reflect expenditures shown in the state financial records.

The Maine State Library should administer the LSCA grant according to the Basic State Plan as required by Title 20 USC 351. The plan requires the library to administer federal funds so that:

1. It has fiscal control and accounting procedures that will assure proper disbursement of, and accounting for, federal funds paid to the state;

2. Federal funds will be spent solely for authorized and appropriated purposes;

3. It will keep records that verify reports submitted; and

4. Administrative costs will be limited to the allowable amount.

The library submitted the Financial and Performance Report for the 1990 reporting year on June 12, 1991; it was due by December 31, 1990.

The library reported total federal expenditures of $661,992. The library categorized $336,199 of the reported $661,992 based on an internal historical cost allocation plan. The plan was developed to account for payments to the General Fund. It did not represent actual federal grant expenditures. As part of the cost allocation plan, the library reported administrative costs of $19,970. We were unable to determine actual administrative costs. In the maintenance of effort (MOE) section of the report, the library reported state and local expenditures of $1,421,346 based on amounts previously reported plus 1 1/2%. According to state financial records, actual expenditures were $2,606,421 and met MOE requirements.

Recommendation:

We recommend that the library (a) submit a revised Financial and Performance Report for the 1990 program year; and (b) submit accurate and timely annual reports as required by 34 CFR 80.20 (b)(1).

Auditee Response:

A revised fiscal year 1990 Financial and Performance Report is being prepared. This will show $307,405 carryover funds used in early fiscal year 1991.

The Library will discontinue transfer to the General Fund account. This budgetary procedure has enabled the initiation of federal library projects at the beginning of the fiscal year. Federal funds are not available until well into each fiscal year. State funds support the projects until the federal funds are released, after which a budgetary adjustment is made. The process allowed the state to be reimbursed for carrying a share of the LSCA program. New procedures will assure that the practice will be discontinued.

(118) Public Library Services/Interlibrary Cooperation and Resource Sharing
CFDA #: 84.035 **Questioned Costs:** $139,000

Finding: Previously authorized transfer of federal funds to General Fund

The Maine State Library transferred $139,000 from a federal account to the General Fund. The transfer originally was to cover the state share of funding advanced to the federal program. We could not find documentation that authorized the transfer or supported the amount of the transfer. It appears that transfers have been made since approximately 1981.

Recommendation:

We recommend that the state library discontinue the transfer of federal funds to the General Fund.

Auditee Response:

Authorizing documentation is on record; however, the library will discontinue the transfer of federal funds to the General Fund.

Department of Mental Health and Mental Retardation

(119) Bureau of Mental Health

Alcohol and Drug Abuse and
Mental Health Services Block Grant
CFDA#: 93.992 **Questioned Costs:** None

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:

Agency did not respond.

(120) Bureau of Children with Special Needs (BCSN)

Alcohol and Drug Abuse and
Mental Health Services Block Grant
CFDA#: 93.992 **Questioned Costs:** None

Finding: Missing subrecipient reports

Department of Treasury Circular 1075, Part 205 states that cash advances to subrecipients shall be limited to the minimum amounts needed. The timing and amount of cash advances shall be as close as possible to the subrecipient organization's actual disbursements for program costs.

The department's standard contract requires subrecipients to submit quarterly financial and narrative reports in order to monitor subrecipient activity, including cash management.

We selected a sample of twenty five reports pertaining to the Alcohol and Drug Abuse and Mental Health Service Block Grant. Eight of the reports pertained to the BCSN. Of these, three could not be located. In addition, the central office made a cash advance without knowledge of prior quarter subrecipient activity because it did not receive one report until eight months after the end of the quarter.

Also, one of the five reports received and tested showed an excess of 12% in cash over expenditures with no indication of any BCSN action.

Recommendation:

We recommend that BCSN pursue collecting delinquent reports. It should also a) maintain a log of report receipt dates; b) show evidence of review; c) monitor subrecipient cash balances; and d) release cash advances only after receiving prior quarter reports in accordance with department policy.

Auditee Response:

Agency did not respond.

(121) Division of Audit

CFDA#: Various Federal Programs **Questioned Costs:** None

Finding: Subrecipient audit reports did not satisfy requirements

The Audit Division of the Department of Mental Health and Mental Retardation (MHMR) is responsible for determining whether subrecipient agencies (a) meet federal and state audit requirements; and (b) spend federal and state monies according to applicable laws and regulations. MHMR must comply with various audit and monitoring requirements. These sometimes conflict. The requirements include:

1. OMB Circular A-128, Audits of State and Local Governments;

2. OMB Circular A-110, Uniform Requirements for Grants to Universities, Hospitals, and other Nonprofit Organizations;

3. Government Auditing Standards (the "Yellow Book"); and

4. Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP).

To satisfy requirements MHMR must ensure that each subrecipient agency has an organization-wide audit completed at least every two years. The audit must consist of three-parts: (a) reports on the financial statements and the schedule of federal financial assistance; (b) a study and evaluation of the agency's internal control system; and (c) compliance with laws and regulations. Subrecipient agencies may choose MHMR auditors, independent public accountants (IPAs) or a combination of both to conduct their audits.

We examined fourteen audit reports completed in fiscal year 1991 for subrecipient agencies receiving federal pass-through funds. Ten reports were for the year ending June 30, 1989 and four were for September 30, 1989. Reports were therefore subject to OMB Circular A-110 and MAAP I. Subrecipient audit reports did not meet these requirements:

1. One agency did not have a financial statements opinion audit; the Commissioner of Finance waived the audit requirements under the provisions of MAAP, but had no authority to waive federal OMB Circular A-110 audit requirements;

2. One IPA issued a review report rather than an audit opinion on the financial statements;

3. Nine IPA financial statement audit opinions did not state, as required by the Yellow Book, that the audit was conducted in accordance with generally accepted government auditing standards;

4. Five reports did not include a Schedule of Federal Financial Assistance;

5. One did not have reports on compliance and internal control systems; and

6. Twelve reports on compliance and internal control prepared by MHMR auditors did not satisfy the federal requirement that the report be organization-wide; the report scope was limited to those funds under contract between MHMR and the community agency.

The fourteen audits covered federal pass-through funds totaling $1,865,742 primarily for Social Services Block Grant (CFDA 13.667) and Alcohol, Drug Abuse, and Mental Health Services Block Grant (CFDA 13.992) funds. OMB Circular A-128 Part 17, Sanctions states:

> The Single Audit Act provides that no cost may be charged to Federal Assistance Programs for audits required by the Act that are not made in accordance with this Circular. In cases of continued inability or unwillingness to have proper audit, Federal agencies must consider other appropriate sanctions including:
>
> -withholding a percentage of assistance payments until the audit is completed satisfactorily
> -withholding or disallowing overhead costs, and
> -suspending the Federal assistance agreement until the audit is made.

In fiscal year 1991, MHMR charged personal service audit expenses of $30,491 to federal funds. We have questioned these costs in a separate finding. We did not determine IPA charges.

Recommendation:

To avoid federal sanctions and to ensure that MHMR a) issues reports that satisfy all federal and state audit requirements or b) accepts satisfactory reports from independent public accountants, we recommend that responsible MHMR personnel:

1. Make immediate changes to desk review guides, audit programs, and draft report guides;
2. Familiarize audit staff with audit requirements.

Auditee Response:

Many of the problems identified in this finding were isolated in nature and will not be evident in subsequent audits. In addition, the inclusion of Schedules of Federal Financial Assistance and requiring reports to be organization-wide were confusing, at best, at that time and has since been addressed by the department as well as the advent of A-133. Our reading of A-110 at the time was that organization-wide audits generally should be conducted, however, were not required. Obviously that interpretation was incorrect as is evident by this finding.

We will, however, make immediate changes to our desk review guides, draft report guides and audit programs to be more consistent with federal and state requirements.

(122) Division of Audit

Social Services Block Grant
Alcohol and Drug Abuse and Mental Health Services Block Grant
CFDA#: 93.667/93.992 **Questioned Costs:** None

Finding: Audit workpapers not according to Government Auditing Standards

The Department of Mental Health and Mental Retardation (MHMR) issues audit reports which state that the audits were conducted in accordance with Government Auditing Standards which require: (a) testing compliance with applicable laws and regulations; (b) obtaining sufficient understanding of the internal control structure and assessing the level of control risk in order to plan the audit and to determine the nature, timing, and extent of tests to be performed; and (c) cross-referencing a written audit program to the workpapers.

We examined audit workpapers of four subrecipients for which the MHMR Division of Audit issued audit reports during the 1991 fiscal year. We found that workpaper documentation is lacking: the workpapers did not (a) document that MHMR auditors tested for compliance with laws and regulations [audit reports cited instances of noncompliance, suggesting some testing]; and (b) did not document the assessment and understanding of the internal control structure and relate this to the testing. In addition, audit work program and the workpapers were not cross-referenced.

Recommendation:

We recommend that the Audit Division:

1. Identify the pertinent laws and regulations and determine which could have a material effect on the related financial audit; assess the risks of noncompliance for each material requirement; and design audit procedures based on that assessment to test compliance with the applicable laws and regulations.

2. Document both the understanding and assessment of the internal control structure and relate it to the nature, timing and extent of tests to be performed.

3. Cross-reference the audit work program to those workpapers which identify the tests that were performed.

Auditee Response:

We basically agree with the recommendations associated with this finding and would only add that for many audits conducted for the period ending in 1989 that there was significant confusion regarding State of Maine accounting and auditing principles as they compared with federal OMB requirements. The "Yellow Book" had at the time gone through a recent revision and was completely foreign to many of our audit staff. We are increasing our efforts to identify pertinent laws and regulations, documenting both the understanding and assessment of internal control structure and *cross-referencing audit work programs to those workpapers which identify the tests that were performed.*

---

(123) Division of Audit

CFDA#: Various Federal Programs **Questioned Costs:** None

Finding: Continuing Professional Education (CPE) requirements not satisfied

Paragraphs 3.3, 3.4, and 3.6 of Government Auditing Standards (Yellow Book) state:

> The first general standard for government auditing is: The staff assigned to conduct the audit should collectively possess adequate professional proficiency for the tasks required. This standard places responsibility on the audit organization to ensure that the audit is conducted by staff who collectively have the knowledge and skills necessary for the audit to be conducted....To meet this standard, the audit organization should have a program to ensure that its staff maintains professional proficiency through continuing education and training. To satisfy this requirement auditors responsible for planning, directing, conducting, or reporting on government audits should complete, every two years, at least 80 hours of continuing education and training which contributes to the auditors professional proficiency....Individuals responsible for planning, directing, and conducting substantial portions of the field work, or reporting on the government audit should complete at least at 24 the 80 hours of the continuing education and training in subjects directly related to the government environment.

The Department of Mental Health and Mental Retardation (MHMR) does not have a program in place to meet the professional proficiency standards. Three auditors did not satisfy the 80 hour requirement and none satisfied the 24 hour government environment requirement. According to MHMR records of Continuing Professional Education for calendar years 1990 and 1991, two of the four auditors did not complete any hours of CPE; one earned 8 hours of governmental CPE; and one earned 90 hours of nongovernmental CPE.

Recommendation:

We recommend that MHMR audit staff earn the CPE hours that are required to conduct Yellow Book audits and to issue audit reports.

In accordance with federal CPE guidelines, we further recommend that MHMR auditors not conduct any Yellow Book audits until they earn the required CPE hours.

Auditee Response:

We agree that our present audit staff has not fully satisfied the continuing professional education requirements as defined in the Yellow Book. New responsibilities have been added to the audit *division which have placed tremendous time constraints as well as significant reductions in work hours through the imposition of furloughs and shutdown days. We do agree, however, that this requirement must be met and will implement a schedule to make certain that all staff earn the required CPE hours as soon as possible.*

We are evaluating the recommendation dealing with not allowing auditors to conduct any Yellow Book audits until they earn the required CPE hours. A decision with regard to that recommendation will be made soon.

---

(124) Division of Audit

Social Services Block Grant
Alcohol and Drug Abuse and Mental Health Services Block Grant

CFDA#: 93.667/93.992 **Questioned Costs:** None

Finding: Audit resolution process does not include follow-up on audit reports of independent public accountants (IPA)

The Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, Paragraph 9, states: "State 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 six months after receipt of the audit report in instances of non-compliance with Federal laws and regulations."

The Division of Audit at the Department of Mental Health and Mental Retardation (MHMR) has developed an audit resolution process to follow-up on those findings included in the reports they issue. However, the division has not followed up on the findings and recommendations included in those reports issued by the independent public accountants.

Recommendation:

We recommend that the MHMR audit resolution process include follow-up on audit findings and recommendations in the IPA reports.

Auditee Response:

The department's audit resolution process had inadvertently omitted follow-up on audit findings and recommendations included in IPA reports. We agree with the recommendation and have already made changes to our process to incorporate those findings and recommendations.

(125) Division of Audit

Social Services Block Grant
Alcohol and Drug Abuse and Mental Health Services Block Grant
CFDA#: 93.667/93.992 **Questioned Costs:** None

Finding: Desk review guide not current/Guide does not refer to related auditing standards

The Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, Paragraph 9a, requires that if state governments receive federal financial assistance and provide $25,000 or more of it in a fiscal year to a subrecipient they must determine whether subrecipients meet the Circular requirements and, if covered by OMB Circular A-133, that the subrecipients meet that requirement.

Government Auditing Standards require independent public accountants (IPA) to perform audits according to generally accepted governmental auditing standards.

To ensure that IPA audit reports are issued according to auditing standards, Section .04 of the Maine Uniform Accounting and Auditing Practices for Community Agencies (MAAP) requires the state recipient agency to perform desk reviews of IPA audit reports.

MHMR uses an outdated desk review guide which does not reflect changes in audit report language and new or revised auditing standards. The desk review guide references generally accepted accounting principles in the GASB Codification that are not authoritative for nonprofit agencies.

Recommendation:

We recommend that MHMR maintain a current desk review guide that incorporates the audit requirements of generally accepted governmental auditing standards and MAAP requirements.

We further recommend that MHMR ensure that audit reports submitted by IPA's to the state are in accordance with applicable auditing standards.

Auditee Response:

We essentially agree with the recommendation and will be revising our desk review guides after consultation with the state's single audit committee and other Maine state departments who are currently using acceptable guides. We will also make certain that audit reports submitted by IPA's to the state are in accordance with applicable auditing standards.

(126) Division of Audit

Social Services Block Grant
CFDA#: 93.667 **Questioned Costs:** $30,491

Finding: Allocation of subrecipient audit costs (Prior Year Finding)

Paragraph C2, Attachment A, of the Office of Management and Budget (OMB) Cost Principles for State and Local Governments, 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 ofMental Health and Mental Retardation does not have a system to properly allocate costs of the department's audit staff. An auditor simultaneously conducted audits on the Social Services Block Grant and General Fund pass-through monies. The department charged $30,491 to the block grant account for all of the auditor's salary and fringe benefits.

Recommendation:

We recommend that the department develop an audit cost allocation plan in order to properly distribute costs to the programs audited.

Auditee Response:

The department has developed an appropriate allocation plan for distributing costs and should receive formal approval from the Department of Human Services and Health Care Finance Administration within the next month. Statistical information contained in the plan is based on fiscal year 1991 data. Similar findings for the years ending 1989 and 1990 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 questioned costs.

---

(127) Bureau of Mental Retardation

Social Services Block Grant
CFDA #: 93.667 **Questioned Costs:** None

Finding: Missing documentation

Title 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.

Standard provider contracts require providers to submit quarterly financial and narrative reports to the department so that it can monitor provider activity. We could not locate three of six Bureau of Mental Retardation financial reports that were included in our sample of twenty-five.

Recommendation:

We recommend that the department retain quarterly reports.

Auditee Response:

Agency did not respond.

Department of Transportation

(128) Bureau of Project Development - Division of Right-of-Way (ROW)

Highway Planning and Construction
CFDA#: 20.205 **Questioned Costs:** None

Finding: Inadequate documentation

When ROW purchases real property for highway purposes it can negotiate with the owner for different purposes such as appraised value, relocation, damages or administrative settlements. In order to avoid expensive claims or delays in construction the Department of Transportation (MDOT) frequently settles administratively with the owners. However, an agreement that exceeds the appraised value requires an Acquisition Review Committee (ARC) meeting as stipulated in the Right-of-Way Manual.

ROW settled administratively for one parcel where the appraisal was $278,000 and the agreement was for $305,000. At the time of our exit interview on January 9, 1992, documentation had not been located that indicated that an ARC meeting had occurred or evidencing committee approval of the agreement. ROW did provide minutes of the meeting a week after our interview which were reconstructed although supporting documentation was not provided.

Recommendation:

We recommend ROW a) adhere to policies regarding negotiated compensation; b) clearly document the reasons for the compensation and justification for the cost; and c) formally document Acquisition Committee approval prior to compensating the owner.

Auditee Response:

The auditor's finding of inadequate documentation is correct in that minutes of the Acquisition Review Committee were never formalized and included in the file prior to the audit.

---

(129) Bureau of Project Development Division of Right-of-Way (ROW)

Highway Planning and Construction
CFDA#: 20.205 **Questioned Costs:** None

Finding: Right-of-Way procedures not followed consistently

The ROW manual specifies certain procedures regarding appraisals, acquisition, relocation, and property management. During the course of our audit we observed the following activities which were inconsistent with manual directives.

1. Utilities should be disconnected after a parcel is vacated. The utilities for one parcel were not disconnected for a period of 8-10 months after owners vacated.

2. The Federal Highway Administration (FHWA) must relinquish rights in any property the Department of Transportation (MDOT) sells. The Federal Highway Administra tion (FHWA) was not notified of the sale of one parcel.

3. Other state agencies should be notified before MDOT sells an excess parcel. In one parcel, only the Maine State Housing Authority was notified.
4. Completed checks to property owners were stored in a file where access was not limited to designated personnel.

Recommendation:

We recommend that MDOT adhere to policies and procedures in the ROW manual and in administrative policy memoranda. If certain policies and procedures have been revised but not formalized we recommend MDOT update the manual to current practices so that procedures are clearly communicated to all personnel.

Auditee Response:

We concur that policies and procedures be adhered to and revisions regarding ....utilities, notice of sale to FHWA and state agencies.... have been made in the Property Management Section of Right of Way Manual.

Cut checks are stored in a file that can be locked and is at the close of work each day. Employees *having access to this file are only those that provide back up when the individual having primary responsibility is on vacation, sick leave or a furlough day.*

(130) Bureau of Human Resources

Highway Planning and Construction
CFDA#: 20.205 **Questioned Costs:** None

Finding: Costs charged to two contracts

Title 49 CFR 18.20 states in Financial Reporting that "...accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

Office of Management and Budget (OMB) Cost Principles for State and Local Governments Circular A-87, Attachment A, Paragraph C.1.(f) states that to be allowable, a cost must not be allocable to any other federally financed program. During our audit we found that the MDOT Internal Audit Division made the following finding/recommendation for the fiscal year ended June 30, 1991.

Salaries, expenses, and/or vehicle use relating to the same work activity were incorrectly charged to both Minority Business Enterprise (MBE) and On-The-Job Training (OJT) contracts.

During Fiscal Year 1991, there were five instances of MDOT Bureau of Human Resources (BHR) employee salary costs that were charged to an MBE Project while expenses that were directly related to those salary costs were charged to an OJT Project. As a result, the department has incorrectly charged and claimed at least part of $1,526 in salary and expenses.

Recommendation:

We recommend that MDOT adjust those costs claimed in fiscal year 1991 for the MBE and OJT projects to make them accurate and appropriate.

We also recommend that the MDOT Equal Opportunity Office ensure that staff is aware of documentation requirements for personnel costs, since they frequently prepare salary vouchers and expense accounts for employees who are in the field.

Auditee Response:

The Office of EEO is coordinating with the Federal Billing Section and the charges will be corrected. Corrective action has been taken to insure the accuracy of future salary and expense accounts.

Defense and Veterans' Services

(131) Maine Emergency Management Agency (MEMA)

CFDA #: Various Programs **Questioned Costs:** None

Finding: No system to review subrecipient audits

The Office of Management and Budget (OMB) Circular A-128, Audits of State and Local Governments, states that any state government providing $25,000 or more in federal financial assistance to a subrecipient must determine whether the subrecipient audits have met the requirements of Circular A-128. The Department of Defense and Veterans Services (DVS) does not have such a system.

Recommendation:

We recommend that DVS develop a system which assures that audits of subrecipients meet the requirements of OMB Circular A-128.

Auditee Response:

Information on Federal Audit Requirements in accordance with (OMB) Circular A-128 will be included in future correspondence with subrecipients, and the MEMA office will ensure that such requirements are adhered to through the monitoring of receipt, and review of audit reports.

Also, as discussed during the exit interview, as an effort to reduce waste, redundancy, and misunderstanding regarding the requirements and state responsibility, it would seem that greater coordination of this effort could be achieved by enlisting the services of State Audit, even on a fee basis, for all state programs with municipality subrecipient relationships, especially in light of our interpretation of 30A MRSA § 5823 and § 5825.

(This page intentionally left blank)

State of Maine
Status of Unresolved Significant or Material Findings and Recommendations
For the Years Ended Prior to June 30, 1991

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

State of Maine
Status of Unresolved Significant or Material Findings and Recommendations
For the Years Ended Prior to June 30, 1991

Agency/Finding	Report Reference (Page Number) 1990	1991
Department of Human Services		
Subrecipient audits	73	65
Department of Labor		
Subrecipient audits	73	65
Maine State Retirement System		
Pending transactions incorrectly recorded	64	83
Accrued dividend income not recorded	66	84
Department of Mental Health and Mental Retardation		
Subrecipient audits	73	65

State of Maine
Summary of Questioned Costs
By Federal Agency
For the Year Ended June 30, 1991

Federal Grantor Agency	CFDA Number	State Agency	Amount	Finding Number
Dept. of Agriculture	10.551	Human Services	$2,441	95
Dept. of Education	84.007	Maine Arts Commission	89,197	28
	84.012	Department of Education	27,189	38
	84.034/35	Maine State Library	117,328	116
	84.034/35	Maine State Library	356,169	117
	84.035	Maine State Library	139,000	118
Total Dept. of Education			728,883	
Dept. of Energy	81.042	Community Services	81,304	66
Dept. of Health & Human Services	93.020	Human Services	948	83
	93.020	Human Services	84	93
	93.021	Human Services	8,025	90
	93.023	Human Services	154	86
	93.658	Human Services	8,478	80
	93.667	Mental Health & Mental Retardation	30,491	126
	93.992	Office of Substance Abuse	102	54
	Various	Human Services	366,882	102
Total Health & Human Services			415,164	
Dept. of Housing & Urban Development	14.228	Economic & Community Development	12,526	32
Dept. of Justice	16.575	Attorney General	2,000	30
Various	Various	Human Services	75,387	73
Various	Various	Human Resources	615,437	24
Grand Total			$1,933,142	

(This page intentionally left blank)

State of Maine
Summary of Questioned Costs
By State Agency
For the Year Ended June 30, 1991

State Agency	CFDA Number	Federal Agency	Amount	Finding Number
Dept. of Attorney General	16.575	Dept. of Justice	$2,000	30
Bureau of Human Resources	Various	Various	615,437	24
Division of Community Services	81.042	Department of Energy	81,304	66
Total Div. of Community Services			81,304	
Dept. of Economic and Community Development	14.228	Housing & Urban Development	12,526	32
Dept. of Education	84.012	Department of Education	27,189	38
Dept. of Human Services	10.551	Agriculture	2,441	95
	93.020	Health & Human Services	948	83
	93.020	Health & Human Services	84	93
	93.021	Health & Human Services	8,025	90
	93.023	Health & Human Services	154	86
	93.658	Health & Human Services	8,478	80
	Various	Health & Human Services	366,882	102
	Various	Various	75,387	73
Total Dept of Human Services			462,399	
Maine Arts Commission	84.007	Education	89,197	28
Maine State Library	84.034/35	Education	117,328	116
	84.034/35	Education	356,169	117
	84.035	Education	139,000	118
			612,497	
Dept. of MH&MR	93.667	Health & Human Services	30,391	126
Office of Substance Abuse	93.992	Health & Human Services	102	54
Grand Total			$1,933,142	

State of Maine
Resolution Status of 1990 Questioned Costs
For the Year Ended June 30, 1991

Year	State Agency & Federal Program	Federal Agency	CFDA Number	Amount	Current Status Unresolved
	Human Services:				
1990	Food Stamps - Admin	USDA	10.561	$ 1,467	X
1990	Food Stamps - Admin	USDA	10.561	633	X
1990	Food Stamps - Admin	USDA	10.561	8,175	X
1990	Food Stamps - Admin	USDA	10.561	1,810	X
1990	Food Stamps - Admin	USDA	10.561	18,101	X
1990	Title III, Part C, Nut. Serv.	HHS	93.635	1,081	X
1990	Title III, Part C, Nut. Serv.	HHS	93.635	86,112	X
1990	Title III, Part C, Nut. Serv.	HHS	93.635	12	X
1990	Medical Assistance Program	HHS	93.778	12,908	X
1990	AFDC	HHS	93.020	8,175	X
1990	Child Support Enforcement	HHS	93.023	141,174	X
1990	Maternal & Child Health B/G	HHS	93.994	234,389	X
1990	Maternal & Child Health B/G	HHS	93.994	6,125	X
1990	Basic Support	HHS	84.126	1,460	X
	Total Human Services			521,622	
	Mental Health & Mental Retardation:				
1990	Social Services B/G	HHS	93.667	31,229	X
1990	Alcohol Drug Abuse B/G	HHS	93.992	6,000	X
	Total Mental Health & Mental Retardation			37,299	
	Economic & Community Development:				
1990	Community Development Block Grant	HUD	14.228	94,699	X
	Total Economic & Community Development			94,669	
	Transportation:				
1990	Highway Planning & Construction	DOT	20.205	1,815	X
	Total Transportation			1,815	

State of Maine
Resolution Status of 1990 Questioned Costs
For the Year Ended June 30, 1991

Year	State Agency & Federal Program	Federal Agency	CFDA Number	Amount	Current Status Unresolved
	Division of Community Services:				
1990	WAP	DOE	81.042	24	X
1990	WAP	DOE	81.042	184,770	X
1990	WAP	DOE	81.042	117,217	X
1990	WAP	DOE	81.042	1,499	X
	Total Division of Community Services			303,510	
	Education:				
1990	Special Education - State Grants	ED	84.027	402	X
1990	Special Education - State Grants	ED	84.027	4,322	X
1990	Public Library Services	ED	84.034	5	X
	Total Education			4,729	
	Grand Total			$963,674	

Note: Questioned costs are considered resolved when:

(1) The federal grantor agency has determined that the funds do not have to be repaid.

(2) The state has paid the federal grantor the agreed upon amount.

For the complete federal program name see the Schedule of Federal Financial Assistance.

(This page intentionally left blank)

MANAGEMENT LETTER

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

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, 1991, 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, 1992. A separate report dated May 15, 1992, contains our report on reportable conditions on the State's internal control structure. This letter does not affect our report dated May 15, 1992, on the component unit financial statements of the State of Maine oversight unit.

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

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

May 15, 1992

(This page intentionally left blank)

State of Maine

Management Letter Findings and Recommendations
For the Year Ended June 30, 1991

Department of Administration

(132) Bureau of Data Processing (BDP)

Finding: Computer equipment account balance not reconciled at year-end

The Bureau of Data Processing accounting personnel did not reconcile the BDP Internal Service Fund computer equipment account balance at June 30, 1991. The Controller's records had an ending balance of $12,672,195 while the bureau's records showed a balance of $12,557,988. We noted that personnel reconciled the computer equipment account balance at September 30, 1991.

Recommendation:

We recommend that BDP accounting personnel reconcile the year-end balance in a timely manner.

Auditee Response:

The computer equipment account balance has been reconciled to the Controller's balance as of May 31, 1992. The division will, in the future, reconcile the year-end balance of this account.

---

(133) Bureau of Employee Relations

Finding: Accrued vacation hours inconsistently recorded

Agencies within state government recorded accrued vacation hours inconsistently in that some agencies prorated vacation hours for less than completed, full months of employee service. Consequently, inconsistently recorded amounts formed the basis for paying unused vacation hours to employees who terminated state service. In addition, two departments paid terminated employees for unused personal days. There is no policy in bargaining unit contracts regarding payment of unused personal days. With the implementation of the Maine Financial and Administrative Statewide Information System (MFASIS) accrued leave module, statewide consistency in recording and paying for unused vacation hours and personal days should be mandatory.

<u>**Recommendation**</u>:

We recommend that the bureau clarify the contract language so that procedures to pay terminated employees for unused vacation hours and unused personal days will be consistent.

<u>**Auditee Response**</u>:

We agree that inconsistent application of vacation accrual policy exists between agencies. We further agree that the central recording of accrued vacation hours could correct such inconsistencies. However, it is my understanding that the Bureau of Accounts and Control cannot afford the substantial systems development cost to automate this function for all State agencies at this time. We do agree that, in the interim, we should inform such agencies that are not in compliance with the accrual provision to correct such inconsistencies. Also, we will submit proposals for changes in the collective bargaining agreements to provide for consistent interpretation and application of the payment of unused personal leave days. We would be pleased to assist the Audit Department in working with those agencies to correct these practices.

---

(134) Bureau of Human Resources

<u>**Finding:**</u> Refund of excess health insurance premiums incorrectly recorded

On June 27, 1991 the state received a $1,250,000 refund for health insurance premiums from Blue Cross/Blue Shield of Maine. In accordance with Public Law 1991, Chapter 9, Section GG-2, the refund was properly recorded on the budgetary basis as revenue to the General Fund. However, <u>Governmental Accounting and Financial Reporting Standards</u> (GASB) 1800. 103b requires that basic financial statements, in accordance with generally accepted accounting principles (GAAP), reflect refunds as a reduction to expenditures in the accounting funds from which the original expenditures were made.

<u>**Recommendation**</u>:

We recommend that the bureau advise the Controller of all accounting adjustments so that the State of Maine Annual Financial Report will be prepared according to GAAP.

<u>**Auditee Response**</u>:

The charges to the various funds and agencies for health insurance are based on actuarial assumptions regarding usage and necessary reserves to support the claims incurred during the plan year. These assumptions are adjusted at the beginning of each subsequent plan year based on the actual experience of the prior plan year. Whereas the General Fund is the major contributor toward the health insurance plan and the dividends earned and premium rebate adjustments would require a prior years adjustment to the State's financial statement, we believe this money should be treated as an external transaction crediting General Fund Undedicated Revenue. Therefore, we do not *believe that GASB 1800.103b applies in this case.*

(135) Office of Information Services (OIS)

Finding: Internal depreciation/amortization records not in agreement

The Telecommunication Division internal records supporting monthly depreciation/amortization expenses do not agree with information on the state's records.

Recommendation:

We recommend that the Telecommunication Division accounting personnel review and reconcile any variances between its internal records and the state's records.

Auditee Response:

The depreciation/amortization records for the division will be reviewed and variances will be reconciled.

(136) Office of Information Services (OIS)

Finding: Determination of monthly revenues not properly documented

Certain adjustments, calculations, and/or amounts involved in determining the Telecommunication Division's monthly revenues could not be substantiated due to the lack of supporting documentation.

Recommendation:

We recommend that the Telecommunication Division accounting personnel properly document the monthly revenue.

Auditee Response:

The procedures related to the documenting of revenues and any adjustments made to revenues have been reviewed. Modifications to the procedures have been made to incorporate accepted accounting practices to ensure adequate supporting documentation.

(137) Office of Information Services (OIS)

Finding: Journals for due-from-other funds lack supporting documentation

Monthly journals establishing due-from-other funds (estimated sales) are not supported by documentation detailing the method of arriving at the journaled amount.

Recommendation:

We recommend that OIS attach adequate documentation to the journal vouchers so that the process of estimating sales is clear.

Auditee Response:

Documentation methods used to arrive at estimated sales for the division have been standardized to provide adequate detail.

(138) Office of Information Services (OIS)

Finding: No complete physical inventory of fixed assets

The Telecommunication Division accounting personnel have not performed a complete physical inventory of its fixed assets.

Recommendation:

We recommend that the Telecommunication Division accounting personnel perform a complete physical inventory of all its fixed assets and reconcile the results to the totals in its financial and related records.

Auditee Response:

The division is committed to completing a physical inventory of fixed assets. Once this inventory has been finished, the division will reconcile the results to its records.

(139) Office of Information Services (OIS)

Finding: Method for estimating accounts payable balance results in overstatement of income

At June 30, 1991 the accounts payable balance of the Office of Information Services Telecommunications Fund was understated by $487,114.

The accountant estimated that the June 30, 1991 accounts payable balance was $150,000 but did not document the method used to prepare the estimate. Our analytical review indicated that during most months accounts payable balances were between $500,000 and $650,000. We determined that the June 30, 1991 accounts payable balance should have been $637,114, a difference of $487,114.

Recommendation:

We recommend that OIS use a consistent, well documented method to establish the accounts payable balance at year-end. Some examples in common use include: a) estimates based on the prior month's balance; b) estimates based on the average of several month-end balances; or c) balances determined by totalling amounts on invoices that pertain to the prior year but that were received after the fiscal year-end.

Auditee Response:

The division has changed its method of establishing accounts payable. It now uses a well defined and documented procedure to establish accounts payable at year-end.

(140) Bureau of Public Improvements (BPI)

Finding: Repairs to buildings expenditures miscoded

We examined twenty-five invoices supporting expenditures in the bureau's General Fund account. Of these, four coded as repairs to buildings should have been capital expenditures.

Recommendation:

We recommend that the bureau strengthen its controls to assure that items purchased are classified correctly. We further recommend that the bureau prepare and submit a financial order to transfer funds from "all other" to "capital" when its capital allotment has been depleted.

Auditee Response:

Increased review of contracts will be instituted at the time of contract award to insure proper coding.

(141) Bureau of Public Improvements (BPI)

Finding: Inadequate controls over supplies inventory

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 the bureau's control over its supplies inventory:

1. The bureau assigns responsibility for the inventory to storekeepers who also perform physical inventories;

2. The bureau permits the storekeepers to adjust the perpetual inventory records without prior managerial or supervisory approval; and

3. The bureau does not maintain cost records on all supply items so that it can readily determine year-end valuation of supplies.

Recommendation:

We recommend that the bureau:

1. Assign an independent individual to perform the physical inventory;

2. Give prior managerial or supervisory approval for any adjustments;

3. Assign an independent individual to adjust the perpetual inventory records; and

4. Establish a system that will provide an inventory value at year-end.

Auditee Response:

Data processing equipment is now on order which will allow the implementation of an overall inventory management system. This system will include security to prevent unauthorized adjustments to the inventory. The Bureau will also have independent parties perform tests of the physical inventory.

---

(142) Bureau of Public Improvements (BPI)

Finding: Incomplete transaction recorded (Prior Year Finding)

The Bureau of Public Improvements capitalized funds expended toward the purchase of the Oak

Grove-Coburn Academy in the General Fixed Assets Account Group (GFAAG). A lease agreement between the state and the academy stipulates that the lessor retains title to the property until the balance is paid in full.

According to the Financial Accounting Standards Board (FASB) statement #13:

1. The agreement represents a capital lease; and

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.

Recommendation:

BPI did not prepare journal entries promptly during the 1991 fiscal year. In the future we recommend that it make adjusting journal entries so that they will be included in the financial statements of the State of Maine Annual Financial Report.

Auditee Response:

Agency did not respond.

---

(143) Bureau of Public Improvements (BPI)

Finding: Poor internal control over capital equipment records

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

At the Bureau of Public Improvements four out of twenty-five capital equipment items inventoried showed discrepancies with the records.

Recommendation:

We recommend that BPI perform a complete physical inventory of all capital equipment and reconcile the physical counts to the detail records.

Auditee Response:

While the Bureau does not have, and will not have, the resources to perform statewide equipment inventories it does require the various state departments to perform such inventories. State agencies are notified of their obligations and an annual inventory is required. The lack of a means to compel such inventories is still a difficulty.

---

(144) Bureau of Purchases (Prior Year Finding)

Finding: Inaccurate inventory valuation records

Our review of the inventory records as of June 30, 1991 revealed that the bureau has not made necessary adjustments and has not priced the central printing inventory. Consequently, the stated inventory value is inaccurate. Seventeen of twenty-five items tested had variances between the physical count and the accounting records.

Recommendation:

We recommend that each month a) the bureau sample a selection of inventory issuances and compare to the requisitions; and b) inventory a sample of items, review and compare to the records. Also, we recommend that the bureau maintain its inventory records on a current basis and correct the balances before closing the books for the end of each fiscal year.

Auditee Response:

Purchases' Warehouse now does test sampling as recommended. As time permits, orders are audited prior to shipment. The printing inventory will be priced and updated balances for all inventories will be posted prior to close of books.

---

(145) Bureau of Purchases

Finding: Capital equipment records not maintained (Prior Year Finding)

The bureau has not reconciled its capital equipment records to those of the Bureau of Public Improvements as required by the State of Maine Manual of Financial Procedures Section 66. Bureau of Purchases capital equipment detail records totaled $613,161 at June 30, 1991 while BPI Report 17 showed $721,568. Also, as of June 30, 1991 the bureau had not posted any fiscal year 1991 equipment reports nor conducted a physical inventory of equipment within the last five years.

Recommendation:

We recommend that the bureau maintain its capital equipment records on a current basis and periodically reconcile its detail records to the control account. Also, we recommend that the bureau take a complete physical inventory and reconcile it to the records.

Auditee Response:

Capital equipment records will be brought up to date as soon as possible. We will take a physical inventory prior to the close of business on June 30, 1992 and make the necessary adjustments to the financial records.

---

(146) Bureau of Purchases

Finding: Reserve for depreciation records not adequately maintained

Our review of the fiscal year-end 1991 balance sheet account revealed the following for the reserve for depreciation:

1. Detail record totals vary from the ledger balance by $73,296;
2. No dated detail report was available for June 30, 1991;
3. No written policy was available indicating the method of calculating depreciat tion;
4. Some assets were over-depreciated;
5. Hard copies of detail records lacked complete information about the salvage value and life of the asset; and
6. Fiscal year 1991 depreciation amounts were overstated.

Recommendation:

We recommend that the bureau:

1. Adopt a written policy concerning the methods for calculating deprec ciation;
2. Periodically prepare detail computer reports;
3. Reconcile reports to the ledger balance; and
4. Maintain current and accurate records.

Auditee Response:

A written policy for calculating depreciation will be developed by the Division of Financial Services. That division will also work with the bureau to ensure that sufficient documentation is on hand to verify ledger balances. Finally, the division and the bureau will ensure that records are maintained on a current basis.

(147) Bureau of Purchases

Finding: Source documentation for postal billings destroyed (Prior Year Finding)

The bureau uses postal charge cards and tapes as source documents for monthly billing reports which are then used to prepare journals to charge departments for postal costs. Between July and December 1990 the bureau destroyed the postal charge cards and tapes. Consequently, we were unable to verify the accuracy of postal billings.

Recommendation:

We recommend that the bureau retain postal charge cards and tapes in order to provide source documentation for postal billings.

Auditee Response:

An optical disk storage system has been purchased and postal records are now stored for easy retrieval. Information will be kept through all audit periods.

(148) Bureau of Purchases

Finding: Poor internal control over accounts receivable (Prior Year Finding)

There is a poor internal control environment for accounts receivable and due from accounts with little or no follow up on delinquent accounts. For example, $313,491 or 20% of the total amount receivable was over 120 days old. In addition, 10 of 20 confirmations of year-end account balances indicated discrepancies in amounts owed to the bureau.

Recommendation:

We recommend that the bureau review its collection procedures to determine the reasons for the slow turnover rate and the variances between accounts 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 auditors finding and have renewed efforts to follow-up monthly on delinquent accounts. When we have determined that accounts are either in error or uncollectible we will follow state policy to adjust the accounts. As a part of the collection process we are providing user agencies with the monthly aging report.

(149) Bureau of Purchases

Finding: Understated accounts payable

A review of accounts payable revealed that certain accruals were omitted. Our examination disclosed $61,815 in unrecorded liabilities.

Recommendation:

We recommend that the bureau record all necessary accruals and document the methodology used.

Auditee Response:

Review of the year-end cutoff cycle is underway. Further, our year-end cutoff is predicated on the dates set by the Bureau of Accounts and Control. We will continue the policy of accruing monthly payments for all materials and services delivered to date.

(150) Bureau of Purchases

Finding: Federal surplus property program sustained a loss (Prior Year Finding)

Maine statutes require the Federal Surplus Property Program to be self-sustaining. However, the program had a loss of $66,978 because service fees charged to recipients of federal surplus property were insufficient to cover the acquisition, warehousing, handling, administration and delivery costs associated with the property.

Recommendation:

We recommend that the Department of Administration, 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:

Agency did not respond.

---

(151) Bureau of Purchases

Finding: Master purchase agreements not monitored (Prior Year Finding)

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

Recommendation:

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

Auditee Response:

The purchase order data base will be modified to track dollar expenditures by blanket contract. Limited personnel and all other resources have hampered the tracking of leases and contracts.

---

(152) Bureau of Purchases

Finding: Non-compliance with the Bureau of Purchases' operations manual (Prior Year Finding)

Our review of commodity contracts files revealed non-compliance with the Bureau of Purchases'

Operations Manual:

1. Commodity buyers did not maintain central vendor performance files;
2. One of ten contracts tested lacked proper documentation regarding contract awards;
3. Three of eight commodity contracts tested were not compared to the contract release for prices and specifications; and
4. One of eight contracts lacked a current price list.

Recommendation:

We recommend that bureau personnel:

1. Establish a central vendor performance file;
2. Review the contract release system so that the forms and supporting data are provided;
3. Compare contract prices against issuing orders; and
4. Perform periodic reviews of selected contracts to ensure that buyers comply with the required procurement procedures.

Auditee Response:

A central data base for vendor performance records is scheduled for completion for fiscal year 1993. Contract award and pricing files are now reviewed and updated by bureau staff.

Release orders issued by user agencies number two to three thousand per month. The current bureau staff cannot accomplish the review of each release. The bureau is using random spot checks. It is the ordering agency's responsibility to insure proper prices are charged by the vendor.

---

(153) Risk Management Division

Finding: Incorrect depreciation of capital equipment

Equipment valued at $6,224 was purchased, capitalized, and fully depreciated in fiscal year 1991. The equipment should have been depreciated over its economic life as required by the Codification of Governmental Accounting and Financial Reporting Standards (GASB) 1400.104.

Recommendation:

We recommend that the division depreciate capital equipment over its economic life in accordance with GASB.

Auditee Response:

We agree with the finding and have initiated policy to insure that we comply with State of Maine requirements as well as GASB.

---

(154) Risk Management Division

Finding: Balance sheet for the Reserve Fund for Self-Insured Retention Losses contains significant errors

The balance sheet for the Reserve Fund for Self-Insured Retention losses for fiscal year 1991 was in error due to incorrect journal entries and the failure to make entries. The errors are:

1. Due from other funds account was understated by $178,420 because loans receivable were recorded as accounts receivable and internal billed receivables were overstated by the same amount; $53,001 was also incorrectly recorded as accounts receivable;

2. A $500,000 cash receipt, from the Maine Low-Level Radioactive Nuclear Waste Authority and held by the Risk Management Division in case of need, was recorded as revenue; it should have been recorded either in an Agency Fund or as a deposit and fund liability;

3. Interest receivable, recorded in the due-from other funds account, was overstated by $83,334 because the interest was not prorated for only those months that the loan was outstanding; and

4. Prepaid expenses were overstated by $94,680 because of an incorrect year-end adjustment.

Recommendation:

We recommend that the division a) adjust the current balance sheet; and b) transfer the $500,000 received from the Maine Low-Level Radioactive Waste Authority to an Agency Fund or record as a deposit and fund liability.

Auditee Response:

We agree with some of the auditor's findings and have changed our accounting procedures to preclude a reoccurrence of erroneous accounting entries; however, we do have some disagreements with the suggested remedies.

1. *The loans have been repaid in subsequent years. We do not plan to restate prior years.*

2. *We have correspondence from the Attorney General stating that acceptance of these funds is allowable as prepayment of expected claims against the Low Level Waste Authority. We are in the process of negotiating the actual terms of our relationship with the authority. Until an agreement is reached we will maintain these funds, and reserve the fund balance per GASB 1800.126.*

3. *We will make the necessary adjustment.*

4. *This is a prior year adjustment and was self-correcting in the current year, thus it requires no action on our part.*

---

(155) Risk Management Division

Finding: Incorrect accounting for interfund loans

According to Title 5, MRSA §1731, funds in the Reserve Fund for Self-Insured Retention Losses may be used to ensure prompt payment of workers' compensation claims for state agencies. Use of these funds requires a "... written agreement which specifies reimbursement...." In fiscal year 1991 two loans were made to state agencies. The loans were recorded as expenses to the fund when provided to the state agency and as revenue to the fund when repaid by the agency. No written agreement specifying reimbursement was found in either file.

Two loans originating in fiscal year 1989 were also accounted for in fiscal year 1991. These loans were not repaid as of June 30, 1991. In fiscal year 1991 both loan amounts were entered into the internal billing system which recognized a service revenue and an account receivable. Interest on the loans has not been recognized in the accounting records. A written agreement exists for only one of these loans.

Recommendation:

We recommend that the division a) account for loans as loans rather than expenses and service revenue; b) record accounting entries immediately upon transfer of loan funds; c) adjust the accounting records to properly account for the unpaid loans, including accrued interest; and d) ensure that a written agreement is provided for each loan.

Auditee Response:

We agree with the auditors finding and have established a policy to insure that accounting for loans is in compliance with Title 5, MRSA §1731 and all applicable accounting standards.

---

(156) Risk Management Division

Finding: Incorrect coding of claims payments to state agencies

Coding of insurance claims payments by the Risk Management Division has been incorrect and inconsistent. The receiving agencies' payments have been recorded as revenue or credited to an expense code. When coded as a revenue, the character and object (C&O) code used was 2686, Miscellaneous Revenue. Insurance claim payments should only be coded as revenue C&O code 2832, Insurance Settlement, for the receiving agency.

Recommendation:

We recommend that insurance claims payments to the receiving agency be coded as revenue, C&O code 2832.

Auditee Response:

We have developed a policy to include a supervisory review of all claims payments to ensure correct coding prior to payment.

(157) Risk Management Division

Finding: Incorrect revenue code used to transfer loss prevention funds

Loss prevention funds are transferred to state agencies by journal vouchers. An expense code in the risk management fund should be debited and a revenue code in the receiving fund should be credited. In eight of nine transfers tested, the incorrect revenue code was used. In the ninth transfer tested, an expense code was credited.

Recommendation:

We recommend that the division take action to ensure that the contributions from risk management revenue code is used to transfer loss prevention funds to state agencies.

Auditee Response:

We have developed a policy to include supervisory review of the transfers to ensure correct coding of loss prevention payments.

(188) Risk Management Division

Finding: Inadequate definition of loss prevention program and an incorrect use of reserve funds

Title 5, MRSA §1731 authorizes the use of the Reserve Fund for Self-Insured Retention Losses for loss prevention programs. A loss prevention program is not defined.

A payment of $9,500 from reserve funds was made in fiscal year 1991 to the Department of Mental Health and Mental Retardation for monthly building rent. The expense in the reserve fund was incorrectly recorded as a loss prevention payment.

Recommendation:

We recommend that a) the division define the term loss prevention program; and b) the division disburse reserve funds allocated for loss prevention purposes only on programs defined as loss prevention programs.

Auditee Response:

A Risk Management Division Operations Manual was written in 1985, with revisions since then to various sections. Section XI pertains to Loss Prevention. The edition date is December 1985 with no known revision. Disbursements during the audit period (fiscal year 1991) should have been made in accordance with these procedures. We agree with the auditor's finding regarding the $9,500 disbursement to Mental Health for building rental expenses.

While the audit was in progress the division developed revised operational guidelines. The guidelines provide the following:

1. *Program purpose*
2. *Definitions*
3. *Eligibility guidelines*
4. *Evaluation and monitoring guidelines*
5. *Administrative procedures*

These guidelines provide adequate internal control measures to ensure the integrity of the Loss Prevention Program.

---

(159) Risk Management Division

Finding: Accounting services expenses are not allocated to the self-insurance fund

The self-insurance fund was not charged for the expenses of accounting services performed by the centralized accounting organization of the Department of Administration. Therefore, the true cost of self-insurance is not known.

Recommendation:

We recommend that the self-insurance fund be charged for its proportional share of the accounting costs incurred by the centralized accounting organization.

Auditee Response:

The Department of Administrative and Financial Services, Division of Financial Services is developing a cost plan to insure that all units of the department are charged for their proportional share of centralized services.

Department of Agriculture, Food and Rural Resources

(160) Division of Administrative Services

Finding: Lack of segregation of duties

There is no listing made of incoming cash receipts by any staff person independent of the accounts receivable function within the Division of Administrative Services. Good internal control structure mandates that there be a clear separation of duties between cash and accounts receivable functions.

Recommendation:

We recommend that a staff person within the Division of Administrative Services and independent of the accounts receivable function record the incoming cash receipts.

Auditee Response:

While recognizing the importance of separating the cash receipts and accounts receivable functions, and the risks of not doing so, the position that was responsible for receiving and recording cash receipts was abolished in fiscal year 1991 in compliance with budget reduction requirements. All of the work responsibilities of that position could not be reassigned because of the already-full workload of remaining staff resources. Separately recording incoming cash receipts was one of the functions temporarily eliminated.

(161) Bureau of Agricultural and Rural Resources - State Harness Racing Commission

Finding: Cashbook not reconciled

Our reconciliation of the State Harness Racing Commission's cashbook to the Controller's accounting records as of April 30, 1991 revealed an $11,400 variance.

Recommendation:

To help prevent unintentional errors and identify any unusual reconciling items we recommend that the State Harness Racing Commission periodically reconcile its cashbook to the Controller's records.

Auditee Response:

We have discussed the audit finding with personnel from the department's Administrative Services Division. We concur and have taken corrective action.

---

(162) Maine Milk Commission/Maine Dairy Board/Nutrition Council

Maine Milk Program

Finding: Promotion fee not credited correctly

In fiscal year 1991 the Maine Dairy Promotion Board was credited with $1,496 of promotion fees that according to 7 M.R.S.A. § 3151 should have been credited to the Maine Dairy and Nutrition Council. The department wrote a correcting journal in the next fiscal year to charge and credit the proper accounts.

Recommendation:

We recommend that (a) the Maine Milk Commission correctly split the promotion fees collected each month before sending the deposit slips to the Agriculture Administrative Services Division; and (b) the Maine Milk Program reconcile to the Controller's monthly reports to ensure that the board and the council's transactions are accurately credited.

Auditee Response:

The Maine Milk Program: The Maine Milk Program is prepared to adopt the recommendation. A review procedure has been established to monitor the Controller's monthly reports.

The Maine Milk Commission: The Commissioner is making the 80-20% split on the promotion fees collected each month through the Maine Milk Pool and the individual milk dealer's monthly reports.

(We) assume that split is being monitored by the Maine Milk Program.

---

(163) Maine Dairy Promotion Board

Finding: Incorrect use of advertising contract

The Maine Dairy Promotion Board voted to reimburse staff for the three unpaid furlough days. Associated costs would have been charged to a milk advertising contract. Although not implemented, the vote was in violation of state statutes and an incorrect use of an advertising contract.

Title 36, M.R.S.A. § 4503 states, "The commissioner may employ a director and such clerks and assistants as he may deem necessary and may prescribe their duties and fix their compensations, subject to the Civil Service Law."

Recommendation:

We recommend that the board comply with the state statutes and with the terms of contracts.

Auditee Response:

Maine Dairy Promotion Board has adopted the recommendation. Members voted to rescind the motion concerning reimbursement of staff for the three required furlough days through Milk Promotion Services, Inc. Although no action had been taken on the earlier motion, the Board assures full compliance with the state statutes and with the terms of the advertising contract.

---

(164) Maine Milk Commission

Finding: Non-payment of interest

Title 7, MRSA § 3154, 4 states:

> Interest earned on over-order premiums paid into the Maine Milk Pool...shall be credited to the pool. At least annually, the commissioner shall pay accrued interest on an equal basis to eligible Maine market and Boston market producers.

The Maine Milk Pool is not earning interest and the Maine Milk Commission is not paying interest to eligible Maine and Boston market producers whose dealers are paying over-order premiums into the pool.

Recommendation:

Although the interest amounts are not significant since the funds are held for a short time period, we recommend that the Department of Agriculture coordinate with the Bureau of Accounts and Control and the state Treasurer's office to set up correct account codes for recognizing over-order premiums and the accrued interest on them in the Maine Milk Pool. We further recommend that the Maine Milk Commission pay this interest to the eligible producers as required by state statutes.

Auditee Response:

It is (our) understanding that the Division of Finance, Department of Agriculture, the Bureau of Accounts and Control and State Treasurer's Office are in the process of setting up required codes to recognize the Maine Milk Pool over order premiums to an interest bearing account. This was being pursued when the budget crunch became the top priority. (We) assume this will be completed shortly.

Any interest will be paid to eligible producers by the Pool Administrator either on a monthly basis or by end of calendar year.

---

(165) Seed Potato Board

Finding: Inappropriate deposit of state revenue into a petty cash account

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, without deductions on account of salaries, fees, costs, charges, expenses, refunds, claims or demands of any description whatsoever...."

In July 1991 the Seed Potato Board Program Director deposited a $6,000 check into the board's petty cash account. The director then used the $6,000 to pay for farm labor and other expenses normally paid from the petty cash account. Neither the revenue nor the expense was properly recorded and the transactions were not properly approved in accordance with state procedures.

Recommendation:

We recommend that all money collected or received belonging to or for use of the state be paid immediately into the state Treasury.

Auditee Response:

We acknowledge the erroneous deposit of revenue to the petty cash account. The deposit occurred to ensure that sufficient funds were present in the petty cash account to cover needed expenditures. The transaction was adjusted in August 1991 to properly record revenue and expense. Receipts prior to and subsequent to the referenced incident have been deposited correctly, and the extenuating circumstances that resulted in the erroneous deposit will not recur.

---

(166) Seed Potato Board

Finding: Administrative subsidy not charged

Seed Potato Board fund financial records do not reflect the board's total cost of operations. At least twelve Department of Agriculture employees, paid 100% from the General Fund, spend from fifteen to eighty five percent of their time performing duties for the Seed Potato Board. These percentages are based on employee estimates; the department does not track these hours. We note that the Seed Potato Board was authorized a $245,000 General Fund subsidy in fiscal year 1991. The authorized subsidy did not include the administrative/accounting services provided.

Recommendation:

We recommend that the department maintain records that estimate the total cost associated with the operation of the Seed Potato Board Fund.

Auditee Response:

Time spent by central office administrative and managerial staff on any one of numerous programs or mandates fluctuates significantly from day to day, month to month and season to season. To track time spent on such a multitude of programs would create an untenable and inefficient administrative burden. We are prepared, however, to provide an estimated time-value of central office staff support services when needed or requested.

(167) Seed Potato Board

Finding: Employee pay not according to state personnel rules or collective bargaining agreement

The Seed Potato Board farm employees are paid for at least a 45 hour work week for 40 weeks a year and for a 40 to 45 hour week for the remaining 12 weeks of the year. The 45 hour work week is the minimum paid regardless of the actual hours needed to be worked. During our examination of employee leave records, we noted many instances where employees were paid for more than 45 hours. One employee reported consecutive workdays of fifteen, thirteen and fourteen hours with no time taken for meal breaks. The employee was paid for 34½ hours overtime in this one-week period. Timesheets were approved by the supervisor.

Farm employees are covered by the Maine State Employees Association (MSEA) agreement for Operations, Maintenance and Support Services bargaining unit. Although the bargaining unit agreement does not provide for this employee pay policy, a separate settlement agreement between the MSEA and the Department of Administration, Bureau of Employee Relations was on file.

Recommendation:

We recommend that the Seed Potato Board authorize and pay only for hours actually required and that overtime be authorized only as needed.

Auditee Response:

We concur with this recommendation and, in fact, attempted to implement it in 1988. This attempt was met with the filing of a grievance by the MSEA on behalf of the employees. Through a formal mediation process, the referenced compromise agreement was reached. Although we do not feel the agreement is in the best interest of the Seed Board, we are bound to adhere to it.

With respect to the large amount of overtime cited by the auditor, it is not unusual for farm workers to occasionally have to spend long hours on the job. At certain times of the year, weather, and not a standard workweek, dictates how many hours are needed on the farm. With a crop valued at over $400,000, and with poor weather prevailing, it is not only appropriate but necessary for staff to work long hours when weather permits. Staff always work the overtime for which they are paid, even if the hours seem excessive.

---

(168) Seed Potato Board

Finding: Petty cash account not reconciled

The Seed Potato Board $10,000 petty cash account has not been reconciled to official state accounting records or to bank statements. The actual account balance is unknown. Even when the account has no funds, the bank pays all checks presented. This causes the fund to exceed the $10,000 balance authorized by the Bureau of Accounts and Control. For each overdraft, the bank charges $15.00 per check. The account has had many overdrafts, none of which were reported as expenses nor replenished to the fund in fiscal year 1991.
As noted elsewhere, board personnel deposited and expended other funds from the petty cash account. The petty cash advance is held in bank accounts in Florida and Presque Isle. In November 1991 the authorized custodian for the Presque Isle account changed. Neither present nor past custodians ever reconciled the account; likewise, accounting personnel of the department process replenishment payments but do not reconcile or otherwise control the accounts.

Recommendation: We recommend that the Seed Potato Board reconcile the petty cash account to the ending balance of the bank statement on a monthly basis; maintain the account properly during the month; and reconcile with the authorized amount of $10,000 that is recorded on the Controller's records at the time that the fund is replenished.

Auditee Response:

We concur with the audit finding and recommendation. The responsibility for balancing and reconciling the petty cash account will be assigned to the new Farm Manager and his office staff, and monitored by central office staff for compliance.

(169) Seed Potato Board

Finding: Casual labor time records not properly maintained

Time records for individuals who were paid wages from the petty cash account were not properly maintained. We selected a sample of twenty-five transactions for individuals paid from the petty cash account and found the following:

1. Twenty-five individual time records were not approved by the supervisor;
2. Twenty-five individual contract agreements for special services were not completed or signed by supervisor or the board;
3. Two checks used for payroll were not endorsed by the payee;
4. Two individual time records were missing and could not be located;
5. Three individuals were paid amounts that differed from hours charged;
6. One individual was paid in advance;
7. Most time records did not include work details;
8. No standardized pay scale was in effect: regular hourly wages paid varied from $4.50 to $8.25; and overtime pay varied from $6.75 to $12.38.

Recommendation:

We recommend that the Seed Potato Board follow approved personnel procedures.

Auditee Response:

We agree with the gist of the finding and recommendation and intend to solve the problem by eliminating casual labor in favor of intermittent positions.

Concerning finding 3., we fail to see how we can control endorsements.

(170) Seed Potato Board

Finding: Inappropriate expenditures from the Seed Potato Board petty cash account

Section 6.2 of State of Maine Manual of Financial Procedures states: "A petty cash advance may be needed by a department having recurring transactions involving small amounts which may be more practicably and economically liquidated at the point of origin."

The board's policy is to pay casual laborers from the petty cash checking account. During the 1991 fiscal year, $43,417 in wages was paid from this account which was ninety-four percent of total expenditures for this account. These individuals are not part of the state's personnel system and taxes are not withheld from their wages. They are treated as independent contractors but without an approved contract. The state may be liable for various taxes and employee benefits should these individuals be employees not independent self-employed contractors.

Recommendation: We recommend that the Seed Potato Board not pay wages from the petty cash account and that it follow proper procedures regarding personnel matters.

Auditee Response:

The issue of paying casual labor from the petty cash account will be resolved through the elimination of casual labor in favor of intermittent positions.

It should be noted that the intent of the petty cash account was to pay for casual labor, and it was originally established for that purpose.

---

(171) Seed Potato Board

Finding: No physical inventory of capital equipment taken

The Seed Potato Board has not conducted a physical inventory of its capital equipment for many years. The reason stated for not performing a physical inventory is that it does not have the staff or time to perform a physical inventory of all capital equipment. The board is not in compliance with state policies and regulations. In addition, it is not accountable for all the capital equipment that it holds.

Recommendation:

We recommend that the board perform a physical inventory of its capital equipment and reconcile it on a yearly basis.

Auditee Response:

We agree with the finding and concur with the recommendation.

(172) Seed Potato Board

Finding: Purchases made without approval/Vendors not paid promptly

Seed Potato Board personnel make purchases without first checking funding availability or obtaining approval from the Department of Agriculture, Food and Rural Resources-Administrative Services Division. Lack of funds has caused delays in vendor payments.

The lack of approvals has an adverse effect on the department's compliance with state statutes. Title 7, MRSA §2 states that the commissioner shall "...prepare a budget for the department." This section also states that the commissioner "...shall make and preserve a full record of...all payments and expenses issued...in the discharge of his duties...." In addition, Title 7, MRSA §2154 states that "...the commitments of the .... board shall not exceed in the aggregate the amount of funds which may be available to it."

We tested twenty-five expenditure transactions. Fourteen transactions that totalled $8,494 were not first approved by the Administrative Services Division. The board owed eighteen vendors $23,265 which it did not promptly pay. Twelve invoices amounting to $18,464 were paid between 31 to 60 days after receipt of material; ten invoices valued at $4,345 were paid between 61 to 90 days after receipt; the remainder of the invoices valued at $456 were paid over 120 days after receipt.

Recommendation:

We recommend that Seed Potato Board personnel obtain prior approval from the department's Administrative Services Division before making any purchases of goods and services. We further recommend the department make timely payments to vendors.

Auditee Response:

We will establish guidelines to assure that non-emergency purchases follow proper purchasing procedures. Due to the fact that a farm operation is unique in state government, and many types of purchases are not anticipated and may occur prior to or after the normal state workday, it may occasionally be necessary to make purchases without prior approval from the department's financial staff. Our practice is to make timely payments to vendors; exceptions occasionally occur because of cash flow fluctuations.

(173) Seed Potato Board

Finding: No separation of duties

Workers at the Masardis farm control inventory of seed potatoes, access to inventory records, and distribution to growers. They have access to the computer records of seed sales contracts; can initiate , update, or amend sales contracts; and collect revenue from the sales. There are no controls to ensure that all revenue collected is deposited or that all revenue earned is collected.

Recommendation:

We recommend that the Seed Potato Board segregate the duties of cash receipts, revenue recognition and reconciliation, and restrict access to inventory records and sales agreements. We further recommend that contract sales agreements be reconciled to revenue collected.

Auditee Response:

Seed potato growers routinely bring checks with them to the Porter Farm to pay for the purchase of seed potatoes. This practice ensures that their bills are paid in full and saves the board's staff from carrying accounts receivable which may never be collected. We feel this practice should continue. Currently, the staff informally separates the receipt of cash from the distribution of inventory by having different people in charge of each of these tasks. We agree that the internal controls involved with this matter should be formalized and strengthened and will accomplish this prior to the seed pickup of 1993. Additionally, the board is contracting all sales prior to pickup, so inventory maintenance and control will be simplified.

---

(174) Seed Potato Board

Finding: Lack of receiving reports

Of twenty-five vendor payments tested, we found six payments totalling $33,472 with no indication that materials had been received.

Recommendation:

To ensure accountability, we recommend that Seed Potato Board personnel prepare and submit receiving reports to the department's Administrative Services Division which include description, quantity, date of receipt and proper receiving signature for materials purchased.

Auditee Response:

The relatively minor steps needed to resolve this issue will be taken. No vendor payments are currently *made without written or verbal confirmation of receipt and, in the cited instances, such verbal confirmation was obtained prior to payment. Obtaining written receipt of the purchases would only have added unnecessary delays to the payment of vendors.*

---

(175) Seed Potato Board

Finding: Board minutes not approved

Minutes from five of the twelve Seed Potato Board meetings held from April 6, 1990 to April 23, 1992 were in draft form and not approved by the board.

A permanent record of board actions should be prepared promptly and approved by Board members at the next scheduled meeting. Delays in preparing the minutes may result in questions as to Board decisions and reduce overall effectiveness.

Recommendation:

We recommend that minutes of the Seed Potato Board be prepared on a timely basis for approval at the following board meeting, and that the date of the board meeting that was approved be identified in the minutes.

Auditee Response:

Due to the fact that the bureau's secretary has had to become more active in the operation of the seed farm as a result of the resignation of the Program Director, and due to the fact that the board has met frequently over the past six months to resolve budget and disease crises, the Secretary has not had the time to ensure that all minutes were prepared and approved in a timely fashion.

We take the audit recommendation seriously and will take steps to assure that minutes are complete, final (not draft), timely, and approved by the board.

---

(176) Seed Potato Board

Finding: Equipment accepted in exchange for seed potatoes

One of the twenty potato growers to whom revenue confirmation inquiries were sent stated that he had exchanged irrigation equipment and piping for seed potatoes. There is no record that the Seed Potato Board approved this non-cash transaction.

Recommendation:

We recommend that the Seed Potato Board prohibit bartering transactions and that the board strengthen internal controls over cash and revenue in order to account for all state monies.

Auditee Response:

Neither the Commissioner, Deputy Commissioner, Bureau Director, Seed Board members or Secretary had any prior knowledge of any bartering of seed potatoes. We find it contrary to our standard operating procedures and intend to terminate the practice unless an opportunity arises in which bartering would clearly be in the best interest of the board, and only with the board's prior approval.

---

(177) Seed Potato Board

Finding: Inadequate records

Neither the Seed Potato Board in Presque Isle nor the Department of Agriculture, Food and Rural Resources in Augusta maintain a cash receipts log or accounting ledger to record fund activity.

Most payments are received in the Presque Isle office. Information is entered into a computer system but there is no single record of cash receipts. Cash is received by both office personnel and agricultural workers at both the farm and office. Cash receipts are not reconciled to bank deposits or to billing records.

The Administrative Services Division uses information forwarded from Presque Isle to prepare cash receipt statements and record revenue on the state's books. Division personnel process whatever is received but have no controls in place to know what has been billed or what revenue is expected. Accounting personnel stated that miscodings have occurred and that revenue has been credited to incorrect accounts.

Controls are not adequate to ensure that all payments collected are deposited, that all money due is collected or that revenue is credited to the correct account. Additionally, records do not assist in program operation or administration.

Recommendation:

We recommend that the Seed Potato Board require that: only designated personnel receive cash; a cash receipts log be maintained and reconciled to bank deposits and revenue be recorded in the Controller's records. We also recommend that the departments accounting personnel maintain records which detail amounts billed, received, and refunded as well as any other records necessary to control program operations.

Auditee Response:

Many of the elements needed for a proper cash log are entered into a computerized data base by the clerical staff in the board's Presque Isle office. The data base is not set up as a cash log, but only minor modifications will be made so that the data base will be able to serve as a cash log.

We concur that the internal controls affecting cash receipts and accounts receivables should be strengthened, and proper procedures will be established to accomplish this.

(178) Seed Potato Board

Finding: Florida land rental fees not recorded or collected, rental agreement not documented

Since 1990 the Seed Potato Board has rented Florida farmland to a local farmer for the period from January to March of each year. We were unable to locate any written agreement for this practice. In fiscal year 1991, rental fees were billed but not collected. No account receivable was established. In January of 1992 a verbal agreement was reached with the farmer whereby the rent for fiscal year 1991 was forgiven.

We were unable to locate documentation for any of these agreements. Seed Potato Board minutes of board meetings did not indicate that the board approved the terms.

Recommendation:

We recommend that the Seed Potato Board approve any land rental agreements. We further recommend that accounting personnel establish an account receivable for income earned but not received.

Auditee Response:

The Seed Board did in fact approve the land rental agreement in question, but due to the fact that the board's minutes had not been prepared at the time of the audit, no record of this approval was on file.

We concur that the land rental agreement should be reflected in a lease and will assure that one is drawn up in future years.

(179) Seed Potato Board

Finding: Lack of documentation to support travel cost

Two Seed Potato Board employees were authorized to be paid airfare in lieu of mileage to travel to Homestead, Florida for the purpose of managing and operating the Florida test farm. The employees take their own vehicles and stay in Florida for 6-8 months. In fiscal year 1991 each employee was paid $800, the equivalent of two round trip airfares. The memo does not specify a travel amount that will be paid. It merely states that the equivalent of airfare will be provided.

Recommendation:

We recommend that the Seed Potato Board specify the amount of travel cost that will be paid and obtain an updated authorization, if necessary.

Auditee Response:

For the convenience of the board, the intent was to pay the two employees a flat fee in lieu of airfare, not airfare in lieu of mileage. This was made clear in 1992, and authorization will be updated as necessary.

---

(180) Seed Potato Board

Finding: Certified Seed Program employees' travel expenses paid by Seed Potato Board

The Seed Potato Board paid travel expenses for Certified Seed Program employees' trips to the Florida farm. The Certified Seed Program has a similar mission to that of the board, but is a separate revenue account. The employees wages were paid from that program.

Recommendation:

We recommend that the Seed Potato Board maintain supporting documentation and obtain necessary approvals when paying for expenses other than those of its employees.

Auditee Response:

Revenues for the post harvest disease testing of seed potato samples in Florida are deposited in the Seed Board's account. Due to the fact that samples need to be evaluated in a timely fashion, staff from the Certified Seed Program are sent to the Florida farm with the Seed Board staff to assist in the disease evaluation process. The out-of-state travel authorizations clearly indicate that the purpose of travel of the Certified Seed staff was to assist in the post harvest test at the Florida farm. Since the revenues for the program are deposited in the Seed Board account, it is appropriate to pay the expenses of the Certified Seed staff who travel to Florida to assist with this program.

---

(181) Seed Potato Board

Finding: Potato receipts not recorded

We confirmed revenues with twenty potato growers. We could not find two receipts from two potato growers totalling $1,112.

Department of Agriculture personnel could not explain the differences.

Recommendation:

We recommend that cash and revenue controls be strengthened to prevent misapplication or misappropriation of state funds.

Auditee Response:

The audit finding is based on grower responses to confirmation letters. Other payments "not found" were either paid to another potato program by the grower or reported incorrectly on the grower response. We expect the two subject payments fall into such a category and we are following up directly with the grower.

---

(182) Seed Potato Board

Finding: Refunds made without acceptable documentation and approval

The board has not established criteria for granting refunds. Requests for refunds lack an authorizing signature. The board does not maintain supporting documents nor a permanent record such as a journal or log of refunds issued. It issues refunds which are netted against the related balance sheet or revenue account so that the total refunds are not identified.

Recommendation:

We recommend the Seed Potato Board establish criteria for granting refunds. It should document each refund authorization. It should maintain a permanent record of refunds together with related documentation.

Auditee Response:

Refunds are issued when seed growers pay more for their seed than they should. Contract deposits may have to be refunded, for example, if the board is not able to produce a sufficient amount of seed to meet the contract request. Growers who overpay for their seed are also refunded the amount of their overpayment. Even though the criteria for refunds are not summarized in writing, the board's *staff follows criteria established in practice for the granting of refunds. This matter can be formalized, however, and brought before the board for approval.*

Refund requests do, in fact, have written approval by the board secretary. Permanent records of refunds are currently maintained.

Animal Welfare Board

(183) Finding: Invoices not carefully reviewed

The Animal Welfare Board paid telephone bills for a telephone line used by the Maine State Retirement System. The Telecommunication Division, Department of Administration has determined that overbillings of $7,720 were made to the Board for the months of November 1990 to April 1991. The Animal Welfare Board has initiated action to obtain reimbursement from Maine State Retirement System.

Recommendation:

We recommend that the Animal Welfare Board exercise more care when determining the validity and accuracy of invoices.

Auditee Response:

It has been documented by the Telecommunications Division, Department of Administration, that overbillings in the amount of $28,189 were made to the Animal Welfare Board commencing May 1989 through June 1991.

The Animal Welfare Board has sent documentation to the Maine State Retirement System and is awaiting reimbursement.

Maine Arts Commission

(184) Finding: Travel claims filed late

One travel claim requested reimbursement for travel occurring in two fiscal years. Another travel claim for $775 was filed on March 21, 1991 for 34 separate trips occurring between July 12 and November 16, 1990. According to the State of Maine Manual of Financial Procedures travel expenditures should be charged to the fiscal year of travel, and travel reimbursement and travel claims should be rendered at least once a month.

Recommendation:

We recommend that the Maine Arts Commission implement procedures so that travel claims are submitted promptly and that travel expenses are charged in the correct fiscal year.

Auditee Response:

We shall endeavor to assure that each staff member, panelist and commission member file claims in a timely manner per your recommendation that reimbursement be done once per month and within the correct fiscal year.

Department of the Attorney General

(185) Finding: Weak controls of various accounting areas

Correct accounting practice requires an adequate internal control structure that includes appropriate segregation of duties. The objectives of a system are to provide management with reasonable assurance that assets are safeguarded against loss from unauthorized use, and that transactions are recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The Department of Attorney General has a weak internal control of its accounting system. The petty cash account, authorized for $2,000, is the responsibility of one individual who writes checks, signs checks, and reconciles the account. The most recent account reconciliation was February 1989. In the accounts payable area one individual is responsible for requisitioning, purchasing, receiving, invoice processing, and general ledger functions.

Recommendation:

We recommend appropriate segregation of duties and periodic reconciliation of accounts, or improved management oversught.

Auditee Response:

The department has taken actions to strengthen its internal control structure by utilizing four central office personnel with various responsibilities to serve as a check and balance in the system.

Petty Cash

1. *Reconciled as of the first of the year.*
2. *One individual request and reconciles.*

3. *Second individual approves and signs check.*

Accounts payable

1. *One person requisitions and purchases.*
2. *Second person approves requisition and payment.*
3. *Third person receives and processes invoice.*

---

(186) <u>Finding</u>: Private trust fund records are inadequate

The Department of Attorney General escrows restitution payments that arise from court actions initiated by the state. The department does not maintain adequate detail records to determine active accounts and balances. Consequently, the department is unable to reconcile the records to the general ledger control account.

An adequate internal control environment requires reconciliations between detail accounting records and general ledger control, and an appropriate segregation of duties. The responsibility for detail accounting records should be segregated from custodial and general ledger responsibilities.

<u>Recommendation</u>:

We recommend the department maintain adequate detail accounting records and periodically reconcile to the general ledger control account.

<u>Auditee Response</u>:

All trust accounts have been reconciled to date internally and with the Department of Treasury. An internal control system has been established so that a requisition document is generated and approved by Deputy Attorney General for use of trust funds. The purpose of the trust account and the request is reviewed by trust account administrator and submitted to the Chief Deputy. The Chief Deputy approves use of trust funds and submits all documents to Treasury for processing.

---

(187) <u>Finding</u>: Interest due to consumers not disbursed

The Department of Attorney General may bring an action against any person believed to commit unlawful acts if it is in the public interest. Restitution arising from court actions is retained in escrow by the state. Out of five escrow accounts reviewed one had a $5,018 balance of interest earnings on March 31, 1991. Although restitution was fully paid to consumers for losses in June 1988, interest earned was not disbursed.

According to the Consent Decree and Order, Superior Court, Civil Action, Docket No. CV-87-

20(8,b), "Maine shall use its best efforts to pay restitution to consumers for losses, including interest at the legal rate...."

Recommendation:

We recommend that interest be disbursed to the appropriate consumers.

Auditee Response:

The recommendation has been submitted to responsible department administrator and will be implemented once an appropriate method of disbursement for this particular trust has been identified.

(188) Finding: Prepayments to Special Revenue Fund

Of twenty-five accounts receivable transactions tested, ten were for services not rendered in the period when revenue was recognized. Revenue of $252,133 was billed for services to be performed in the subsequent fiscal year.

According to generally accepted accounting principles revenue should be recognized when services are performed or goods are delivered, regardless of when the cash is collected.

Recommendation:

We recommend that the department record revenue in the same period that services are rendered.

Auditee Response:

Client billing occurs at the beginning of the quarter based on the actual salary of the attorney or at the end of the quarter based on the actual billable hours. Prior to July 1991, billing was not completed in a consistent manner. To correct delinquent billing, bills were sent out in June of 1991 even though those were not paid until July. This problem has been corrected now that a regular billing schedule has been established and the department will record revenue in the fiscal year for which the service is rendered.

(189) Finding: General Fund positions used to subsidize Special Revenue Fund

The department uses the Special Revenue Fund to record transactions for legal service provided to other state agencies. A test of twenty-five transactions disclosed $59,504 in revenue deposited to the Special Revenue Fund for services provided by General Fund employees.

According to generally accepted accounting principles revenue should be recorded in the fund providing the service, and expenditures should be recorded in the fund receiving the services.

Recommendation:

We recommend that the department credit revenues to the General Fund for services provided by General Fund employees.

Auditee Response:

Except for one position which is in the process of being corrected, all attorneys providing legal services to special revenue funded agencies are in special revenue funded positions.

(190) Property Management Division

Finding: Capital equipment inventory reports not submitted

The Department of Attorney General last submitted a Capital Equipment Report (CPR 17) to the Bureau of Public Improvements in fiscal year 1986. Consequently, the capital equipment inventory on the state's books is incorrect.

According to the State of Maine Manual of Financial Procedures, the main purpose of the Property Management Division of the Bureau of Public Improvements is to maintain a central control of the state's assets.

Recommendation:

We recommend the department submit the Capital Equipment Report required by the Bureau of Public Improvements.

Auditee Response:

Lack of personnel resources has impeded the department from keeping the Capital Equipment report up-to-date. Based on available resources, the department is attempting to hire temporary help in the summer of 1993 to update the report. Once this is accomplished, a system will be put in place to update new acquisitions and retirement of capital items on an ongoing basis.

Baxter State Park Authority

(191) Finding: Internal control over expenditures

A review of a sample of twenty-five expenditures revealed that two travel advances were not adequately documented. In order to maintain good internal control over expenditures the Authority should maintain approved documentation of all expenditures.

Recommendation:

We recommend that travel advances be adequately documented by a travel advance request form.

Auditee Response:

We acknowledge that supporting documentation was not available on a timely basis and have implemented the use of a travel advance request form.

---

(192) Finding: Internal control over demand deposit account

A review of the Baxter State Park Authority (BSPA) checking account revealed that it was not maintained at the authorized funding level due to several outstanding replenishments. In order to obtain maximum control over the Baxter State Park Authority checking account, a monthly reconciliation to the authorized level is necessary. Failure to perform a reconciliation could result in an understatement of expenditures because of the method used for requesting replenishments. In addition, this could result in the account exceeding the maximum authorized level.

Recommendation:

We recommend that BSPA replenishments be made on a timely basis. In addition, the account should be reconciled to the authorized funding level on a monthly basis.

Auditee Response:

This practice has been corrected and requests for replenishments are being sent to Augusta in a more timely fashion. Also, periodic reconciliations to the authorized fund level will be performed.

---

(193) Finding: Segregation of duties

A review of internal control over revenue, expenditures, capital equipment and supplies inventory revealed a lack of segregation of duties. One clerk who prepares checks and records disbursements also performs the related bank account reconciliation. Another clerk who purchases supplies and capital equipment also maintains capital equipment and inventory records.

An adequate system of internal control should preclude the person recording disbursements from performing the related bank reconciliations. In addition, the person responsible for purchasing supplies should be precluded from performing the related recordkeeping responsibilities.

Recommendation:

In order to strengthen internal control we recommend the Authority either realign duties or perform additional management reviews over these functions.

Auditee Response:

We will review our job functions and will consider the realignment of duties and/or the addition of an office manager position.

---

(104) Finding: Authority and state records not reconciled

No procedures are in place for reconciling the Authority's revenue to the Controller's records. We compared revenue and found that the Authority recorded $15,431 more than that recorded by the Controller. The Baxter State Park Authority should ensure that its records agree with the state accounting records.

Recommendation:

We recommend that the Baxter State Park Authority reconcile its revenue with that recorded by the Controller.

Auditee Response:

We will reconcile our records with the state Controller's records.

---

(195) <u>Finding</u>: Inadequate control over capital equipment records (prior year finding)

Baxter State Park Authority does not have procedures in place to ensure that changes in capital equipment are properly recorded at the organization and state level. In addition, the Authority does not maintain up-to-date perpetual capital equipment inventory records. Although a physical inventory was performed it was not compared with perpetual inventory records.

We noted that five capital equipment additions totalling $32,919 were not included in the Authority's records. When notified of this, the staff of the Baxter State Park Authority took immediate action and appropriately recorded these transactions.

<u>Recommendation</u>:

We recommend that Baxter State Park Authority establish controls to ensure that changes in capital equipment are recorded and reported to the Bureau of Public Improvements.

<u>Auditee Response</u>:

Updating of perpetual capital equipment records is in the process of being completed. The five budgeted capital equipment additions, two concrete tanks, a vehicle, and two snowmobiles were recorded on the capital equipment records prior to submission of the report to the Bureau of Public Improvements. Additions of capital equipment will now be recorded at the time that payment is made.

---

(196) <u>Finding</u>: Inadequate automotive supply records

Baxter State Park Authority (BSPA) uses an automotive garage for maintaining vehicles and storing supplies. The automotive supplies are not adequately accounted for. Perpetual inventory records of supplies on hand are not maintained nor is a periodic physical inventory performed.

<u>Recommendation</u>:

We recommend that BSPA account for automotive supplies through inventory records and that it conduct periodic physical inventories.

<u>Auditee Response</u>:

We concur and will implement a yearly physical inventory prior to July 1, 1992.

Department of Conservation

(197) Bureau of Parks & Recreation/Bureau of Forestry

Finding: Poor internal control over capital equipment records

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.

We found the following discrepancies at the Department of Conservation:

1. The last complete physical inventory was in 1990;
2. Nine out of twenty-five capital equipment items inventoried for the Bureau of Parks and Recreation showed discrepancies with the records; and
3. Eight out of twenty-five capital equipment items inventoried that we reviewed for the Bureau of Forestry showed discrepancies with the records.

Recommendation:

We recommend that the Department of Conservation perform a complete physical inventory of all capital equipment and reconcile the physical counts to the detail equipment records.

Auditee Response:

Agency did not respond.

Department of Corrections

(198) Maine State Prison (MSP)

Finding: Sale of consigned goods (Prior Year Finding)

The financial statements of the Prison Industries Fund did 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 financial statements of the Prison Industries Fund.

Auditee Response:

Profits to the Industrial Fund are reported in revenue for the Industrial account. Actual total sales are not. These profits are directly transferred to inmate accounts and will be added as a note to the financial report.

(199) Maine State Prison (MSP)

Finding: Expenditures recorded in wrong fiscal year

We noted that $549 in expenditures of the Prison Industries Fund for fiscal year 1990 were recorded as expenditures for fiscal year 1991. Accounting for proprietary funds is similar to those of commercial operations. Therefore, accrual accounting should be followed.

Recommendation:

We recommend that the Maine State Prison personnel exercise greater care to ensure that expenditures of the Prison Industries Fund are recorded in the proper period.

Auditee Response:

With an appropriate staff level in place, entries to the MFASIS accounting system will be timely and expenditures will be processed in the correct fiscal year.

(200) Maine State Prison (MSP)

Finding: Time card approval

Ten percent of time cards tested for the Maine State Prison Business Office personnel were not signed by a supervisor. Supervisory signatures signify that the time listed on the card has been reviewed and approved. Time cards should not be processed without evidence of supervisory approval.

Recommendation:

We recommend that supervisors of the MSP Business Office sign time cards.

Auditee Response:

To ensure all time cards are signed at the appropriate level, prior to filing, they will be submitted to the responsible supervisor for review and verification of signatures.

(201) Maine State Prison (MSP)

Finding: Finished goods inventory variance

A test count of twenty-five finished goods items at the Maine State Prison showroom indicated a three percent variance between records of the Industries Account and the physical count with an associated cost of $737.

Recommendation:

We recommend that procedures be developed and followed to ensure better control of finished goods inventory; and that business office personnel participate in physical inventories.

Auditee Response:

Business office personnel will participate in all industrial inventories if staffing is available; and receiving reports will note partial receipts to the showroom. The inventory in storage will be logged for future shipment.

Production orders will be returned to the showroom if full inventory has not been received. This will be a standard procedure.

(202) Maine State Prison (MSP)

Finding: Asset ownership (Prior Year Finding)

The current policy of the Maine State Prison is to record 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 properly account for ownership of assets purchased by the Maine State Prison IBF.

Auditee Response:

All capital inventory now under the Maine State Prison General Fund will be transferred to the Maine State Prison Inmate Benefit Fund Account.

(203) Maine State Prison

Finding: Teacher employees enrolled in incorrect retirement plan

A teacher employee at the Maine State Prison is in a retirement plan that Title 5 MRSA §17851 set up specifically for the warden, deputy warden, guard supervision, and guards. As a result, the employee and the state are paying higher retirement contributions than required for teachers. Under the plan, the employee will be eligible for retirement at age 50 rather than age 60.

Recommendation:

We recommend that the department review the retirement plan in which teacher employees are enrolled to ensure that it is authorized by the legislation.

Auditee Response:

Teachers at the Maine State Prison are required to supervise the inmates assigned to their class/ program. Tasks similar to those of guards are performed by these teachers, including the granting of good time, counts, etc. Teachers at the Maine State Prison have always been included in the Special Retirement Plan, since they are employees "in the management of prisoners", in accordance with Title 5, MRSA, §17851.

(204) Probation and Parole

Finding: Internal control weaknesses in petty cash funds

We noted various differences in Department of Corrections Probation and Parole Districts 1 and 2 petty cash funds. Petty cash balances did not agree to the amounts authorized. Written procedures and forms were either not available or did not contain adequate information. Supervisory review was lacking. The petty cash stamp fund was not established at a fixed amount and records were inadequate to account for monies transferred to sub-offices.

Recommendation:

We recommend that the DOC review the petty cash and stamp fund operations; correct the above mentioned discrepancies; and establish appropriate written procedures for handling the accounting transactions and fund operations. In addition, the department should monitor the accounting functions relating to the petty cash and stamp fund to ensure that each regional office complies with the written procedures.

Auditee Response:

The Division of Probation and Parole is in the process of reviewing the petty cash stamp fund *operations and is working to correct the noted discrepancies. Written procedures will be examined and updated as appropriate and the department will continue to work with the district offices to ensue compliance.*

---

(205) Probation and Parole

Finding: Lack of statewide procedures for restitution accounts (Prior Year Finding)

The following conditions and/or control weaknesses relating to the restitution accounts were noted at Department of Corrections (DOC) Probation and Parole district offices 1,2,3 and 4.

1. There is no reconciliation of the detail ledger card to a control card or the cash balance in the demand deposit account.

2. There is no system such as prenumbered setup sheets to ensure that the restitution repaid by each client is properly established.

3. There is no detail card for each client which reflects the available cash balance.

4. Districts 1,2 and 4: There is no supervisory review of the monthly bank reconciliation.

5. District 2: The cash receipts clerk transports bank deposits to the bank; and statements are not reconciled on a current basis.

6. Districts 3 and 4: Daily receipts are neither totalled, compared to the cash on hand, nor deposited daily. The amounts deposited are not promptly entered in the receipts ledger.

7. District 3 and 4: Month-end cut off work is not done. The receipts and disbursements columns should be totalled monthly and new pages started for the next month's entries.

8. District 4: The Bangor District Office receipts include all cash and cash equivalent transactions from all sub offices. For Ellsworth, the cash is directly deposited in the Bangor District Office checking account in Ellsworth. Ellsworth sends its cash equivalent entries to Bangor to be recorded. Ellsworth's cash entries are intermingled with other sub offices and district entries which makes daily cashing-up difficult and time consuming.

The present system does not require the preparation of daily cash sheets used for reconciling cash; consequently, cash short-or-over is not recognized, if it occurs.

The system permits either a change fund to be in operation or the withholding of daily receipts from deposits to make change the next business day.

Recommendation:

We recommend that the Department of Corrections

1. Establish client cash balance sheets in the system;
2. Establish prenumbered setup sheets;
3. Reconcile the detail sheets to the control card and/or cash balance in the demand deposit account;
4. Perform supervisory review over bank reconciliations;
5. Have District 2's bank deposits locked when transported to the bank and carried by a person other than the cashier;
6. Perform proper cut off work at month's end; and
7. Record receipt transactions in tact on a daily basis, and cash receipts centrally processed using generally accepted accounting principles.

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

Auditee Response:

The department is in the process of developing procedures for restitution accounts and will continue to work with the district offices to ensure that the noted conditions and/or weaknesses are addressed and corrected where possible. In addition, beginning in July 1992 the State Treasurer's Office will perform the monthly bank reconciliations.

---

(206) Probation and Parole

Finding: Inadequate review of outstanding checks (Prior Year Finding)

A review of Department of Corrections (DOC) Division of Probation and Parole's regional checking accounts for the restitution funds revealed that district offices 1,2,3, and 4 had many outstanding checks on the June 30, 1991 bank reconciliations that were over 90 days old. Further review revealed that three districts had outstanding checks over one year old: District 2 had 79 checks totalling \$12,845; District 3 had 70 checks totalling \$8,460; and District 4 had 100 checks totalling \$14,950.

Title 33 MRSA, Subchapter I, §1814, states:

> Tangible and intangible property, other than...held for the owner by a court, state or other government, governmental subdivision...and which remains unclaimed by the owner for more than one year after becoming payable or distributable, in the case of intangible property, or after becoming returnable in the case of tangible property, is presumed abandoned.

The department is reviewing their outstanding checks as of June 30, 1992.

Recommendation:

We recommend that DOC establish written procedures concerning the outstanding checks in the restitution accounts so that all checks not cashed, especially those over 90 days old, are properly reviewed and processed through the accounting records. Also, we recommend that any checks outstanding for over a year, i.e., unclaimed funds, are forwarded to the State Treasurer, Division of Abandoned Property.

Auditee Response:

The department will incorporate written procedures concerning the outstanding checks when it formalizes the procedures for restitution account funds in general.

All the Probation and Parole offices have transferred their outstanding checks to the State Treasurer's Office through December 31, 1991.

(207) Probation and Parole

Finding: Uninsured deposit (Prior Year Finding)

Title 12 CFR, §330 defines the regulations regarding deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC), which includes custodial accounts. Section 386.2b indicates that including the word "custodial" as part of the bank statement description would fulfill present FDIC insurance requirements for balances exceeding $100,000.

The cash on hand in one of the restitution bank accounts in District 3 exceeded the $100,000, maximum amount of FDIC depository insurance coverage, by $100,514 at June 30, 1991.

Recommendation:

We recommend that the department submit the required form to the bank so that the name "custodial account" will be on the district office's bank account. This change should provide depository insurance coverage on each owner's fractional share of the total commingled funds.

Auditee Response:

The department has initiated a change in the procedure to deposit restitution funds. All restitution funds have been transferred to an interest bearing account under the supervision of the Treasury Department effective July 1, 1992.

Department of Education

(208) Governor Baxter School for the Deaf (GBSD)

Finding: Noncompliance with statute (Prior Year Finding)

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 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...."

Recommendation:

We again recommend that GBSD immediately transfer the certificate of deposit and its accumulated interest to the state treasury in order that these funds can be held in trust by the state. We further recommend that these monies be recorded on the Controller's records.

Auditee Response:

The department will comply with the recommendation as soon as possible.

---

(209) Governor Baxter School for the Deaf (GBSD)

Finding: Locally handled funds not used for their intended purpose

A student benefit fund is maintained and is primarily for funding certain student activities conducted at the facility.

The Governor Baxter School for the Deaf (GBSD) obtains and pays for special services such as speech pathology, social work, etc. by contract. The individuals under contract are advanced monies from a student benefit account for anticipated contracted work. When those under contract are paid by the state for work performed, they reimburse the student benefit fund.

Recommendation:

We recommend that the GBSD use the student benefit fund for its intended purpose of supporting student activities.

Auditee Response:

The student benefit account will only be used for its intended purpose.

(210) Governor Baxter School for the Deaf (GBSD)

Finding: Handling of fees not according to statutory provisions (Prior Year Finding)

From July 1, 1989 through April 30, 1992, the Governor Baxter School for the Deaf (GBSD) collected $18,459 in facility fees 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 laws, report them to the state Treasurer or credit them to the General Fund nor did it establish conference fee accounts as mandated by state law.

Title 20-A, MRSA §256, Subpart 9 requires that service and rental fees collected for the use of facilities at the GBSD shall be reported to the "Treasurer of State to be credited to the General Fund."

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 balance remaining for a given event may carry once; other balances shall lapse to the General Fund undedicated revenue.

Recommendation:

We again recommend that the Governor Baxter School for the Deaf credit these fees to the General Fund to comply with state law and reduce the state's share of monies used to support the operations of this institution. In addition, we also recommend that GBSD handle facility and service usage fees according to Title 5, MRSA §1541.

Auditee Response:

The department will comply with this recommendation immediately.

(211) Governor Baxter School for the Deaf (GBSD)

Finding: Gifts and donations not being credited to a special revenue account established for that purpose

The Governor Baxter School for the Deaf accepts gifts and donations from private sources. As of July 1, 1991 a special revenue account was established as a vehicle to account for these gifts and donations. Currently, these gifts and donations are still being credited to a student benefit account not reflected on the records of the Controller.

Recommendation:

We recommend that gifts and donations accepted by the GBSD be credited to the special revenue account established for that purpose.

Auditee Response:

The department has complied with this recommendation.

---

(212) Division of Management Information

Finding: Subsidy errors of school administrative units

A test of school transportation operation costs revealed that the Division of Management Information used incorrect transportation cost amounts to determine the state allocation on behalf of six school administrative units (SAUs). As a result, three SAUs were over subsidized by a total of $11,292 and two SAUs were under subsidized by a total of $9,724.

Recommendation:

We recommend that the division make audit adjustments to subsequent state allocations for the affected school administrative units.

Auditee Response:

We plan to make the appropriate adjustments to state subsidy in fiscal year 1994. Title 20-A, M.R.S.A., §15602, Subsection 7 (the flat-funding statute for fiscal year 1993) prevents us from making the adjustments in fiscal year 1993. This statute was enacted as part of Chapter 802 dated April 3, 1992.

---

(213) Bureau of Administration-Division of Budget and Finance

Finding: Lack of identification between receipts and payors

The Bureau of Hazardous Material and Solid Waste Control maintains files and a data bank on underground tanks, those removed, annual fees paid, and refunds. These are organized by payor identification number.

The registrations (annual fee statements) have the identification number printed on them. When fees are paid, the statements and checks are routed to the accounting section of the Division of Budget and Finance which posts the cash receipts and then returns the registrations to the Bureau of Hazardous Materials which records who paid the fee. However, the Accounting section does not record the payor identification number on either the cash receipt statement or the check.

There is no audit trail between the accounting records and the bureau's records. Therefore it is not possible to trace the receipt to the payor in order to verify actual payment and/or credit to the correct account. This weakens internal control over the handling of cash receipts.

Recommendation:

We recommend that the Division of Budget and Finance accounting section identify the payor number on the face of the checks. This will relate to the cash receipts ledger, the income statements and the bureau program records.

Auditee Response:

Presently a new computerized system is being developed by the bureau which should eliminate this item; current bureau records note payer check number, date paid and registration number on the face of the annual fee statement which checks to present records.

(214) Bureau of Hazardous Material and Solid Waste Control

Finding: Groundwater Oil Clean-up Fund-3rd Party Commercial Risk Pool payment not according to statute

Title 38 MRSA, Section 569 Sub-section 2-A, Paragraphs F and G state that awards may not include what the claimant has already recovered for the same damage; and that "It is the intent of the Legislature that the remedies provided for 3rd party damage claims compensated under this subchapter are nonexclusive". Section 568-A, Sub-section 5 states that after 12 months the Department of Environmental Protection (DEP) can make payments through the Groundwater Fund if the responsible party refuses to pay but DEP shall attempt to recover the amounts expended.

DEP awarded $34,711 in two partial payments to a claimant and estimated the final settlement to be about $57,000. The claimant and the responsible party agreed to a settlement of $36,000. The private settlement stated: "This release excludes the claims presented or to be presented through the Board ofEnvironmental Protection". This, in effect, treated DEP as a separate responsible party which would pay an additional amount beyond that agreed to between the claimant and the responsible party.

Although DEP had advised the claimant that the DEP award would be reduced by the amount of the private settlement, it recommended to the Board of Environmental Protection to authorize the full amount. DEP paid the claimant an additional $57,872 three months after the private settlement.

The responsible party had not refused to pay and DEP was required not to duplicate payments. DEP is also required to seek recovery of all sums expended. As of the date of the audit DEP had notified the Attorney General of its intent to recover the full amount from the responsible party. We estimate DEP should recover approximately $92,583 for settlement payments.

Recommendation:

We recommend a) that DEP make damage claim payments or settlements only when the responsible party refuses to pay; (b) that it not agree to make settlement payments beyond any private settlement between the responsible party and claimant; (c) that it not make any payments that duplicate those of a private agreement; (d) and that it seek to recover from the responsible party any amount awarded to the claimant.

Auditee Response:

The Bureau of Hazardous Materials and Solid Waste Control (BHMSWC) disagrees with the auditor's finding based on the following facts:

1. *The third party claim in question had been on file with the department for greater than 12 months, and the Responsible Parties did refuse to pay damages related to Loss of Income, Personal Property Damages and Real Property Damages.*

2. *The settlement reached between the Responsible Party and the claimant did not include any compensation for Loss of Income, Personal Property Damage or Real Property Damage, hence no duplicative awards were made. The legally binding agreement between the Responsible Party and the Claimant specified that the compensation was for "pain and suffering". Damage awards for pain and suffering are not compensable under the Groundwater Clean-Up Fund. The Department did not award any compensation for pain and suffering at any time. The auditor correctly points out that "remedies provided for 3rd party damage claims compensated under this subchapter are nonexclusive".*

3. *The Department has already begun the legal process to recover the amounts awarded by the State to the claimant. A demand for reimbursement was issued to the responsible party on February 11, 1991. The case was referred to the Office of the Attorney General for formal action on September 9, 1991. The Department has worked closely with the Attorney General's staff throughout the management of this*

case.

(215) Bureau of Hazardous Material and Solid Waste Control

Finding: No control check list in use

Claimants' files do not include a summary of events or check list indicating compliance with certain aspects of the law, e.g. refusal to pay, Commission or Board approval, applicant paid fees, partial and final payment amounts and dates, settled claim date, recoveries requested, etc. Without a summary or check list to keep track of legal requirements, events, dates and expenditures it is unlikely that a claim can be reconstructed completely or accurately for seeking recovery, for recommending Board authorization, and for reporting to the Legislature.

Recommendation:

We recommend that DEP document compliance, events and dates through the use of a summary or check list within each claimant file to assure it has complete and accurate data for recommending action to the appropriate parties.

Auditee Response:

The BHMSWC has initiated efforts to more widely implement the use of summaries and checklists to document important aspects of processing claims. The BHMSWC is currently able to reconstruct all important aspects of claims. Widespread use of a docket sheet to summarize and document the processing of claims would facilitate this effort.

(216) Bureau of Hazardous Material and Solid Waste Control

Finding: Fees not collected/Revenue and eligibility affected

The Department of Environmental Protection (DEP) does not, generally, follow up on collection of unpaid fees. It does not use its data bank information to determine the number of tanks which should be paid for or have not been paid for. Consequently, it does not determine potential revenue.

We have estimated that the revenue loss for fiscal years 1991 and the period from July 1, 1991 through April 1992 totals approximately $301,165. At $130 per tank it appears that DEP did not collect fees for approximately 1158 tanks per year during the two year period since the effective date of the program, May 1, 1990.

In addition, one of the criteria for applicant eligibility for Groundwater Fund coverage is payment of Risk Pool Fees. If fees have not been paid and a spill occurs the responsible party is not eligible for reimbursement from the fund.

Recommendation:

In order to ensure that the Risk Pool account receives adequate funding to carry out its purpose and that the Groundwater Fund covers only those applicants who paid fees and are eligible, we recommend that DEP A) estimate the number of tanks that each owner should pay for; B) which owners have not paid the Risk Pool fees; and C) follow up on non-payment.

Auditee Response:

The BHMSWC has been working with the Department's Division of Computer Services to convert the underground tanks database from its current limited use program to the Oracle database. The conversion also includes an update of the database which will allow for fee tracking. This conversion and upgrade is projected to be on-line by the fall of 1992.

Fee payments are reviewed for each "Claim for Coverage of Clean-up Costs" received by BHMSWC as part of the "substantial compliance" criteria to determine as applicant's eligibility.

It has not been possible to devote the human resources necessary to actively pursue enforcement action for each tank owner who fails to pay the $13.00 fee.

BHMSWC will pursue expediting the database conversion to enhance our ability to monitor and enforce compliance with the fee payment.

---

(217) Bureau of Hazardous Material and Solid Waste Control

Finding: Incorrect fees for 3rd Party Commercial Risk Pool (Risk Pool) Account

When the Bureau bills owners of underground oil storage tanks for the annual fees it includes the Groundwater Oil Clean-up Fund (Groundwater Fund) fees at $35 per tank; the Risk Pool fees for nonconforming oil storage tanks at $130 per tank; and chemical tanks for $100 per tank. According to the bureau data bank the chemical fee is credited to the owner of nonconforming tanks as a registration payment for the Risk Pool.

We could not determine what the authorization is for the chemical fees or to which account they should be credited.

Since individual payor identifiaction numbers are not on the income statements or checks we could not verify whether the chemical tank fees were, in fact, credited to the Risk Pool account.

Recommendation:

We recommend that DEP collect and credit only those fees authorized; and, if authorized, credit the chemical tank fees to the correct account.

Auditee Response:

MRSA Title 38, Section 1364 (2) and 1030 (4-A) authorizes the Board of Environmental Protection (BEP) to promulgate regulations for the storage and handling of hazardous substances. Chapter 695, Section 5c was adopted by the BEP and provides for the collection of $100.00 per underground hazardous substance tank. In response to the auditor's report, the Department will amend its invoice to clarify the account which should receive the fee pursuant to MRSA Title 38, Section 1319-D.

(218) Bureau of Hazardous Material and Solid Waste Control

Finding: Data bank information not consistent

The Bureau of Hazardous Material and Solid Waste Control maintains a data bank for underground tanks. Data is supplied primarily by tank owners and the accounting section of the Division of Budget and Finance. The purpose of the data bank should be to provide accurate detailed or composite information to use for billing owners and collecting fees, for enforcing statutes that regulate tank removal, and for determining eligibility for Groundwater Oil Clean-up Fund and 3rd Party Commercial Risk Pool (Risk Pool) coverage.

The Department of Environmental Protection's (DEP) data retrieval system for the Risk Pool account was not completely operational in fiscal year 1991 and limited in fiscal year 1992. We reviewed the data reports for the number of underground tanks including non-conforming ones and those removed, and payment of fees. The data retrieved was not consistent and appeared to be stored using different software programs which did not interface. Consequently, it was difficult to accurately estimate revenue, payments, uncollectibles, and tank removal.

Recommendation:

We recommend that DEP review its on-line and personal computer data systems; that it develop compatible retrieval systems so that basic related information, either detailed or composite, as of a certain date, will interface.

Auditee Response:

The recommended review is ongoing as a function of the conversion and upgrade of the database. The concerns expressed in the audit will be addressed in the conversion and upgrade of the database.

Department of Environmental Protection (cont.)

(219) Bureau of Hazardous Material and Solid Waste Control

Finding: 3rd Party Commercial Risk Pool (Risk Pool) legislation

The 3rd Party Commercial Risk Pool Legislation was adopted as an extension of the Groundwater Oil Clean-up Fund (Groundwater Fund) to apply only to non-conforming bare steel underground oil storage tanks used for commercial purposes. It added additional funding: the Groundwater Fund fees had been $35 a tank; the fees for the Risk Pool were established at $130 per tank. In addition, the Risk Pool provided for refunds to tank owners at the end of the tank removal program, providing any money remained in the account. In all other respects the Groundwater Fund and the 3rd Party Commercial Risk Pool function similarly.

Given the additional effort to administer a separate account, the time consumed in dealing with two accounts for primarily the same purpose, the increased demands on the Department of Environmental Protection (DEP) staff, the current limited resources, and the recent cost-cutting measures, the Risk Pool does not serve a significant or different purpose sufficient to warrant continuation in its current form.

Recommendation:

In order to simplify the accounting and programmatic workload of the DEP staff and in order to achieve the same goals without additional administrative complexities, we recommend that DEP seek legislative action to modify or repeal the Risk Pool Account.

Auditees Response:

The BHMSWC agrees with the conclusions included in the auditors report.

Department of Finance

(220) Bureau of Accounts and Control (A & C)

Finding: Recognition of Low-Income Home Energy Assistance (LIHEAP) revenue in the wrong account

Early in the 1991 program grant year the Bureau of Accounts and Control journaled an $8 million working capital advance to the Division of Community Services LIHEAP special revenue account. When the working capital advance was repaid, debits to revenue were made to the LIHEAP federal account as opposed to the special revenue account. Therefore, at the end of the 1991 fiscal year, revenue was overstated by $8 million in the LIHEAP special revenue account and understated by $8.0 million in the LIHEAP federal account.

Recommendation:

We recommend that A&C properly account for fund transfers.

Auditee Response:

Agency did not respond.

(221) Bureau of Accounts and Control (A & C)

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 during fiscal years 1989, 1990 and 1991.

1. The bureau 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;
3. The bureau recorded 1989, 1990 and 1991 scheduled annual repayments of $25,000 as increases to both the asset and liability accounts in the special revenue fund; and
4. The bureau over corrected a coding error decreasing both the asset and liability accounts by $2,000.

At fiscal year-end 1991, the special revenue fund assets were overstated by $573,000 and liabilities by $148,000.

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:

Noted and corrected.

(222) Bureau of Accounts and Control

Finding: Incorrect accounting for interfund transactions

At the end of the fiscal year, the Bureau of Accounts and Control prepared journal entries to balance the amounts due to and due from various state funds. We noted the following:

1. Prepaid expense account used to balance interfund transactions; and
2. Interfund transactions incorrectly recorded which distorted fund revenues, expenditures, and fund balance.

Recommendation:

We recommend that the bureau account for interfund payables and receivables on an accrual basis; and that it write off or reclassify balances, as appropriate.

Auditee Response:

We agree with your recommendation.

(223) Bureau of Accounts and Control (A & C)

Finding: Inadequate review of journal vouchers

The Bureau of Accounts and Control processed journals which either lacked approval signatures or were approved by the person who had prepared the journal.

Journal entry errors have required numerous corrections. Undetected errors have caused misstated financial statements. Supervisory reviews would have prevented some of the errors and the need for rework.

Recommendation:

We recommend that the Controller assign a knowledgeable individual to review and approve all material journal entries. We also recommend that a second individual from the originating agency approve all material entries.

Auditee Response:

Agency prepared journals will be approved by a second employee in the future.

(224) Bureau of Accounts and Control (A & C)

Finding: General Fund account balances incorrectly carried forward

Of twenty-five accounts sampled we noted that the Bureau of Accounts and Control carried forward three General Fund account balances totaling $202,317 without the legal authority to do so. According to Title 5, MRSA Section 1544, "The balances of all revenue and appropriation accounts not otherwise provided for by law...shall be closed to (the unappropriated surplus account) at the end of each fiscal year."

Recommendation: We recommend that the bureau maintain a current record of those accounts that, by law, are non-lapsing; and that it review the record prior to lapsing or carrying forward General Fund account balances.

Auditee Response:

More efforts are being devoted in this area.

---

(225) Bureau of Accounts and Control

Finding: Accrued vacation hours recorded inconsistently

Agencies within state government recorded accrued vacation hours inconsistently in that some agencies prorated vacation hours for less than the completed full months of employee service. Consequently, inconsistent recorded amounts formed the basis for paying unused vacation hours to employees who terminated state service. In addition, two departments paid terminated employees for unused personal days. There is no policy in bargaining unit contracts regarding payment for unused personal days.

Central recording of accrued vacation hours using the Maine Financial and Administrative Statewide Information System (MFASIS) accrued leave module could correct inconsistent recording of accrued vacation hours.

Recommendation:

We recommend that the bureau implement the MFASIS accrued leave module as soon as possible.

Auditee Response:

We agree that inconsistent application of vacation accrual policy exists between agencies. This was evident when the MFASIS systems were being developed and was a factor in deciding not to attempt *to incorporate this function into the systems at that time.*

We further agree that the central recording of accrued vacation hours could correct inconsistencies. However, during this period of limited budget resources, this Bureau cannot afford the substantial systems development cost to automate this function for all state agencies. the individual agencies that appear to be inconsistent with the norm should be so informed. We would be pleased to assist the Audit Department in working with those agencies to correct their practices.

---

(226) Bureau of Accounts and Control

Finding: Security of check signature plates (Prior Year Finding)

Check signature plates in the possession of the Bureau of Accounts and Control are stored in an unlocked area within a vault that is open during the day. Unauthorized personnel can access the plates.

Recommendation:

We recommend that the plates be stored within a locked area of the vault.

Auditee Response:

This finding has been repeated for several years. Check signature plates are of no value without checks and check signing equipment. Checks are controlled and accounted for daily by the Department of Treasury, the Bureau of Data Processing and the Bureau of Accounts and Control. The check signing equipment is in a secured, limited access location within the Bureau of Data Processing. We do not believe any additional security measures are required.

Auditor's Concluding Remarks:

We believe that the bureau will not incur any additional cost by implementing the recommendation. Doing so may prevent disruption of check processing services should the plates be misplaced. We also note that blank checks are occassionally stored in the same location as the signature plates.

---

(227) Bureau of Accounts and Control

Finding: Non-payment of interest

Title 7 MRSA § 3154, 4 states:

> Interest earned on over-order premiums paid into the Maine Milk Pool...shall be credited to the pool. At least annually, the commissioner shall pay accrued interest on an equal basis to eligible Maine market and Boston market producers.

The Maine Milk Pool is not earning interest and the Maine Milk Commission is not paying interest to eligible Maine and Boston market producers whose dealers are paying over-order premiums into the pool.

Recommendation:

Although the interest amounts are not significant since the funds are held for a short time period, we recommend that the Bureau of Accounts and Control coordinate with the Department of Agriculture and the state Treasurer's office to set up correct account codes for recognizing over-order premiums and the accrued interest on them in the Maine Milk Pool. We further recommend that the Maine Milk Commission pay this interest to the eligible producers as required by state statutes.

Auditee Response:

We are in agreement and will institute the change in July.

(228) Bureau of Accounts and Control

Finding: No centralized documentation of interagency transactions (Prior Year Finding)

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:

It was our understanding that the Audit Department agreed with the current practice. We would be *pleased to discuss this practice further.*

---

(229) Bureau of Alcoholic Beverages

Finding: Incorrect inventory valuation (Prior Year Finding)

The Bureau of Alcoholic Beverages uses a "current cost" method for establishing inventory value. 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:

We agree with the recommendation and had a study done by the Bureau of Data Processing. Their recommendation is to replace our obsolete data processing system. We are evaluating this and looking at the cost benefit as well as the effect on operations that would result from down-sizing the bureau. We will make every effort to institute a generally accepted method of accounting for inventory that utilizes the latest computer technology.

---

(230) Bureau of Alcoholic Beverages

Finding: Agency stores submitted blank checks (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 orders.

Auditee Response:

The bureau agrees and share's the concern over internal control. We recommended legislation (which passed) that allowed establishment of an agency escrow system. We established the system but it is *not working: agencies do not care to deposit funds in the escrow account; they prefer to use the endorsed check method. The current legislation makes the use of the escrow account voluntary, but requires payment for goods at the time of shipment.*

In addition, we would draw the auditor's attention to the following facts: the endorsed checks method has been utilized since 1976 and there have been two recorded instances of incorrect amounts credited to agencies that were due to clerical error. There have been no reported acts of fraud or misappropriation of funds. After review of the pertinent data, resistance to escrow, expected revenue loss, and success of the endorsed check method, the bureau will continue to utilize the check method while encouraging agencies to join the escrow system.

(231) Bureau of Alcoholic Beverages

Finding: Complexity of liquor pricing

The process of determining retail prices for liquor is a complex, time consuming process involving eleven manually performed mathematical steps for each size bottle of liquor in the inventory. Specific steps differ depending on where the liquor was bottled, where the liquor was purchased, where the liquor was sold and the type of liquor.

A total of 1582 items are shown in the June 29, 1991 inventory. In fiscal year 1991 the price of most items was computed four times. The Merchandising Division supervisor estimated that 224 hours per year, or 11% of annual work hours, are spent developing liquor prices.

Recommendation:

We recommend that the bureau develop a less complex pricing formula and incorporate computer technology.

Auditee Response:

We agree that the pricing formula is complex. The bureau commissioned a study of pricing by the University of Maine. The report concluded that, although the pricing formula is complex, alternate methods of pricing would lead to disruptions in operations that could adversely affect revenues due to the elasticity of demand of alcoholic beverages. Of the eleven calculations in the pricing formula, seven are required by legislation, three are rounding, and one is the profit mark-up. Due to the legislative requirements, it will be impossible to reduce the complexity of the pricing formula.

The second part of your recommendation, that related to computer technology, has been addressed by the bureau. The Bureau of Data Processing (BDP) has completed a review of our management information systems. BDP concluded that a complete revamping of these systems is warranted. The bureau is currently reviewing the costs and benefits of implementing new systems in relation to our efforts to down-size the bureau's operations through privatization.

(232) Bureau of Alcoholic Beverages

Finding: Liquor in transit not in inventory

Liquor which does not sell in certain liquor stores is sometimes transferred to the Kittery store to enhance the likelihood of sale. When liquor is transferred from one store to another it does not appear on the state's liquor inventory.

Recommendation:

We recommend that the bureau establish procedures to ensure that liquor in transit between stores is included in the state's liquor inventory.

Auditee Response:

The bureau agrees that merchandise in transit between stores is dropped from the inventory. However, due to the current inventory software, we do not have a simple method of correcting this item. During the audit year the volume of these inter-store transfers was significantly increased by the shrinkage of inventory due to the bureau's reduction in working capital. Items that were deleted from inventory were transferred to high volume outlets in order to minimize the shelf time. The bureau requires the store that orders the merchandise to debit its inventory.

When goods are transferred, the losing store fills out Form 110 debit/credit voucher. One copy goes with the merchandise. It also completes Form 123 inter-store transfer slip. One copy is sent with merchandise; one copy goes to accounting; one copy to the bureau and one is retained at the store. The losing store runs the debit memo through the automated inventory system which removes the item from inventory and the merchandise is sent to the gaining store. At the gaining store Form 119 is completed and the form 123 that arrived with the merchandise is annotated. The Form 119 and completed Form 123 are sent to accounting where the information from the losing and gaining stores are compared and reconciled. We have adequate verbal and written procedures in place to ensure that the transit time is kept to a minimum.

(233) Bureau of Alcoholic Beverages

Finding: Misstatement of 1991 fiscal year-end liquor inventory

The fiscal year-end 1991 liquor inventory shown in state accounting records and in the bureau's financial statement is understated by $336,951. As a result, net income is understated by that amount. Therefore, net income transferred to the General Fund at June 30, 1991 was understated by the same amount.

Recommendation:

We recommend that the bureau (a) institute procedures to ensure the correctness of the fiscal year-end liquor inventory; and (b) transfer the additional net income from fiscal year 1991 operations to the General Fund.

Auditee Response:

We agree with the auditor's finding and have, with the aid of the Bureau of Data Processing, identified an internal software edit that caused the understatement. The program has been corrected and it is our opinion that this should not recur. The understatement at June 30, 1991 is self-correcting in fiscal year 1992, i.e., overstatement of fiscal year 1992 income.

(234) Lottery Commission

Finding: No year-end detailed accounts receivable listing at available

No detailed accounts receivable (A/R) listing for instant ticket vendors at June 30, 1991 is available. Due to the methods used, transaction details and A/R balance, by ticket vendor, are prepared and are available on either a weekly or bi-weekly basis. However, no A/R detail using a common cut-off at year-end for all ticket vendors is prepared. Consequently, precise verification of reported A/R balances is hindered and involves lengthy and cumbersome procedures.

Recommendation:

We recommend that arrangements be made to generate a common cut-off A/R listing, detailed by ticket vendor, at year-end.

Auditee Response:

The system has a report which is called an open items which is used for internal control in balancing the system on a daily basis. This is a trial balance of amounts due at a give point in time. Because of the timing differences and aging process used by the system, these reports are not recommended for posting entries.

(235) Bureau of Taxation

Finding: Incorrect documentation used to record a receivable/payable for Insurance Premium Tax

The entry to record insurance premium taxes receivable is made from the cash receipt statement on the Controller's records and from the tax form when recording on the individual ledgers. This results in differing amounts recorded on the department's and the Controller's records. The amount of the receivable/payable is not known.

Recommendation:

We recommend that the Bureau of Taxation total the dollar amount of the ledger cards and officially record the amount.

Auditee Response:

This finding discussed the impropriety of the documentation used to record a receivable/payable for the insurance premium tax. A review of the bureau's manual accounting system indicates that a cash system is employed. The Controller determines revenue from daily cash receipt statements. The bureau reviews the tax returns and their associated payment against the cash receipt statements to ensure agreement. The necessary detail is then recorded to a ledger card.

No running balance of receivables, either debit or credit, is calculated nor are receivables reported to the Controller. The current system is a cash system which will be replaced when it is computerized. A check of the Controller's records indicated a credit receivables balance. Since it should be zero the account is being reviewed; already a miscoded entry has been found which reduced the balance from <$366,640 to about <$17,000. The account will be further studied until a zero balance is established.

---

(236) Bureau of Taxation

Finding: Independence of Taxation Audit Division's revenue agents (Prior Year Finding)

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 neither 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:

This finding is essentially the same as reported in the 1990 FY audit. Last year we agreed to prepare a written policy on conflicts of interest which was to be provided to audit personnel and incorporated in the audit manuals. Unfortunately, this effort was accorded a very low priority as a result of significant staff reorganizations, expansions and increased expectations of productivity. We reaffirm our commitment to establish such a policy and will provide you with a copy by September 1992.

(237) Finding: MFASIS does not provide for direct posting of cost of sales expenses

MFASIS provides for cost of sales expenses in an account group that the budget process does not provide allotments for. Therefore, payments of cost of sales expenses must first be charged to an account for which allotment exists and then be transferred, by journal entry, to the cost of sales classification.

Current practice duplicates efforts and increases the possibility for error due to incorrect posting.

Recommendation:

We recommend that the department establish procedures which will permit recording cost of sales expenses directly to the appropriate accounts within MFASIS.

Auditee Response:

The current procedure allows for control of allotment.

(238) Finding: Automatic special pay adjustments

The MFASIS payroll system does not automatically adjust special pay hours to equal regular hours worked.

Normally, employees work 80 hours in a bi-weekly period. If an employee works less than 80 hours, agency payroll personnel must enter the reduced regular work hours and also enter reduced work hours for any special pay earned. MFASIS does not have an edit check to ensure that work hours agree between pay screens.

All employees currently receiving regular bi-weekly wages are subject to work hour fluctuations which increase the volume of adjustments and the potential for error.

Recommendation:

We recommend that the Department of Administrative and Financial Services direct the Bureau of Accounts and Control-Payroll Division to develop an edit check so all regular hours and special pay hours are equal.

Auditee Response:

Agency did not respond.

---

(239) Finding: Redistribution of earnings violates Maine Constitution

On June 14, 1991 the Treasurer and Controller, acting jointly, prepared a $95,766 journal voucher "...to charge the Maine State Retirement System its share of take back adjustment of cash pool earnings from January and February 1991, as required by Chapter 9, Public Laws, 1991." Essentially, this changed the method of distributing cash pool earnings, applied retroactively, to funds/agencies participating in the Treasurer's Cash Pool.

The change in the method of distributing cash pool earnings is a policy change and not a correction of an error. When earnings for January and February 1991 were originally credited to participating funds/agencies, they became assets of those funds/agencies. Because there was no error in the method of calculating and distributing earnings title to those assets was rightfully transferred to the respective funds/agencies involved.

Article IX, Section 18 of the Constitution of the State of Maine, states, in part, "All of the assets, and proceeds or income therefrom, of the Maine State Retirement System...shall not be encumbered for, or diverted to, other purposes". As a result, the takeback adjustment for January and February 1991 violated this Constitutional provision.

Recommendation:

We recommend that the Treasurer and the Controller, acting jointly, prepare a journal to transfer the amount of the takeback adjustment from the General Fund to the Maine State Retirement System.

Auditee Response:

It was the opinion of the state Treasurer that prior distribution of earnings was not proper.

---

(240) Finding: Internal control weaknesses in petty cash funds

A review of the Department of Human Services (DHS) regional petty cash funds revealed the following operational weaknesses.

Regions 1 and 2 did not use petty cash vouchers. The custodian for the petty cash fund approves the disbursement of funds. Region 2 did not use a ledger to account for transactions.

Recommendation:

We recommend that DHS require petty cash vouchers, establish procedures, and monitor fund operations.

Auditee Response:

....There are two distinct types of accounts typified as petty cash funds by auditors:

1. *Regionsl Petty Cash*
2. *Regional Checking Accounts*

These are dramatically different and, consequently, are managed differently.

The Regional Petty Cash consists of $285 each in Regions I, III, and IV, $280 in Region II, and $282.50 in Region IV, for a combined total of $1,417.50. In most regions, subportions are re-allocated to sub-offices. At this time, the primary utilization involves paying "postage due". It is also permissible to utilize these monies to replace broken keys on an emergency basis, or to respond to other unusual non-client, administrative emergencies. Receipts are collected to enable funds to be replenished. In the case of "postage due", the "postage due" stamped portion of the envelope is retained as a receipt. On a monthly basis each Region submits to the Director, Division of Regional Administration a monthly report relating to Regional Petty Cash. In the past, there was a simple log utilized to record payments from petty cash. This form will again be utilized by all Regions, starting immediately. Given the "petty" nature of this area, the Department cannot justify and does not have the resources to develop and maintain a more sophisticated authorization, voucher, issuing, approval, or ledgering system, involving more than one individual per office.

The Regional Checking Accounts are dramatically different than the Regional Petty Cash. The Regional Checking Accounts consist of $10,000 in Region I, $8,000 in Regions II, III, and V, and $12,000 in Region IV, for a combined total of $46,000. In this case, formal accounting protocol has been in place for some time. The definition/intended purpose is specified, written authorizations are required, formal invoices are utilized, claims are carefully pre-audited, checks are written by an account clerk and signed by a second person, formal computerized accounting systems are utilized, records are retained in accordance with State Archives requirements, accounts are reconciled, etc. Therefore, the Department strongly objects to the audit findings and recommendations as may involve the Regional Checking Accounts.

Department of Human Services (cont.)

(241) <u>Finding</u>: Weaknesses in control over public guardianship/conservatorship fund accounts

A review of the Department of Human Services (DHS) public guardianship/conservatorship fund accounts revealed internal controls weaknesses.

1. Prenumbered receipts are not issued for cash deposits to client accounts.

2. The account custodian deposits cash transactions into each client's bank account. Cash receipts are not locked in a money bag or otherwise secured when brought to the bank.

3. Custodians both write checks and reconcile bank accounts.

4. DHS custodians at the central office and at the regional offices maintain individual checkbooks for each client. The central office custodians maintain 203 checkbooks; Region 2 personnel maintain 19. For each client, the custodians must prepare individual bank deposit slips and also must post transactions to a separate computer record.

5. Banking arrangements such as interest rates and service charges differ among the many clients' accounts.

6. Our review of three checking account transactions at Region 2 revealed that there were no approval requests and receipts for one client's spending transactions.

<u>Recommendation</u>:

We recommend that DHS regional offices follow procedures outlined in the Financial Resources Specialist Policy and Procedure Manual.

Also, we recommend that the department review the public guardianship/conservatorship fund accounting operation for the purpose of adopting an efficient system such as the "One Write" system. This system has one central checking account at each location and allows cash entries to be deposited on one bank deposit form. In addition, to improve internal control and to reduce the risk of unauthorized use of client funds, DHS should segregate the duties of receipts, deposits, and bank reconciliations. The department should also be able to obtain better financial arrangements with one large checking account and eliminate some types of services charges.

<u>Auditee Response</u>:

The Department's Regional Managers for Administration/Business Mangers will review with the Financial Resource Specialists the procedures outlined in Section VIII of the Financial Resources Specialist Policy and Procedure Manual to insure that all staff adhere to specified protocol. The Central Office Director of Budget and Fiscal Operations will review this with Central Office Account Clerks.

The Department....has been exploring the consolidation of its several hundred public guardianship/

conservatorship checking accounts into a single account. The DHS Division of Data Processing developed a method to handle this utilizing in-house systems. However the Bureau of Elder and Adult Services, which is ultimately responsible for this program, has been exploring a possible RFP to utilize other computer software for a "stand-alone" system...The Department will renew its effort to insure that bank reconciliations are not performed by the same individual who handles receipts, deposits, and payments.

---

(242) Division of Financial Services

Finding: Accounts receivable not established

One of the objectives of adequate internal control is to maintain accountability for assets. The Department of Human Services (DHS) Audit Division is responsible for auditing all DHS subcontracts and subgrants that require audits. These audits identify amounts due the state from grant overpayments and disallowed costs. Currently, the department has not established amounts due as accounts receivable.

Recommendation:

In order to strengthen control over amounts due the state we recommend that the department establish an accounts receivable on the records of the Controller. We also recommend that the department establish an allowance for uncollectible accounts.

Auditee Response:

As part of the process to establish better control over audit settlements, we will be looking to incorporate this into our new policy and procedures.

---

(243) Bureau of Income Maintenance

Finding: Duplicate inclusion of revenue and expenditures

The Department of Human Services (DHS) paid the Department of Labor (MDOL) $602,542 for services rendered during fiscal year 1991. This amount was reported as an expense in DHS accounts and as a receipt and expenditure by MDOL thereby duplicating receipt and expenditure entries.

Recommendation:

We recommend that DHS correctly identify revenue transfers.

Auditee Response:

The enabling legislation of the ASPIRE program mandated that the Bureau of Income Maintenance contract with the MDOL as well as private non-profit members of the Job Training System. At the inception of the program, the MDOL made a concerted effort to have funds transferred by quarterly advance to their accounts.

This proposal was rejected by the Bureau of the Budget for two reasons:

1. The funds were appropriated to DHS and therefore payments needed to be made by DHS; and,

2. The Bureau of the Budget does not provide advances but only reimburses actual expenditures.

Therefore, a different system had to be developed whereby MDOL was given access to DHS accounts established exclusively for their use. Payments made to or on behalf of ASPIRE participants by MDOL were charged to/paid directly out of these special DHS accounts.

Effective March 1991, the ASPIRE service delivery system was changed and many of the responsibilities formerly lodged with MDOL were transferred back to DHS. As of that date the above finding should no longer apply.

(244) Bureau of Income Maintenance

Finding: Transfer exceeds the maximum expenditures allowed by state law

The federal government authorizes the state to retain a portion of the federal share of child support collections assigned to the Aid to Families with Dependent Children (AFDC) program. Title 19, MRSA Section 514 requires that these incentive funds be used to reduce the state's share of assistance payments except for a maximum of $2,654,000 which may be used for administrative costs of the collections unit. In fiscal year 1991, the department transferred a total of $2,853,000 to the collection unit, or $199,000 more than was authorized.

Recommendation:

To ensure compliance with state law, we recommend that the department limit the transfer of funds to the amount legally authorized for expenditures. We also recommend that the collection unit return the excess amount transferred.

Auditee Response:

Department of Human Services concurs with audit findings. A correcting journal has been completed to correct the above finding.

(245) Bureau of Income Maintenance

Finding: Food stamp overpayment recoveries (Prior Year Finding)

Public Law 1991, Chapter 9 mandated, "Any money recovered by the department as a result of the overpayment of food stamps must be deposited to the General Fund...." This includes any money up to a maximum of $81,475 recovered prior to March 14, 1991, the date of the emergency legislation.

Although the department journaled $81,475 to the General Fund, recoveries continue to be deposited into the dedicated revenue account. We identified $15,990 of recoveries erroneously deposited in dedicated revenue from March 14, 1991 through the fiscal year-end June 30, 1991 and an accumulation of $40,775 through January 1992.

Recommendation:

We recommend that the department journal or deposit food stamp recoveries into the General Fund that were collected concurrent with and after the effective date of the legislation.

Auditee Response:

The Department of Human Services concurs with audit findings. A correcting journal has been completed to transfer funds to the General Fund in accordance with the recommendation. Memo has been issued to the proper personal to prevent future errors.

(246) Bureau of Medical Services

Finding: Prescription drug co-payment not according to statute

During fiscal years 1990 and 1991, the Bureau of Medical Services required a co-payment of 75¢ per prescription from Medicaid recipients rather than the 50¢ authorized by Title 22, MRSA §3173-C. Public Law 1989 Chapter 501, the Supplemental Appropriations and Allocations Act, provided for the deauthorization of General Fund monies for medical care payments to providers by increasing the co-payment by 25¢. Although the legislative intent to revise the co-payment amount is evidenced by the explanatory note accompanying the deappropriation, the authorized fee stated in 22 MRSA was not revised.

Recommendation:

We recommend that the Bureau of Medical Services take appropriate action to correct 22 MRSA §3173-C to reflect the appropriation bill language.

Auditee Response:

The recommended corrective action would be undertaken if it weren't for the increase in prescription drug copayment from $.75 to $1.00 for generic and $2.00 for brand name drugs that became effective on November 4, 1991 with the implementation of paragraph P-10, Chapter 591, Public Laws 1991. Since the copayment is no longer $.75 there would be no basis or significance to accomplishing the recommended action.

The copayment language was amended even further in Public Law 780, effective April, 1992. The Appropriations Committee deliberately left out any reference to T22 §3173-C intending that unless copayments were extended by statute they would revert to the original $.50 as stated in the statute.

Department of Inland Fisheries and Wildlife

(248) Finding: Poor internal control over capital equipment

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.

Our review of capital equipment at the Department of Inland Fisheries and Wildlife revealed:

1. The last complete physical inventory was in 1990;
2. The department did not complete the capital equipment reconciliation from 1989 through 1991 fiscal years, and has not completed an equipment report since the third quarter of fiscal year 1989;
3. Sixteen of twenty-five capital equipment items inventoried did not agree with the with the records;
4. The same person records, purchases and receives capital equipment items.

Recommendation:

We recommend that the Department of Inland Fisheries and Wildlife bring capital equipment records up to date and establish adequate internal controls.

Auditee Response:

We agree in general with your findings and have already taken steps to ensure compliance with your recommendations.

(249) Office of Administrative Services

Finding: Transfers of cash not timely

Title 26, MRSA §1164 authorized all interest, fines and penalties which are collected from the delinquent payment of unemployment payroll taxes to be transferred from the unemployment compensation clearing bank account to the special administrative expense fund.

At June 30, 1991 penalties and interest transfers due the special administrative expense fund totaled $325,000. This amount represents cumulative transfers from September 1990 through June 1991. The transfers had been properly recorded on the Controller's accounting records; however, the cash had not been transferred from the unemployment compensation clearing bank account to the state's demand deposit account.

Title III, §303(a) of the Social Security Act requires employer payments to be immediately deposited with the U.S. Treasury Department in the Unemployment Trust Fund under the state's account.

At June 30, 1991, direct reimbursements due the unemployment compensation clearing bank account totaled $1.2 million. This amount represents cumulative transfers from November 1990 through May 1991. The transfers had been properly recorded on the Controller's accounting records; however, the cash had not been transferred between the state's demand deposit account and the unemployment compensation clearing bank account.

Recommendation:

We recommend that transfers between the state's demand deposit account and the unemployment compensation clearing bank account be transacted on a timely basis.

Auditee Response:

We recognize the importance of timely bank account transfers and have made it a requirement that they be accomplished no later than five working days after the close of the month.

(250) Office of Administrative Services

Finding: Unemployment compensation benefit bank account not reconciled promptly

The June 1991 bank reconciliation for the unemployment compensation benefit bank account was not completed until September 26, 1991. In addition, it included several reconciling items that had been outstanding for the prior twelve months. These items were transfers affecting both the unemployment compensation benefit bank account and the state's demand deposit account. Net transfers due the unemployment compensation benefit account at June 30, 1991 totaled $365,000.

Recommendation:

We recommend that personnel promptly reconcile the bank statements for the unemployment compensation benefit and clearing bank accounts. Any outstanding items on the reconciliations should be investigated and promptly resolved.

Auditee Response:

We understand the importance of account reconciliations and will make sure this function is completed no later than thirty days after the close of an accounting period. Outstanding items will be investigated and resolved within that period.

---

(251) Bureau of Employment Security

Finding: Accounts receivable detail and control records do not agree (Prior Year Finding)

A review of the unemployment compensation payroll tax receivable records revealed a difference of $21,831 between the aging of accounts report and the accounting control report, as of June 30, 1991.

The bureau did not correctly format the aging of accounts report so that it could provide current data. Subsequent to the audit period, MDOL personnel correctly formatted the report.

Recommendation:

We recommend that MDOL maintain appropriate detail receivable records for unemployment compensation payroll taxes and reconcile the detail to the control total on a quarterly basis.

Auditee Response:

The aging of receivables for employer accounts is a component of the rewrite of the tax database on the mainframe computer. It is expected that this project, begun in 1990, will be completed by June 30, 1993. The scope of this project requires mainframe programming and anticipated PC database software would not be feasible.

---

(252) Bureau of Employment Security

Finding: Inadequate records of employer's surety deposits (Prior Year Finding)

The Commissioner of the Maine Department of Labor (MDOL) may require surety deposits if employers elect the direct reimbursement method of providing unemployment benefits in lieu of payment of the 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.

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.

Auditee Response:

The U.C. Tax Section has obtained personal computers and DBase IV software and plans to design a PC application to monitor the amount of sureties required and actually filed by direct reimbursing employers. As discussed with the auditors at the exit conference of May 5, 1992, records of sureties should be reconciled annually to the physical inventory of sureties located in the state Treasurer's office. Once the reports are generated, the Maine Department of Labor will reconcile them with the original surety documents on file with the Treasurer.

(253) Office of Information Processing

Finding: No background checks for computer personnel

Formal background checks are not performed on candidates for positions in the Office of Information 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 recommend that the Office of Information Processing perform background checks on all new employees and review backgrounds at appropriate intervals.

Auditee Response:

This recommendation is currently being explored with the Bureau of Information Services.

(254) Office of Information Processing (OIP)

Finding: Lack of Electronic Data Processing (EDP) contingency plan

The Office of Information Processing does not have a formal contingency plan which would provide alternate data processing capabilities should the data processing facility be destroyed or deemed inoperable.

An EDP contingency plan would assist the Job Service Division in providing continuous service to job seekers and help to ensure the prompt payment of unemployment benefits.

Recommendation:

We recommend that OIP implement a contingency EDP plan. Further, we recommend that OIP test the plan to ensure that the backup systems are capable of providing the data processing services required.

Auditee Response:

The development of a Disaster Recovery Plan is currently underway in Information Processing.

---

(255) Bureau of Labor Standards

Finding: Incorrect computation for occupational health and safety assessments

Title 26, MRSA §61 requires the Commissioner of the Department of Labor to assess and collect from self-insured employers and insurance carriers licensed under the state's workers' compensation laws an amount based on a percentage of benefits paid during the previous calendar year. The assessment for fiscal year 1991 was based upon benefits paid in 1988. The assessment should have been made on a percentage of benefits paid in calendar year 1989.

Use of 1989 benefit figures to determine the state's share of the assessment would have increased the state's assessment by $7,763.

Recommendation:

We recommend that the bureau compute the assessment amount based on the previous calendar year benefits paid as required by 26 MRSA § 61.

Auditee Response:

The data that the Safety Education and Training Fund assessment is based on is provided by the Bureau of Insurance. This data takes some time to compile and is not available until well into the *fiscal year. Therefore, the bureau has adopted the policy of using the most current year available that has not had an assessment made against it. The bureau will only be able to change when systems are available that will provide the data prior to the start of a fiscal year. The 1989 data referenced in the finding was used as the basis for the fiscal year 1992 assessment.*

Maine State Library

(256) Finding: Insufficient and outdated contracts

The Bangor and Portland Public Libraries perform Area Reference and Resource Center (ARRC) services for local library patrons.

Contracts exist between the Maine State Library and the public libraries which outline ARRC services to be performed. The Commissioner of the Department of Educational and Cultural Services signed the contract with the Bangor Public Library in January 1980. The Maine State Library is no longer an agency under that department. The contract discloses no monetary value. The contract with the Portland Public Library was not signed but disclosed a monetary value of $10,000 for fiscal year 1974. No future monetary value was disclosed.

Recommendation:

We recommend that the State Librarian negotiate new contracts with the Bangor and Portland Public Libraries for ARRC services following guidelines contained in Executive Order 12 for fiscal year 1989 and chapter 110, State of Maine Purchasing Manual.

Auditee Response:

New contracts are presently being negotiated with the Bangor and Portland Public Libraries for ARRC services.

Department of Mental Health and Mental Retardation

(257) Augusta Mental Health Institute (AMHI)

Finding: Poor internal control over capital equipment

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

We found the following at the Augusta Mental Health Institute:

1. The last AMHI complete physical inventory was in 1990;

2. The department did not complete the capital equipment reconciliation form or the quarterly equipment reports for the 1991 fiscal year;

3. AMHI could not provide detail equipment records which reconciled to the June 30, 1990 Reconciliation Report; and

4. Thirteen of twenty-five capital equipment items inventoried did not agree with the records.

Recommendation:

We recommend that Augusta Mental Health Institute:

1. Enter all capital equipment transactions to the inventory records for the 1991 fiscal year;

2. Perform a complete physical inventory;

3. Reconcile the physical inventory to the detail equipment cards;

4. Provide detail equipment records at the end of each quarterly report and reconcile totals to the control cards;

5. Submit the quarterly equipment reports and the capital equipment reconciliation to the Bureau of Public Improvements; and

6. Maintain all equipment records on a current basis.

Auditee Response:

Agency did not respond.

(258) Bureau of Mental Retardation

Finding: Lack of statewide procedures for Representative Payee accounts (Prior Year Finding)

1. Regions 2 to 5: There is no supervisory review of monthly bank reconciliations; pre-numbered receipts are not issued for funds to be deposited to the Representative Payee accounts.

2. Regions 3,4 and 5: Each office used the state petty cash fund for unauthorized disbursements by making loans to Representative Payee Fund clients: Region 4 had seven loans from July 1991 to April 27, 1992; Region 5 had two loans from February 3, 1992 to April 27, 1992; and Region 3 had several during fiscal year 1991.

3. Regions 4 and 5: Two offices have weak controls for securing deposits and safeguarding unused check stocks.

4. Region 4: The Representative Payee Fund checking account was last reconciled February 1992.

5. Region 5: The Representative Payee Fund checking account was last reconciled for May 1991; interest had not been posted to the client disbursements register for six months.

Recommendation:

We recommend that the Department of Mental Health and Mental Retardation: a) maintain the regional Representative Payee records on a current basis; b) perform bank reconciliations monthly with supervisory review; c) control cash receipts deposits and unused check stocks in regions 4 and 5; and d) restrict use of state petty cash funds to authorized purposes.

Also, we recommend that the department establish written procedures for handling Representative Payee receipts, disbursements, and accounting records. In addition, we recommend that the department monitor the accounting functions relating to the Representative Payee accounts to ensure that each regional office complies with the written procedures.

Auditee Response:

Agency did not respond.

(259) Bureau of Mental Retardation

Finding: Uninsured deposits (Prior Year Finding)

Title 12 CFR, §330 defines the regulations regarding deposit insurance coverage by the Federal Deposit Insurance Corporation (FDIC). Section 386.2b indicates that including the word "custodial" as part of the bank statement description would fulfill present FDIC insurance requirements for balances exceeding $100,000.

Four Representative Payee bank accounts were not fully insured because balances exceeded the maximum amount insured FDIC.

At June 30, 1991 the regional offices with account balances over $100,000 were:

Region 2	$195,744
Region 3	314,188
Region 4	189,369
Region 5	240,881
Total	$940,182

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 change should provide depository insurance coverage on each owner's fractional share of the total commingled funds.

Auditee Response:

Agency did not respond.

(260) Bureau of Mental Retardation

Finding: Petty cash funds internal control weaknesses

A review of the Bureau of Mental Retardation's petty cash funds revealed the following weaknesses in internal control.

1. lack of separation of duties: a) reconciliations performed by person who prepares checks; b) vouchers approved by same person who prepares checks;

2. lack of supervisory review of reconciliations;

3. checks outstanding for a year;

4. account balance exceeded authorized amount;

5. unauthorized loans to clients;

6. unauthorized disbursements to clients;

7. checkbook not secure;

8. reconciliations not timely;

9. checkbook and ledger did not agree; and

10. checking account did not reconcile to the authorized amount.

Recommendation:

We recommend that the Department of Mental Health and Mental Retardation review the petty cash accounting system; and establish procedures for handling petty cash funds. In addition, the department should monitor the accounting functions relating to the petty cash fund to ensure that each regional office complies with the written procedures.

Auditee Response:

Agency did not respond.

---

(261) Pineland Center

Finding: Noncompliance with workers' compensation reporting requirements

The Workers' Compensation Bulletin No. 6 states,

> that the Injury Report...should be completed immediately upon notice or knowledge of a work related injury....Particular attention should be paid in answering all questions and providing sufficient information to enable anyone not familiar with the injury to be able to understand the sequence of events and the nature of the injury.

Our review of two workers' compensation case files revealed that the section of the Injury Report to be filled out by either the employee's supervisor or department head was not completed. Another Injury Report was not completely answered.

Recommendation:

We recommend that Pineland Center complete all questions on the Injury Report according to requirements established by the Workers' Compensation Commission.

Auditee Response:

The Workers' Compensation reporting of injury procedures has been corrected. Forms that are incomplete are referred to the appropriate supervisor to be completed.

(262) Pineland Center

Finding: Poor internal control cash procedures

Our review of state petty cash fund control procedures revealed:

1. The center has not reconciled the petty cash fund and related records since December 1990; and
2. Petty cash fund reconciliations have not been performed by someone independent from the custodian.

In addition, our review of deposit procedures revealed that business office personnel deposit state funds.

Recommendation:

We recommend that Pineland Center:

1. Reconcile the petty cash fund promptly;
2. Assure periodic reconciliation of the petty cash fund by someone independent from the custodian or have supervisory review and approval of reconciliations; and
3. Assure that persons who deposit state cash receipts do not also perform cashier and general ledger functions.

Auditee Response:

The cashier reconciles petty cash on a weekly basis and will continue to do so. The supervisor will review and approve reconciliations of the petty cash fund. Other personnel within the financial area who do not perform cashier duties will be depositing funds off-grounds at a local bank.

(263) Pineland Center

Finding: Inadequate segregation of duties

One individual is assigned responsibility for purchasing, accounts payable, initial voucher preparation, and reconciliation of vendors' month-end statements.

Recommendation:

We recommend that the Center segregate purchasing from the accounts payable function. We also recommend that it segregate reconciliation of vendors' month-end statements and voucher preparation.

Auditee Response:

Procedures have been instituted that separate the purchasing from the accounts payable function. At the time of the audit, two individuals from the Business Office were out on leaves of absence, making it necessary for one individual to perform both functions.

---

(264) Pineland Center

Finding: Accounting for locally handled funds

The Center does not properly account for locally handled funds. Our review of these funds, which are intended for the benefit of or belong to the residents, revealed:

1. The Adult Day Activity Center checking account was not current nor reconciled;

2. The Gazebo checking account was not current nor reconciled. In addition, the staff member who maintains the account records also performs the monthly bank reconcilations; and

3. For all of the other bank accounts, reconciliations were performed without comparing dates and amounts of daily deposits on the bank statement with the cash receipts journal. In addition, reconciliations were also performed without comparing the number, date, payee and amount of canceled checks with the disbursements journal.

Recommendation:

We recommend that the Center reconcile checking accounts monthly and segregate accounting duties for these funds. We also recommend that it compare dates and the amounts of daily deposits on the bank statements with the cash receipts journal; and compare the number, date, payee and amount of canceled checks with the disbursements journal.

Auditee Response:

We are reconciling checking accounts monthly. The accountants are comparing dates and other information on the checks with the bank statements.

---

(265) Pineland Center

Finding: Inadequate segregation of payroll duties

The Center's payroll clerk prepares the payroll and maintains the time records.

Incompatible functions for accounting control purposes are those that in the normal course of duties place any person in a position to perpetrate and conceal errors or irregularities. Time-keeping and payroll processing functions are incompatible.

Recommendation:

We recommend that the Center segregate the duties for payroll preparation and time records. At a minimum, it should have supervisory review and approval of these functions.

Auditee Response:

The timekeeping and payroll functions have been separated, allowing the payroll clerk to prepare only the payroll.

---

(266) Pineland Center

Finding: Noncompliance with statutes

The Pineland Center accepted a gift of $1,000 to be used for the benefit of Pineland residents. The amount was unrestricted and invested in a certificate of deposit with the interest earned to be used for the welfare of clients living at the center. This certificate of deposit is not in the custody of the state Treasurer.

MRSA, Title 5, §311 requires departments or agencies to pay immediately to the treasury any monies which are collected or received from any source and which belong to the state or are for the state or any department or agency's use.

Recommendation:

We recommend that the Center transfer the certificate of deposit and any accumulated interest to the Treasurer in order that these funds can be held in trust by the state.

Auditee Response:

The certificate of deposit and accumulated interest will be sent to the state Treasurer following the CD maturity date in September of 1992.

---

(267) Pineland Center

Finding: Procurement policies circumvented

The Benefit Fund is primarily for funding resident and certain employee activities. However, the Center took $3,000 from the Benefit Fund to purchase a Caterpillar motor grader that was used for general operations. This action circumvented the state's procurement policies.

Recommendation:

We recommend that the Center use the Benefit Fund solely for its intended purpose of resident and employee activities.

Auditee Response:

Pineland Center had the opportunity to purchase a needed Caterpillar road grader for $3,000 cash. Due to the delay in getting a check issued from Augusta, we upfronted the money from our Benefit checking account. A check was issued from our Capital account for $3,000 on September 14, 1990 payable to Pineland Center General Benefit which was deposited to same.

---

(268) Pineland Center

Finding: Capital equipment inventory records

We examined the Center's capital equipment records and found a $432,815 variance between the computer listing and the capital equipment reconciliation report for June 30, 1989. Neither the fiscal year 1990 capital equipment reconciliation report nor the first quarter equipment report had been completed and forwarded to the Bureau of Public Improvements.

Recommendation:

We recommend that Pineland Center update its records, conduct a physical inventory, make corrections and adjustments, and bring the computer listing into agreement with reports filed with the Bureau of Public Improvements.

Auditee Response:

As of May, 1992, Pineland Center has completed its capital equipment inventory and made the necessary corrections and adjustments. The computer listing is now in agreement with reports filed with the Bureau of Public Improvements.

---

(269) Pineland Center

Finding: Poor internal controls over supply inventories

Of the 77 inventory items we tested 40 differed from the records.

Our review of inventory control procedures revealed that:

1. Reports which record receipt of foods at the center are not completed;
2. Supplies are issued and recorded in the inventory records, but requisitions are not prenumbered and some supplies are issued without a requisition;
3. There are no inventory records for central supplies;
4. There are no annual inventories or adjustments for central supplies or maintenance and clothing supplies;
5. There are no control records for the various types of inventories;
6. One individual generally performs the receipt, posting, issuance, counting and adjustment functions; and
7. There is inadequate supervisory review of the inventory.

Recommendation:

We recommend that the Center conduct annual inventories of all supplies; issue prenumbered requisitions and receiving reports; and post all transactions to control records. We further recommend that someone other than the inventory clerk post records; and that a responsible official review and approve adjustments to inventory records.

Auditee Response:

By implementing several procedural changes, Pineland Center has corrected the problem associated with supply inventories. In addition to quarterly inventories of all dietary and non-dietary supplies, we have implemented monthly unscheduled inventory checks on various items. Pineland Center has also implemented procedures that involve staff not associated with the distribution and receiving of supplies. Posting of transactions and inventory adjustments are carried out by the store Manager. Verification of the posting is performed by the Computer Services staff using the original document against the original report. The changes implemented provide for greater accountability and awareness by appropriate staff.

Department of Professional and Financial Regulation

(270) Bureau of Insurance

Finding: Detail records do not support Controller's balance

Title 24-A MRSA, §1255 establishes the state's responsibility to safekeep all securities and receipts provided by insurers. The balance recorded in the Controller's liability to trust funds account is $26.4 million. Detail records supplied by the Bureau of Insurance and the manual ledger maintained in the Office of the Treasurer do not agree. In addition, neither support the Controller's balance. Insurance detail records exceed the Controller's balance by $94,052.

Recommendation:

We recommend the Treasurer's office and the Bureau of Insurance reconcile any discrepancies and adjust records so that the Controller's balance accurately reflects the deposits entrusted to the state.

Auditee Response:

(The bureau attempted to reconcile the discrepancies and concluded that the non-conforming values in the list).... could not be reconciled.... to records of the Treasurer in arriving in any different value than reflected on our records... It believes these may be related to different market values picked up by the Treasurer's Office from that point in time when the initial deposit was made with the Bureau of Insurance. The securities perhaps were valued on a different basis.

(271) Bureau of Insurance

Finding: Assessment notices not according to state law

Title 24-A, MRSA, §237 requires that prior to April 20 the bureau notify insurers of assessment payments due by June 1. Revenue received for two fiscal year assessments was delayed because the bureau did not notify insurers until September 20, 1990 and August 15, 1991.

Recommendation:

We recommend that the bureau ensure that notifications and collections comply with revised statutes which require notification by July 1 and collection by August 10.

Auditee Response:

This finding...relates to assessments not being collected when due under 24-A, M.R.S.A. §237. Please be advised that assessment notification to insurers and others was delayed last year due to the shutdown of state government and the late finalization of the budget. Since the Legislature adjourned earlier in this fiscal year, the bureau does not expect any delay in sending out notices on time - July 1, 1992. When a first session of any legislative term is under way, it is difficult prior to adjournment to determine the budget needs of the Bureau of Insurance and calculate an assessment without knowing the dictates of law changes which a Legislature may pass.

(272) Bureau of Insurance

Finding: Policies do not comply with law

Title 24-A, MRSA, §1533 (2) describes the applicable fees for agent appointments which occur during the insurer's biennial certification period. The bureau calculates fees in a manner that is inconsistent with state statute.

Recommendation:

We recommend that the bureau either change its method of calculating fees in these circumstances or seek legislative change.

Auditee Response:

This finding relates to agents' appointment fees under 24-A, M.R.S.A. §1533. We believe that the interpretation the Department of Audit has applied in this instance, creates a significant inequity among occupational licensees. We intend to seek a legislative clarification in the next Legislature.

(273) Bureau of Insurance

Finding: Fees not assessed according to law

Title 24-A, MRSA, §601 establishes the fees, including the original license fee, that should be charged to persons served by the Bureau of Insurance. The bureau does not collect the fee for original licenses.

Recommendation:

We recommend that the bureau take steps to collect all revenue authorized by the legislature.

Auditee Response:

This finding relates to original license fees for insurance agents pursuant to 24-A, M.R.S.A. §601. The bureau accepts the Audit Department's findings and will change its method of collecting this original fee.

Department of Public Safety

(274) Finding: Poor internal control over capital equipment (Prior Year Finding)

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.

We found the following at the Department of Public Safety:

1. The last complete physical inventory was in 1976;

2. The department did not complete the capital equipment reconciliation form or the quarterly equipment reports for the1989 through 1991 fiscal years;

3. Many summary control cards did not reconcile to the detail cards;

4. Nineteen of twenty-five capital equipment items inventoried did not agree with the records; and

5. Internal control over assets is weak; the same person purchases and receives capital equipment items.

Recommendation:

We recommend that Department of Public Safety personnel:

1. Enter all capital equipment transactions to the inventory records;

2. Perform a complete physical inventory;

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 to the BPI;

6. To lessen the risk of misappropriating assets, assign duties so that no one individual has control over both purchasing and receiving of capital equipment items; and

7. Maintain all equipment records on a current basis.

Auditee Response:

The department is presently attempting to automate records and will address the problems with the inventory.

Maine State Retirement System

(275) Finding: Noncompliance with procurement policies

The Maine State Retirement System (MSRS) did not extend, renew or renegotiate the International Equity Fund contract for investment services which expired on February 28, 1991, although services were provided through June 30, 1991.

Recommendation:

We recommend that the MSRS Board of Trustees take timely action to renew contracts upon expiration.

Auditee Response:

The non-renewal of the contract for investment services was indeed an oversight. This matter was corrected in October 1991 and appears to be an isolated instance.

Finding: Unrecorded contributions receivable

The Maine State Retirement System (MSRS) did not record $364,519 of accumulated contributions and interest receivable from a participating district which failed to make contributions for federally funded teachers from fiscal year 1982 through 1989.

The Governmental Accounting and Financial Reporting Standards (GASB) codification, section 1600 (b, c) states that pension trust fund revenues should be recorded in the period in which they are earned and become measurable, i.e., on the accrual basis. As a result, accounts receivable and employer contributions were understated as of June 30, 1991.

Recommendation:

We recommend that MSRS record the amount of accumulated contributions and interest receivable in accordance with generally accepted accounting principles.

Auditee Response:

The Retirement System has reviewed the file material concerning the findings in light of recognizing revenue received and establishing any balance as a valid receivable.

Clearly, we are in agreement with GASB 1600.113 statement on Miscellaneous Revenues and do recognize amounts in the time periods received.

While the file indicates that the participating district has agreed to the schedule of payments, there has been no execution of a Repayment Agreement by the district and the Retirement System. Absent that executed agreement the Retirement System does not feel it can consider the amount as a valid receivable as referenced in GASB 1600.114.

If the repayment agreement was executed the Retirement System would be obliged to (1) recognize the amounts owed in the current fiscal year as an "account receivable" and (2) any amounts beyond that time as a "note receivable." [Applying GAAP & GAAS, §8.03 Accounting for Receivables]

---

(276) **Finding:** Invoices not cancelled when paid

The Maine State Retirement System (MSRS) pays certain operating expenses out of an in-house checking account. It does not cancel invoices processed through this account after they have been paid. As a result, there is a potential for invoices to be processed multiple times.

Recommendation:

We recommend that MSRS cancel invoices by indicating on the face of the documents that payment has been made.

Auditee Response:

Paid invoices have attached with them a NCR copy of the draft used to pay the charge and a voucher form containing the accounting information. We consider this grouping of information to be more than adequate to recognize that payment would be made on the invoice.

Regardless, the Retirement System will mark invoices appropriately to satisfy the recommendation.

---

(277) Finding: Erroneous calculation of retirement benefits

During our examination of a random sample of benefit calculations, we noted that two of twenty-five calculations for individuals who retired during fiscal year 1991 were incorrect. These calculation errors, ranging from an underpayment of $1.35 per month to an overpayment of $11.54 per month, were due to human error and were not detected in the standard supervisory review of benefit calculations. Applying this error rate (8%) to the population of individuals who retired during fiscal year 1991 results in 129 projected miscalculations.

Recommendation:

We recommend that Maine State Retirement System personnel take more care in calculating retirement benefits and reviewing the accuracy of all data and computations associated with retirement benefits.

Auditee Response:

No area at the Retirement System is as conscious of accurately processing member information than claims and calculations. In the last few years much has been done to improve procedures to decease errors.

Internal review and controls have resulted in a decrease in the opportunity for errors to be made. The System will continue to press clarification and simplification of methods thereby further reducing the margin for error.

---

(278) Finding: Timeliness of refund payments

During our examination of a random sample of refund payments, we noted that four of twenty-five refund payments were made earlier than prescribed by law; and five of twenty-five refund payments were made later than prescribed by law. Title 5, MRSA §17705 requires that payment be made no sooner than 22 days nor later than 37 days after receipt of application for refund or last payroll date, whichever is later.

Recommendation:

We recommend that the Maine State Retirement System either adhere to the requirements of Title 5, MRSA §17705 or take the necessary steps to change these requirements to better accommodate their payment process.

Auditee Response:

The Retirement System makes every effort to adhere to the time limits set forth in statute. When payment is made the preparatory work is done by the Retirement System and the check is processed by Accounts and Control. Any deviation from the statutory time limits is minor and seldom exceeds one or two days.

The Retirement System will explore the potential to change the payment requirements in the statute.

---

(279) Finding: Capital equipment inventory not current (Prior Year Finding)

The Maine State Retirement System (MSRS) has not maintained a current inventory of capital equipment. As a result, the basis it uses to determine 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:

The Retirement System has started tagging capital equipment as it is received. Records for 1991 exist and are on file. As is the case in other parts of state government, we do not have the luxury of time or resources to recognize equipment in-house prior to 1991.

Records continue to exist showing the description of all pieces of data processing equipment, cost, and location.

We still anticipate implementing a computer-based capital equipment asset management system.

---

(280) Group Life Insurance Program

Finding: Liability for anticipated claims (Prior Year Finding)

Title 5, MRSA §18059 states that premium amounts shall be based as determined by the board to be actuarially sufficient to pay anticipated claims. Title 5, MRSA §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, 1991. Consequently, there was a decrease in assets available to meet future benefit claims.

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. The Group Life Insurance Program should adjust premium rates to accommodate actuarial recommendations.

Auditee Response:

The Group Life Insurance Division engaged an actuarial firm from Washington, DC to conduct a study which has been completed. A meeting with the firm and management from the Insurance Program, Retirement System, and UNUM to review the report was scheduled on June 19, 1992. We consider this action to satisfy the recommendation from the Audit Department.

---

(281) Group Life Insurance Program

Finding: Verification of premiums received (Prior Year Finding)

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

Recommendation:

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

Auditee Response:

Management is sensitive to the comments made and continues to make changes in the way in which the premium verification process is managed. The impending automation of the system will allow for the verification of premiums as recommended. We feel recent changes instituted in the reporting format will also impact favorably on the condition reported.

A recent change in the Life Insurance Program rules has simplified determination of coverage amount. The final step of direct billing will yet add another enhancement to control the administrative process.

---

(282) Group Life Insurance Program

Finding: Bank account balance not recorded on state records

The Group Life Insurance Program maintains an account to pay life insurance claims as checks are presented for payment. Interest earned on this account balance is transferred to another account. The balance in the interest account, $13,021, was not recorded on the official records of the state at June 30, 1991.

Recommendation:

We recommend that the Group Life Insurance Program record the balance in the interest account on the official state records.

Auditee Response:

An account will be established to record amounts earned as interest.

Department of Transportation

(283) Bureau of Maintenance and Operations - Motor Transport Services (MTS)

Finding: Lack of documentation of year-end Work in Progress (WIP) inventory

Motor Transport Service did not have adequate inventory records to support WIP inventory at June 30, 1991. A WIP detail by location is generated and distributed to each location weekly. However, the report was not distributed to the MTS accounting section and, with the exception of the MTS Augusta location, was not retained. As a result, $205,303 of WIP inventory at June 30, 1991 is not documented.

The accounting section has requested and is now receiving WIP reports weekly.

Recommendation:

We recommend that the year-end WIP reports be retained for audit purposes.

Auditee Response:

Year-end WIP reports will be retained in the future for audit purposes.

---

(284) Bureau of Maintenance and Operations - Motor Transport Services (MTS)

Finding: Inventory records not reconciled and overstated

Based on projection of audit test counts, MTS internal parts inventory records (MESIS) could be overstated by $381,000 at June 30, 1991. Official state accounting records (MFASIS) were further overstated due to an unreconciled difference of $178,397 between MESIS and MFASIS inventory balances at year-end.

During our audit test counts, we also noted that:

1. Inventory included obsolete items carried at cost;
2. Issuances were not entered promptly for items accessed after normal business hours; and
3. Computer problems and lack of staff time caused delays in recording inventory use. MESIS and MFASIS inventory acquisition entries are made by different MTS personnel. MTS personnel do not reconcile the two systems.

Recommendation:

We recommend that MTS:

1. Implement procedures to dispose of obsolete inventory;
2. More frequently inventory those items accessed after normal business hours; and
3. Reconcile inventory balances between the MESIS and MFASIS systems.

Auditee Response:

1. *MTS is reviewing and disposing of obsolete inventory and will develop procedures upon completion of the review.*

2. *It is not possible to know in advance which inventory items will require access after normal business hours.*

3. *It is standard practice to reconcile inventory balances between MESIS and MFASIS.*

---

(285) Bureau of Maintenance and Operations - Motor Transport Services (MTS)

Finding: Inadequate internal controls over parts inventory

A review of inventory procedures revealed a lack of segregation of duties within the storeroom function. The same clerk may be responsible for ordering, receiving, counting inventory, and posting to the perpetual inventory records. In at least one instance there was a lack of segregation between storeroom functions and operations. One storeroom clerk was responsible for store items and initiating "overhead job orders" with no other approval. In addition, there was nothing signed indicating receipt of items by operations personnel. The storeroom functions also seemed short staffed in all locations we visited. Physical access to storerooms was not always restricted. A sample of inventory items is computer generated each day for test inventory counts. Because of staff shortages the same person may take the physical count and make any necessary adjustments on the perpetual inventory records. MTS generates a variance report of differences but it is not routinely investigated or reconciled. Control weaknesses could be a contributory factor to inventory differences.

Recommendation:

We recommend that MTS:

1. Maintain records that will identify trends in variances;
2. Supervisors approve changes to inventory records;
3. Investigate and reconcile all significant variances; and
4. Segregate stores and operations functions and maintain sufficient staff to ensure this segregation.

Auditee Response:

MTS currently has a review process to address the above cited items. Segregation of duties, however, may be difficult with existing staff levels.

---

(286) Bureau of Maintenance and Operations - Motor Transport Services (MTS)

Finding: Lack of adherence to capitalization policy

Although Motor Transport Service has a capitalization policy, it is not consistently followed. Of sixty transactions that we examined, four items were expensed that should have been capitalized. Depreciation expense is also misstated to the extent of inconsistencies in the application of the capitalization policy.

Recommendation:

Since the capitalization of equipment is a recurring problem we recommend that MTS a) develop a program to generate a report of all vehicle and building repairs exceeding an established amount; and b) review the report for items not in compliance with established capitalization guidelines.

Auditee Response:

When a work order is opened, the estimated expense is reviewed for compliance with established capitalization guidelines.

---

(287) Bureau of Maintenance and Operations - Motor Transport Services (MTS)

Finding: Liquid inventory understated

Motor Transport Service liquid fuel balances reported on official state accounting records (MFASIS) do not agree with balances calculated using MTS fuel summary reports at June 30, 1991. The differences are:

Fuel summary report calculation	$777,591
MFASIS	694,843
Difference (12%)	$ 82,748

MTS established a separate liquid fuel inventory account in April 1991. The 12% difference occurred within a three month period. MTS did not reconcile fuel summary reports to accounting records and was unable to explain the percentage difference.

Recommendation:

We recommend that, minimally, MTS reconcile the fuel on hand to the financial statements at the fiscal year-end and make any necessary adjustments.

Auditee Response:

MTS will reconcile fuel at fiscal year-end and make the necessary adjustments.

(288) Bureau of Project Development - Division of Right-of-Way (ROW)

Finding: Property acquisition costs

Federal regulations regarding construction in mitigation of damages as stated in 23 CFR 710.304 (q) are: "Costs of construction performed...in order to mitigate damages to a remainder of real property are eligible for federal participation, provided that such construction results in an appropriate reduction in compensation to be paid the owner."

In one parcel ROW paid the owner $5,000 because construction might damage the existing septic system. Less than a year later ROW acquired the property for $62,000. The Department of Transportation (MDOT) appraisal of $57,000 for land and buildings appeared to be reasonable but was revised to include an additional $5,000 for the improved septic system.

The project was originally under federal authorization but was deauthorized and under state funding prior to the taking. ROW officials say all projects, whether federally or state funded, are treated consistently. Accordingly, costs incurred for mitigation of damages, whatever the funding source, should adhere to the same regulations.

Recommendation:

We recommend that when MDOT compensates an owner for damages and then purchases the property from the same owner the acquisition should not include the cost of "improvements" MDOT previously paid to that owner for mitigation of damages.

Auditee Response:

We disagree with the analysis and recommendation of the auditor.

The initial offer of damages for this parcel was $5,000 which was the estimated "cost to cure" for the septic system which was rendered ineffective as a result of grading rights acquired. The property owners expended this money to replace the septic system and make the property whole.

Subsequently, an administrative decision was made to acquire the entire property due to the adverse effect on the drive grade by our construction. An appraisal was made on the property as "cured" and the value was determined to be $62,000. Additional payments were made for relocation, etc., as part of a comprehensive settlement but it is the acquisition amount of $62,000 that the auditor alleges should be reduced by $5,000.

We maintain that the property owner netted only $62,000 (Fair Market Value) since he spent the *original $5,000 to cure the septic system problem.*

Auditor's Concluding Remarks:

The property was appraised at $51,000 for buildings and $5,500 for unimproved land. Land improvements, including the septic system, were appraised at $5,000, the amount previously paid to "cure" the septic system. The value of the property, $57,000, is what we believe should have been the acquisition cost.

---

(289) Bureau of Project Development - Division of Right-of-Way (ROW)

Finding: Acquisition of property not intended for highway

In a response to a 1990 audit finding on excess property and documentation of federal participation when MDOT sells excess property ROW said, "When ROW 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."

Federal participation will be for a) the portion of the property *required* for the highway project plus damages to the remainder; and b) relocation associated with the part *required* for highway purposes.

ROW acquired a parcel of real property that was not intended or needed for the right-of-way. It was not "an integral piece" of the highway right-of-way since MDOT advertised the property for sale within one month of purchase. Purchase was not required for construction nor did the highway construction create a hardship for the owner because of an inability to sell his property.

The parcel had previous federal obligation but was deauthorized prior to the taking. Since ROW treats all projects the same, whatever the funding source, purchases of real property should be based on what is required for a highway project as if federal funds were involved.

Recommendation:

We recommend:

1. ROW clearly define and adhere to policies regarding (a) what constitutes excess property; and (b) when it is appropriate to purchase excess property and resell it.

2. MDOT not purchase and resell properties as an option for assisting owners if (a) it is not needed or intended for highway purposes; (b) it is not required because of design or construction changes; (c) it is not needed to prevent construction delays; and (e) it is not a hardship or protective buying case.

Auditee Response:

The Right of Way Division concurs with the above recommendation.

(290) Bureau of Project Development - Division of Right-of-Way (ROW)

Finding: Insufficient financial information

When federal funds are used for highway projects the Federal Billing Section of the Finance and Administration Division oversees all requests for reimbursements. In so doing it checks all expenditures for federal participation and, prior to final reimbursement, it must justify all costs. It maintains a file on each active federal project and stores files for completed federal projects.

However, state funded projects do not receive the same level of oversight. Project Management only keeps information given to them. Federal Billing keeps financial data for federally funded projects but disposes of deauthorized files. Accounting only processes and files invoices. ROW does not keep financial data or summary of expenses in any project file. In addition, ROW does not appear to do a final review for a closed file.

Consequently, for a state funded project a) it is difficult to track expenditures; b) there is no assurance that a closed file includes all expenditures, or that federal reimbursements were credited to Federal Highway Administration (FHWA) after deauthorization; and c) there is a potential environment for excesses or abuses.

Recommendation:

We recommend that ROW clearly identify federal or state expenditures. Files should include data on federal obligation, participation, reimbursement, and credit for a deauthorized project. Files for state funded projects should include at least summary information on all expenditures.

Auditee Response:

A detail accounting transaction level is kept within the Department of Transportation's (MDOT) computer systems. This detail is available out of both the Media and the Promis system formats.

It would not be efficient for each division within the department whether it be Right of Way or Design, etc., to keep detail files on each project charge incurred. If any question arises on a project as a whole or on an individual charge the detail is available on request from our Computer Services Group.

On any project that would be initiated as a federal project and then subsequently be withdrawn from federal status to become a state funded effort, there are procedures firmly in place to assure all federal guidelines are firmly adhered to. These procedures are all firmly in place within the PROMIS system database of which FHWA has approved.

The responsibility to assure that all federal disbursements are credited to FHWA does not lie within the Right of Way Division.

Briefly, the procedure is as follows:

1. *The Project Management Division within Project Development initiates the request to FHWA to reprogram an individual project as a state funded effort. A tickler file is maintained within Project Management of all correspondence to FHWA.*

2. *Upon concurrence from FHWA that the project will be withdrawn from federal participation, the programming change document is forwarded directly to our Project Scheduling Division.*

3. *Project Management personnel update the individual PIN finance file with the PROMIS database. This action prompts the system to generate all necessary federal reimbursements. This action would be reflected on the department's current billing System.*

4. *Responsibility for current billing transactions lies with Federal Billing Section with Finance & Administration.*

All individual accounting transactions within a project are subject to review and authorization by supervisory level personnel.

Auditor's Concluding Remarks:

We agree that procedures are in place to ensure that **federal** procedures and policies are followed. However, MDOT can strengthen supervision and control over **state** funded projects such as securing the six month media expenditure report, by project, and maintaining these in the project file for supervisory review, management decisions, and routine monitoring.

---

(291) Bureau of Transportation Services

Finding: Journal entry approval

Journal entries affecting the Maine Ferry Services Fund and the Ports and Marine Fund are prepared and approved by one individual.

Recommendation:

We recommend that an individual with a higher level of authority and responsibility review and approve all journal entries affecting the Ferry Service and Ports and Marine funds.

Auditee Response:

We have changed our procedures to assure that individuals with higher levels of authority and responsibility review and approve all journal entries affecting the Ferry Service, Ports and Marine funds, and other accounts maintained by Ferry Service accounting section.

---

(292) Bureau of Transportation Services - Division of Air Transportation

Finding: Incorrect use of special revenue account (Prior Year Finding)

During the prior year audit we noted that the Department of Transportation accumulated monies in a federal special revenue account which resulted from federal and local government reimbursements. We identified $432,026 as federal reimbursement for monies that MDOT borrowed from and did not return to the General Fund. We recommended that MDOT return this amount to the General Fund, and research/return the remaining account balance to the funds or the accounts from which the monies were originally expended.

The department returned $399,999 to the General Fund but has not determined the origin of the remaining account balance.

Recommendation:

We recommend that the Department of Transportation research any remaining account balance and return the monies to the accounts from which the funds were originally expended.

Auditee Response:

We have researched the remaining balance of $432,026 or $32,027 ($432,026 less $399,999) and have been unable to associate these costs with any General Fund account. These funds were included as a reimbursement to the Maine State Ferry Service for expenditures made for the construction and operation of the Maine Vessel, Margaret Chase Smith.

Office of Treasurer of State

(293) Finding: Reconciling items not promptly resolved

The Office of the Treasurer of State maintains demand deposit accounts for the receipt and disbursement of state funds. To properly maintain the state's operating funds cash reconciliations should be performed on a regular and timely basis.

Our review of year-end reconciliations of several accounts showed that reconciling items were often carried for several months before resolution. Deposits totaling $650,000 were carried for several months because the Treasurer received no cash receipt statement or other notification. Two outstanding transfers totaling $1,025,000 were carried as reconciling items for several periods because the origin of the transfer could not be determined. We also noted other old outstanding reconciling items.

Regular and timely reconciling of demand deposit accounts is an important internal control over cash. Reconciling items should be resolved and not carried for several periods. Leaving them unresolved could result in misstatements on the state's accounting records.

Recommendation:

We recommend that the Treasurer's Office promptly investigate and resolve outstanding reconciling items.

Auditee Response:

All transfers have been reconciled to May 31, 1992. Treasury has encouraged other departments to file cash receipts promptly. It should be noted that cash in the bank but not reported to the Treasurer's office as cash receipts is invested. The office does not wait for cash receipts reporting to utilize the money.

---

(294) Finding:Accrued interest overstated

The accrued interest account in the Treasurer's Memo Account is overstated by $521,706 due to an error which occurred during October of 1986. The initial entry which posted the accrual was not reversed prior to distribution thereby leaving the accrued interest overstated by $521,706.

Recommendation:

We recommend that the $521,076 be deducted from the accrued interest account to properly reflect the account balance.

Auditee Response:

A reversing journal that was not made created this overstatement. ...monthly corrections have been ongoing for 11 months.

---

(295) <u>Finding</u>: Non-payment of interest

Title 7 MRSA § 3154, 4 states:

> Interest earned on over-order premiums paid into the Maine Milk Pool...shall be credited to the pool. At least annually, the commissioner shall pay accrued interest on an equal basis to eligible Maine market and Boston market producers.

The Maine Milk Pool is not earning interest and the Maine Milk Commission is not paying interest to eligible Maine and Boston market producers whose dealers are paying over-order premiums into the pool.

<u>Recommendation</u>:

Although the interest amounts are not significant since the funds are held for a short time period, we recommend that the state Treasurer's Office coordinate with the Bureau of Accounts and Control and the Department of Agriculture to set up correct account codes for recognizing over-order premiums and the accrued interest on them in the Maine Milk Pool. We further recommend that the Maine Milk Commission pay this interest to the eligible producers as required by state statutes.

<u>Auditee Response</u>:

...Treasury cannot compute nor segregate average daily balances without departmental participation... the Milk Commission should request or notify Treasury of its need to comply with a departmental law.

(296) <u>Finding</u>: Inadequate segregation of duties (Prior Year Finding)

One individual is responsible for authorizing, recording, and reconciling investment transactions of the Lands Reserved and Several Other Trust Funds.

<u>Recommendation:</u>

We again recommend that the Office of the Treasurer of State separate the authorizing and recordkeeping functions of investment transactions.

<u>Auditee Response</u>:

Once the hiring freeze is eliminated, these functions will be centralized. However, at the moment no staff is available for additional duties.

(297) Finding: Inaccurate recording of an investment purchase

A purchase of investments for $46,340 was recorded on the Treasurer's and Controller's records when, according to the fiduciary statements, no purchase was made.

The records for the Treasurer and the Controller must accurately reflect investment activity.

Recommendation:

We recommend that the Treasurer's office adjust its records and the Controller's records.

Auditee Response:

This double posting has been reversed.

---

(298) Finding: Trust and agency funds not correctly reconciled (Prior Year Finding)

Records of the Treasurer and the Controller do not agree with fiduciary reports and bank statements for various trust and agency fund holdings.

The Office of the Treasurer has not promptly recorded transactions or reconciled trust and agency fund holdings resulting in the following differences between the records of the Controller and the fiduciary:

	Overstated (Understated)
1. Lands Reserved for Public Uses	$ 90,036
2. Several Trusts	(3,270)
3. Baxter State Park Trust	291,324
4. Baxter - MacWorth Island Trust	(6,315)
5. Attorney General's Escrow Accounts	indeterminable

Recommendation:

We again recommend that Treasury personnel reconcile the holdings of the various trust and agency funds with the Controller's records and make appropriate journal adjustments.

Auditee Response:

At this time the funds reconcile between Casco Bank, the State Controller and the Treasurer's office.

---

(299) Finding: No receipt for the amount deposited

The Office of Treasurer of State makes bank deposits for certain agencies. It did not always provide receipts to those agencies.

Recommendation:

We recommend that the Treasurer give agencies some form of written receipt for the amount deposited with the Treasurer, e.g., the agency have its copy of cash receipt statement signed or each agency deposit its own cash into the bank and obtain a bank receipt.

Auditee Response:

The Treasury stamps all cash receipts. Agencies are encouraged to deposit directly and can notify Treasury if stamped copies of cash receipts are needed. A memo to all depository agencies would help clarify the procedure.

Workers' Compensation Commission

(300) Finding: Abuse Unit noncompliance

Title 39, MRSA, §93, requires that at least two abuse investigators be appointed to the Unit of Abuse Investigation. At present, there is only one inspector; the second inspector's position was not funded when it was vacated.

Recommendation:

We do not recommend action since the commission cannot fill an unfunded position. The commission is submitting language to the Bureau of the Budget to require "...at least one investigator."

Auditee Response:

The Workers Compensation Commission submitted....language to the Bureau of the Budget in January 1992 for inclusion in fiscal year 1993 budget. However, the proposed language was not amended.

(301) Finding: Trust fund money transferred to the General Fund

The Second Injury Fund was established by 39 MRSA §57 as a special fund to be held in trust by the Treasurer of State and to be administered by the Chairman of the Workers' Compensation Commission. Moneys and securities in the fund are not money or property of the State. In fiscal 1991, $840,688 was transferred from the Second Injury Fund to the General Fund.

Public Law 1989, Chapter 875 authorized the transfer of $464,950 "...for the purpose of meeting the budget reduction goals of the Workers' Compensation Commission ... The transfer is not barred by 39 MRSA §57 and, §§6". Public Law 1991, Chapter 9 §E-34 stated, "Notwithstanding the Maine Revised Statutes, Title 39, §57, §§6, $375,738 is authorized to be transferred from the Second Injury Fund of the Workers' Compensation Commission to General Fund undedicated revenue..."

Although authorized by public laws, the transfers do not appear to have been consistent with the dedicated nature and restricted use of the Second Injury Fund. Interested parties may not have adequate notice of the alternative use made of the fund beyond that authorized by Title 39 MRSA §57.

We also note that proposed legislation to transfer the fund balance to the General Fund was not approved. PL 1991, Ch. 825 abolished the Second Injury Fund and provided that contributions previously benefitting that fund benefit instead the Employment Rehabilitation Fund. The Employment Rehabilitation Fund is also held in trust. Likewise, money and securities in this fund are not money or property for the general use of the State.

Recommendation:

We recommend statutory revisions to ensure that adequate notice is provided for any use of the fund beyond the original restricted intent.

Auditee Response:

This is a policy issue which the Legislature could address.

(This page intentionally left blank)

APPENDICES

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 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, 1991, 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 315 through 318 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.

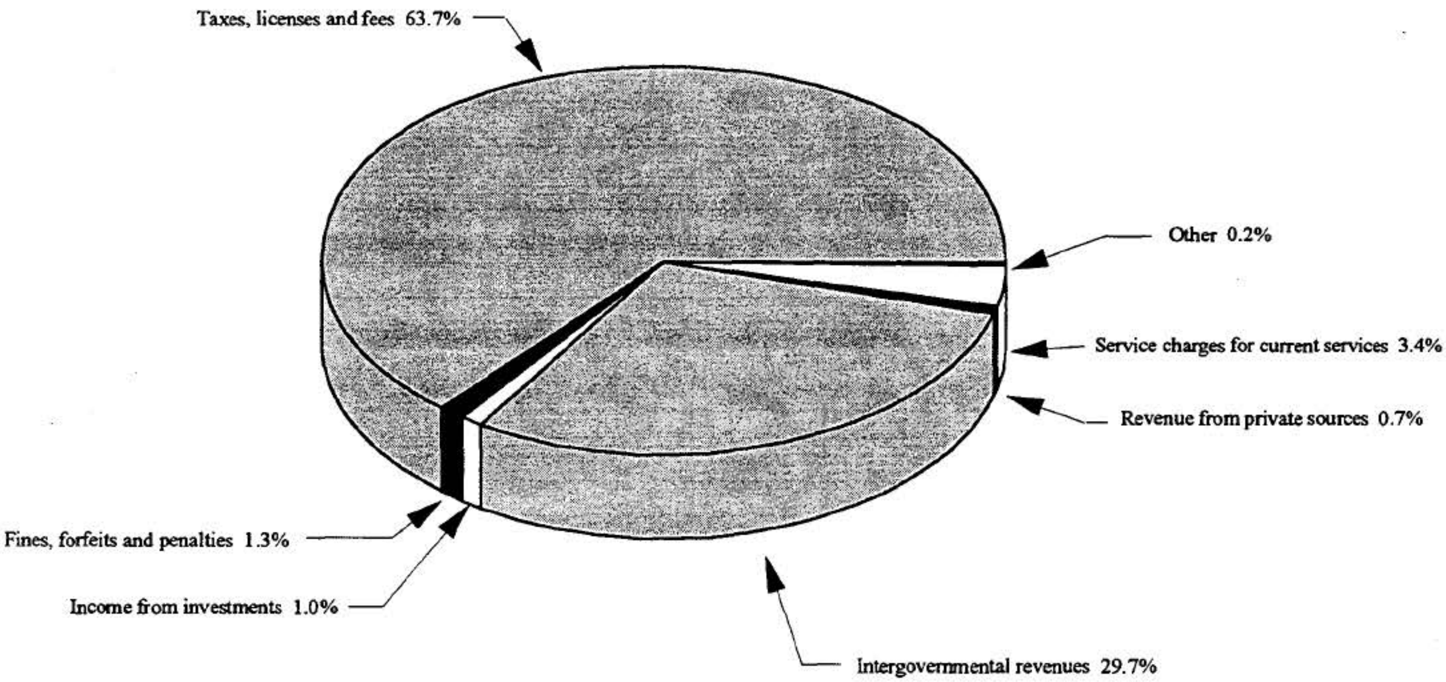
Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

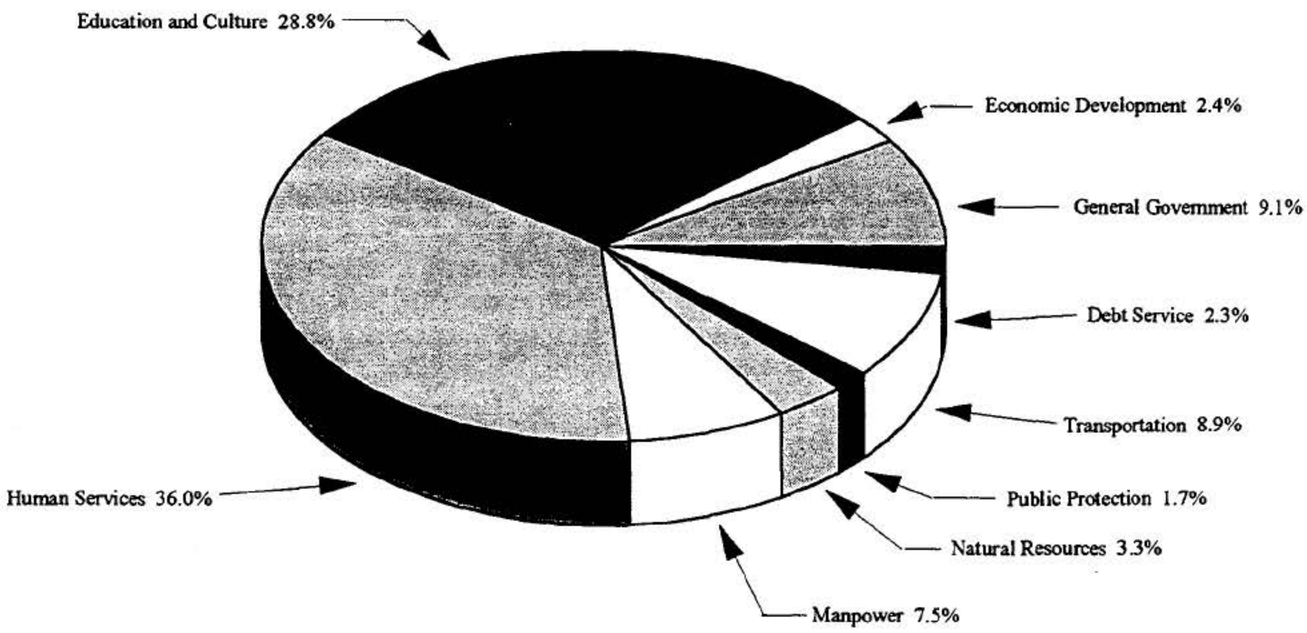
May 15, 1992

(This page intentionally left blank)

Revenues by Source
(All Governmental Fund Types)

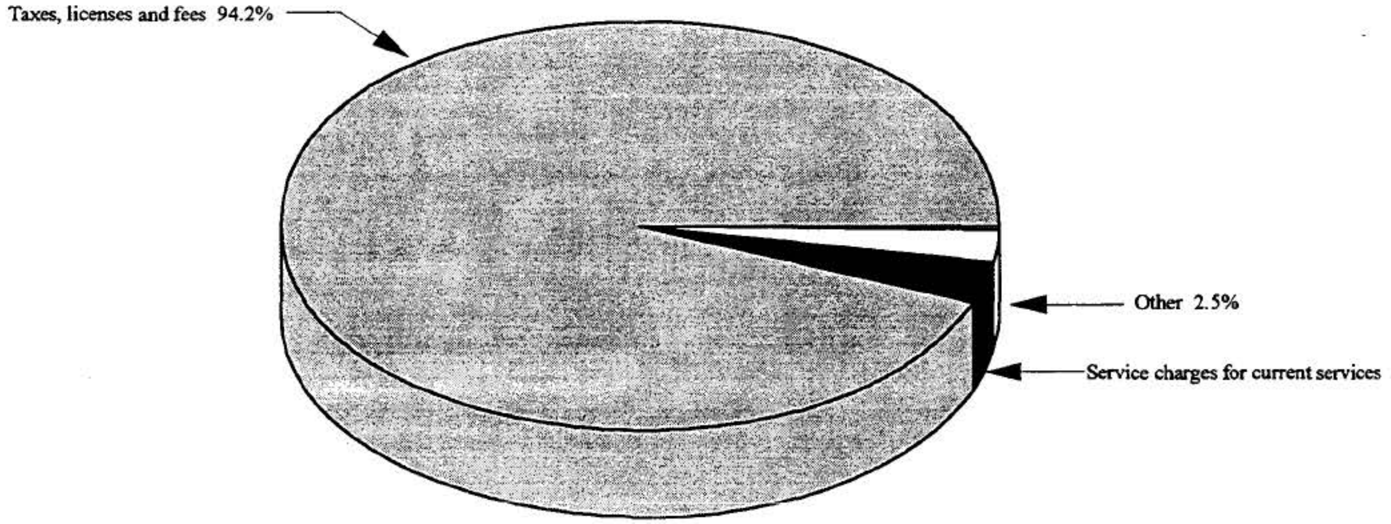


Expenditures by Function
(All Governmental Fund Types)



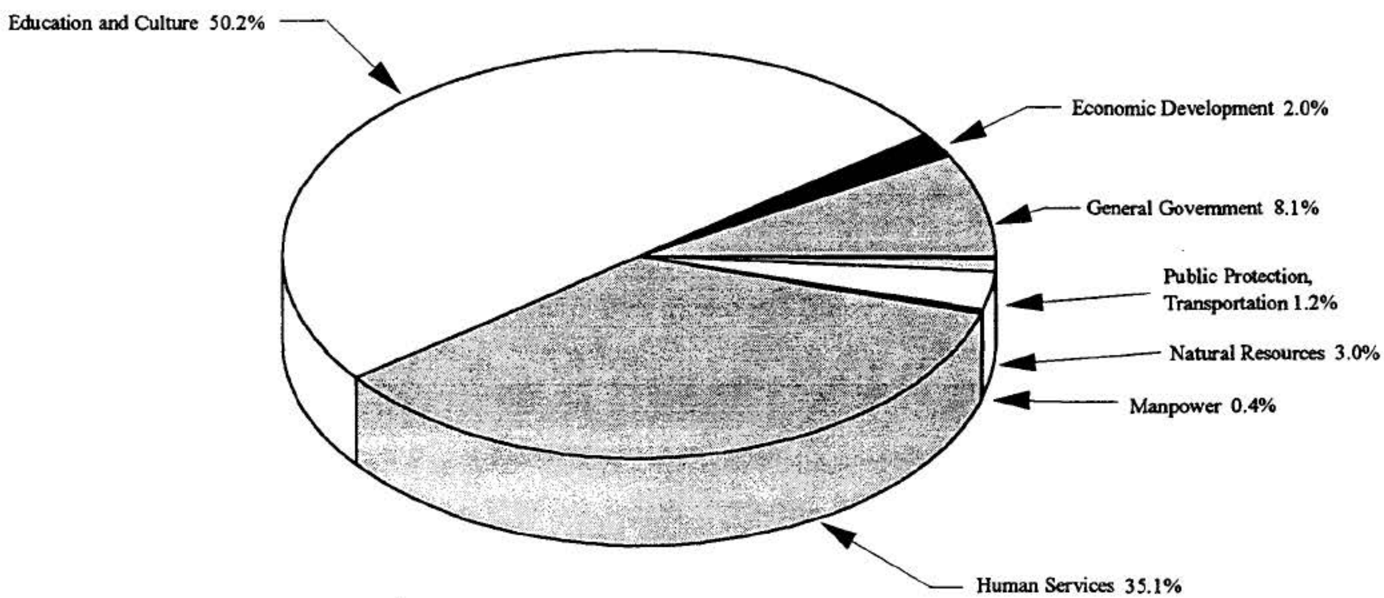
Revenues by Source

(General Fund)

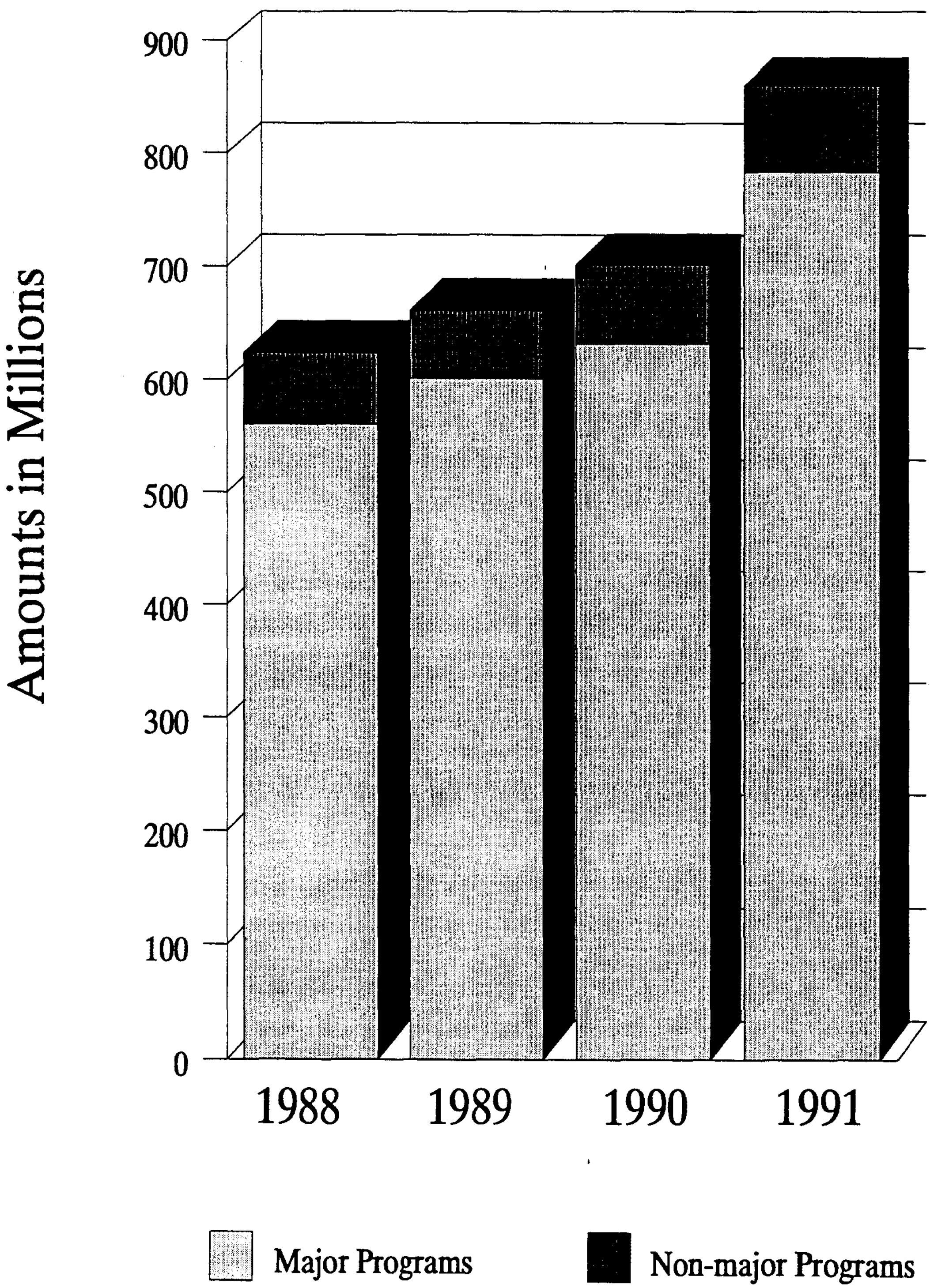


Expenditures by Function

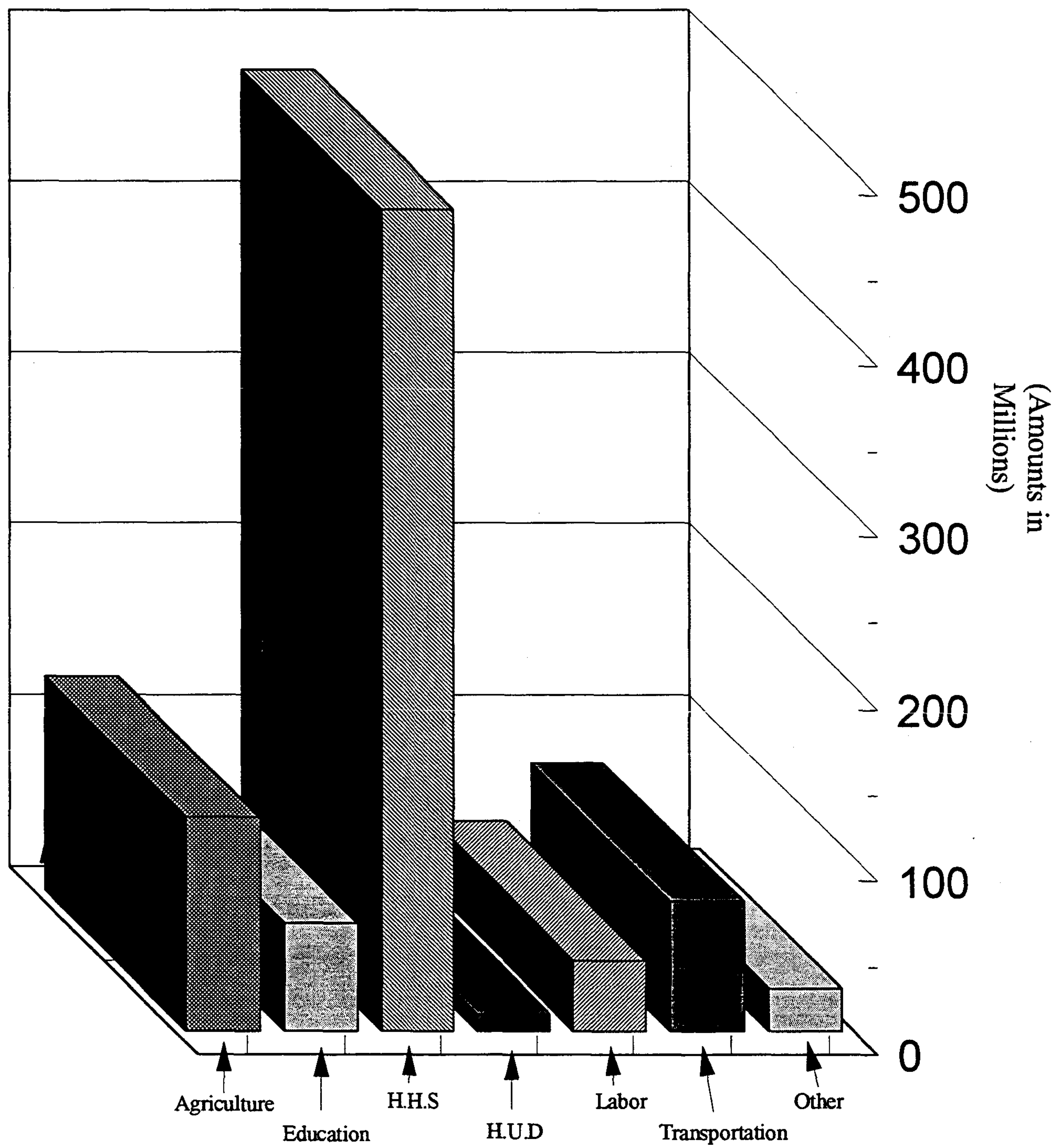
(General Fund)



Federal Financial Assistance



Federal Funding Levels by Grantor Agency



State of Maine
Fiscal Year Ended June 30, 1991
Legend of State Agencies/Departments

Abbreviations	Agency/Department
ADMIN	Administration
AG	Attorney General
AGRI	Agriculture, Food and Rural Resources
AWB	Animal Welfare Board
BSPA	Baxter State Park Authority
CONS	Conservation
DECD	Economic and Community Development
DEP	Environmental Protection
DHS	Human Services
DOC	Corrections
DVS	Defense and Veterans' Services
ED	Education
EXEC	Executive
FIN	Finance
IF&W	Inland Fisheries and Wildlife
MAC	Maine Arts Commission
MDOL	Labor
MDOT	Transportation
MHMR	Mental Health and Mental Retardation
MSL	Maine State Library
MSRS	Maine State Retirement System
PFR	Professional and Financial Regulation
PS	Public Safety
TREAS	Office of the Treasurer of State
WCC	Workers' Compensation Commission

(This page intentionally left blank)

State of Maine
Summary of Federal Findings
by Federal Grantor Agency
Fiscal Year Ended June 30, 1991

Federal Grantor Agency	CFDA	#Program	Finding Number (Schedule D)
Dept. of Agriculture	10.550	Food Distribution	52, 53
	10.551	Food Stamps	95
	10.558	Child and Adult Care Food Program	70 ,77
	10.561	State Administrative Matching Grants for Food Stamp Program	87, 94
	10.571	Food Commodities for Soup Kitchens	59
Dept. of Education	84.010	Chapter 1 Programs - Local Educational Agencies	42
	84.011	Migrant Education - Basic State Formula Grant Program	34, 39, 40, 41
	84.012	Educationally Deprived Children- State Administration	34, 38
	84.027	Special Education-State Grants	49, 50, 51
	84.034	Public Library Services	116, 117
	84.035	Interlibrary Cooperation and Resource Sharing	116, 117, 118
	84.048	Vocational Education - Basic Grants to States	35, 43, 44, 45, 46, 47, 48
	84.049	Vocational Education - Consumer and and Homemaking Education	43
	84.126	Rehabilitation Services - Basic Support	76, 82
	84.186	Drug-Free Schools and Communities- State Grants	35
Dept. of Energy	81.042	Weatherization Assistance for Low-Income Persons	65, 66, 67
General Services Administration	39.003	Donation of Federal Surplus Personal Property	25
Dept. of Health & Human Services	93.020	Family Support Payments to States - Assistance Payments	83, 84, 85, 93, 96
	93.023	Child Support Enforcement	86, 88, 89, 90, 91, 92
	93.028	Low-Income Home Energy Assistance	60, 61, 62, 63, 64
	93.658	Foster Care - Title IV-E	80
	93.667	Social Services Block Grant	69, 79, 107, 122, 124, 125, 126
	93.778	Medical Assistance Program	100, 104, 105, 106
	93.992	Alcohol and Drug Abuse and Mental Health Services Block Grant	54, 55, 56, 119, 120, 122, 124, 125

State of Maine
Summary of Federal Findings
by Federal Grantor Agency
Fiscal Year Ended June 30, 1991

Federal Grantor Agency	CFDA #	Program	Finding Number (Schedule D)
Dept. of Housing and Urban Devel.	14.228	Community Development Block Grants - State's Program	32, 33
Dept. of Justice	16.575	Crime Victim Assistance	30
Dept. of Labor	17.207	Employment Service	113, 114, 115
	17.225	Unemployment Insurance	113, 114, 115
	17.250	Job Training Partnership Act	108, 109, 110, 112
National Foundation on the Arts and the Humanities	45.007	Promotion of the Arts - States Program	27, 28
Dept. of Transportation	20.205	Highway Planning and Construction	128, 129, 130
		Various Other Federal Programs	24, 26, 29, 31, 36, 37, 57, 58, 68, 71, 72, 73, 74, 75, 78, 81, 97, 98, 99, 101, 102, 103,

State of Maine
Summary of Findings/Conditions
by State Department
Fiscal Year Ended June 30, 1991

Department	Reportable Condition	Federal Finding	Management Letter	Total
ADMIN	3	2	28	33
AG		2	6	8
AGRI	1	1	23	25
AWB			1	1
BSPA			6	6
CONS			11	11
DECD		2		2
DEP			7	7
DHS	1	38	7	46
DOC	2	1		3
DVS		1		1
ED		20	5	25
EXEC		15		15
FIN	10	1	20	31
IF&W			1	1
MAC		2	1	3
MDOL		8	7	15
MDOT	2	3	10	15
MHMR	1	9	13	23
MSL		3	1	4
MSRS	2		9	11
PFR			4	4
PS			1	1
TREAS	1		7	8
WCC			2	2
TOTAL	23	108	170	301