

MAINE STATE LEGISLATURE

The following document is provided by the
LAW AND LEGISLATIVE DIGITAL LIBRARY
at the Maine State Law and Legislative Reference Library
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied
(searchable text may contain some errors and/or omissions)

LR
Shelf

1974

STATE OF MAINE
AUGUSTA, MAINE

Maine

REPORT OF QUADRENNIAL EXAMINATION
OF THE FINANCIAL STATEMENTS

STATE OF MAINE

Four years ended June 30, 1974

JK
2849
.A22
E7
1974

ERNST & ERNST

--oo0oo--

REPORT OF QUADRENNIAL EXAMINATION
OF THE FINANCIAL STATEMENTS

STATE OF MAINE

Four years ended June 30, 1974

--oo0oo--

--oo0oo--

TABLE OF CONTENTS

- I. ACCOUNTANTS' REPORT ON FINANCIAL STATEMENTS
- II. COMMENTS ON ACCOUNTING PROCEDURES AND INTERNAL CONTROLS

TRANSMITTAL LETTER.....	PAGE 1
DEPARTMENT OF AUDIT.....	2
DEPARTMENT OF TRANSPORTATION.....	3
LIQUOR COMMISSION.....	7
DEPARTMENT OF FINANCE AND ADMINISTRATION.....	8
DEPARTMENT OF INLAND FISHERIES AND GAME.....	13
TREASURER OF STATE.....	15
DEPARTMENT OF HEALTH AND WELFARE.....	19
DISTRICT COURT SYSTEM.....	22
DEPARTMENT OF MENTAL HEALTH AND CORRECTIONS.....	24
FEDERAL SURPLUS PROPERTY PROGRAM.....	26

--oo0oo--

ERNST & ERNST

1 MONUMENT SQUARE

PORTLAND, MAINE 04111

The Honorable Kenneth M. Curtis
Governor, State of Maine, and
Members of the Executive Council
Augusta, Maine

We have examined the following financial statements of the State of Maine as of June 30, 1974, and for the period of four years then ended. These financial statements for each of the respective years have been published in the State Controller's Annual Financial Reports.

Balance Sheet - All Funds - June 30, 1974

General Fund:

Statement of Unappropriated Surplus - Four years ended June 30, 1974
Statement of Revenues - Four years ended June 30, 1974
Analysis of State Contingent Account - Four years ended June 30, 1974
Summary of Appropriation Accounts Showing Detail of Amounts Available,
Expenditures and Disposition of Balances - Four years ended June 30, 1974

Highway Fund:

Statement of Unappropriated Surplus - Years ended June 30, 1971, 1973 and 1974
Analysis of Change in Fund Balance - Year ended June 30, 1972
Statement of Revenues - Years ended June 30, 1971, 1973 and 1974
Summary of Appropriation Accounts Showing Detail of Amounts Available
Expenditures and Disposition of Balances - Years ended June 30, 1971
1973 and 1974

Federal Revenue Sharing Fund:

Statement of Revenues - Two years ended June 30, 1974
Analysis of Changes in Fund Balance - Two years ended June 30, 1974

Special Revenue Funds:

Statement of Revenues - Four years ended June 30, 1974
Summary of Accounts Showing Detail of Amounts Available, Expenditures and
Disposition of Balances - Four years ended June 30, 1974
Analysis of Change in Fund Balance - Three years ended June 30, 1974

Maine Employment Security Fund:

Statement of Operations and Analysis of Fund Balance - Year ended June 30, 1971

Capital Projects Funds:

Summary of Accounts Showing Detail of Amounts Available, Expenditures and
Disposition of Balances - Four years ended June 30, 1974

Bonded Indebtedness - Four years ended June 30, 1974

Public Service Enterprises - Statements of Operations and Analysis of Retained Earnings:

Maine State Liquor Commission - Four years ended June 30, 1974
Augusta State Airport - Four years ended June 30, 1974
Toll Bridge and Ferry Service - Year ended June 30, 1971
Maine State Ferry Service - Three years ended June 30, 1974
Mortgage Insurance Fund - Three years ended June 30, 1973
Recreational Authority Fund - Three years ended June 30, 1973
Maine Guarantee Authority - Year ended June 30, 1974
Prison Industries - Four years ended June 30, 1974
Seed Potato Board - Four years ended June 30, 1974
Maine State Pier Fund - Two years ended June 30, 1974

Intragovernmental Service Funds - Statements of Operations and Analysis of Retained Earnings:

Highway Garage - Four years ended June 30, 1974
Aeronautics Commission - State Plane - Four years ended June 30, 1974
Institutional Farms - Two years ended June 30, 1972
Insurance Reserve Fund - Two years ended June 30, 1974
Central Computer Services - Two years ended June 30, 1974

Trust and Agency Funds:

Analysis of Changes in Trust and Agency Funds Balances - Four years ended June 30, 1974
Analysis of Changes in Expendable Trust and Agency Funds Balances - Four years ended June 30, 1974

Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Certain expenditures (primarily for public welfare and assistance) of the Department of Health and Welfare which have been recorded in the fiscal year 1975 relate to obligations incurred during the year ended June 30, 1974. Based on estimates by the Department the amount of these expenditures approximates \$7,750,000, of which approximately \$5,000,000 is reimbursable by the Federal Government. Had these obligations been recorded as incurred, the General Fund Unappropriated Surplus at June 30, 1974, would have been \$2,750,000 less than the amount reflected in the financial statements.

In our opinion, except for the recording of the Department of Health and Welfare as explained above, the aforementioned financial statements present fairly the financial positions of the respective funds of the State of Maine at June 30, 1974, and the revenues, appropriations, and expenditures and changes in fund balances (and retained earnings) for the period of four years ended June 30, 1974 in conformity with generally accepted accounting principles applied on a consistent basis.

Ernst + Ernst

ERNST & ERNST

1 MONUMENT SQUARE

PORTLAND, MAINE 04111

The Honorable Kenneth M. Curtis,
Governor of the State of Maine,
and Members of the Executive Council

Gentlemen:

Our examination of the financial statements of the State of Maine for the four years ended June 30, 1974 included a review of the systems of internal control and accounting procedures employed in various departments of the State. Our recommendations for improving and strengthening the financial controls are presented for your consideration.

Our principal findings and recommendations are summarized below:

- The work program of the department of audit should be upgraded to include statistical sampling and computer auditing as well as to emphasize the need to present recommendations for operational improvements.
- Increased coordination is desirable between the department of treasury and depository banks for the State's operating fund.
- Refinement of the system supporting cash flow projections for the Department of Health and Welfare and the Department of Education is needed to properly estimate expenditures.
- Consideration should be given to requiring businesses to remit corporate income taxes on a quarterly basis. This would accelerate cash flow and provide additional investment income on the additional cash received.
- Duplicate recordkeeping by various departments can be eliminated.
- The Department of Treasury should revise its procedures to permit maximization of the cash position.

We appreciate the opportunity to present these recommendations and are available to discuss them at your convenience.

Very truly yours,

Ernst + Ernst

Portland, Maine
November 15, 1974

DEPARTMENT OF AUDIT

The Department of Audit is responsible for a continuous post-audit of the financial records of the Department of Finance and Administration and most other departments and agencies of the State. We believe that a thorough review and upgrading of the operations of the department are overdue. We believe that the role of the department of audit should be redefined to emphasize reports on accounting system evaluations and recommendations for improvements thereto. We concur with the Maine Management and Cost Survey that economics can be achieved through elimination of duplications and inefficiencies and feel that the auditors are in an excellent position to identify such weaknesses.

The operations of the department are relatively unchanged from those of prior years despite changes in the accounting records of the State and increased volume of transactions processed. We recommend that the audit scope of the department be revised to include a review of internal controls and accounting procedures as a basis for determining the extent of audit testing. The auditors should then make use of statistical sampling techniques and computer aides. We believe that the internal auditors should conduct their reviews with an eye toward formulating recommendations for strengthening and improving administrative and accounting controls as noted above.

The directional charges recommended in auditing techniques would require a review of the departmental staffing. The post of the State Auditor is filled by a four year political appointment. This person should be committed to the upgrading of the department through participation in meaningful educational seminars and an increase in the hiring criteria. Strong supervisory direction is necessary in order to expedite the transition of the department.

DEPARTMENT OF TRANSPORTATION

The Department of Transportation reports on a cash basis. Although major expenditures and contract commitments are properly reflected when encumbered, out of period operating expenditures at fiscal year end are not adjusted to accounts payable as is the case for other departments. We believe that the department should adjust to procedures adopted by the majority.

The Motor Transport Service is responsible for the maintenance and operations of State vehicles. The division is currently operating a manual accounting system for control of inventories and vehicles. The system appears to be overly cumbersome and at times in competition with data processing records. Currently the inventory records are decentralized at garage locations. We believe that economics could be recognized if the inventory records were reorganized centrally along the lines of the system in use by the Liquor Commission. Advantages to this approach include centralized computer costing and identification of overstock items facilitating inter-garage transfers. In addition to the repair parts inventories, the service also maintains inventories of gas, oil, and grease. Currently these items are measured over a one week period during the annual physical inventory. We recommend that the measurements be made simultaneously to facilitate cut-off; measurements could still be tested over a period of time and adjusted to the inventory date as considered necessary.

Automobiles are depreciated on a monthly basis. Duplicate manual and computer records are maintained for each vehicle; monthly the computer records are adjusted for minor deviations from the manual computations. We believe that necessity to maintain parallel records is no longer required and recommend that the manual detail be abandoned.

We noted that the rental rates charged the other governmental services by the Motor Transport Service were not sufficient to offset annual operating costs. Retained earnings decreased approximately one million dollars from 1969 to 1974 due to the fact that increases in cost outpaced increased revenue. We recommend that overhead and rental rates be timely adjusted to realistic levels in order that the Motor Transport Service be self-sufficient.

The following comments were discussed in our interim management letter dated January 2, 1974. Departmental replies are summarized in parenthesis:

Current financial information is not on file for all bidders on highway projects; only bidders not awarded a contract by the Department within a five-year period are required to submit financial data. Although we recognize the value of the requirement for performance bonds, we feel that due to the volatile nature of the construction industry, all bidders on state projects should prequalify on an annual basis.

(Departmental reply: Annual pre-qualification of all bidders on State projects is not considered practical or feasible.)

We believe that our recommendation is still valid.

Retainage withheld from contractors' requisitions for work on highway construction projects is limited to five percent of the original contract amount. Nothing is withheld on contract increases due to change orders or extra work orders. We believe that the withholding of retainage based on the adjusted contract price would benefit the State through the temporary investment of such funds.

(Departmental reply: Amounts involved are minor and such a change in policy would have a negative effect on the working relationship with members of the contracting industry.)

We believe that our recommendation is still valid.

Reimbursement of expenditures on federally aided projects is limited to funding requests based on cost estimates submitted by the Department to the Bureau of Public Roads. We noted during our audit tests that supplemental funding requests are not always being submitted timely for projects experiencing cost overruns. We believe that this function should be reviewed to assure maximum acceleration of federal funds due.

(Departmental reply: Procedures have been revised to insure that projects are modified in a timely fashion and that recovery of all Federal funds due will be maximized within a reasonable period.)

The organization and physical layout of the Department's computer area are indicative of weaknesses in internal control. We observed that the security was lax as access to the equipment area was unchecked and that housekeeping presented a disorganized appearance. The data processing function is so vital to the Department's operations that certain basic safeguards to protect the equipment and its output cannot be ignored. We strongly recommend that access to equipment be limited to authorized personnel only and that housekeeping be upgraded.

(Departmental reply: The problems outlined are attributable to lack of adequate space. They will be eliminated in the new State Office Building under construction.)

We believe that despite the crowded conditions internal security and housekeeping can be strengthened.

LIQUOR COMMISSION

Our testing of the inventory at the Augusta warehouse disclosed the following situations:

Specialty items are excluded from the physical stock reports. We believe that these items should be controlled if only by a collective or miscellaneous account.

We noted several minor differences between shelf quantities and quantities per stock report. The differences apparently had existed for sometime, but personnel responsible for the storeroom were not familiar with adjustment procedures. We recommend that known shortages be reported and adjusted promptly. The commission prices its inventory at the most recent quoted cost regardless of the purchase date. We believe that this method may distort the operations of the liquor commission and recommend that inventories be costed at the lower of FIFO cost or market.

The daily stock reports do not appear to be subject to a retention schedule. We were unable to locate daily reports for May 30 and 31 for our testing. We recommend that the on-hand reports be maintained for a year prior to destruction.

DEPARTMENT OF FINANCE AND ADMINISTRATION

Our reviews of the various departments of the State disclosed that coordination with central accounting requires improvement. The lack of coordination has resulted in duplicate recordkeeping and additional personnel on the departmental level and lack of standardization in reporting to and from departments and agencies. We believe that much of the duplicate effort could be eliminated. (See comment under Department of Audit regarding proposal for audit recommendations. The internal auditors are in a key position to identify such duplications.)

Details of Sales and Use taxes are not being timely reconciled nor is the detail subject to an aging of self assessments and departmental assessments. We recommend that the system be considered for mechanization due to the volume transacted and that the detail be subject to an aging analysis in order to establish a proper reserve for uncollectible accounts.

The Bureau of Taxation recognizes income on individual income taxes as amounts are assessed. As eventual collection of each account is difficult to ascertain from information available and the bureau lacks effective follow-up for over-due accounts, we believe such amounts should be fully reserved.

We have previously commented on the following recommendations for improvement to the policies and procedures observed in the Bureau of Taxation in our management letter dated October 24, 1972. Departmental replies to our comments are summarized in parenthesis.

Under current procedures, a separate audit staff is maintained for each division of the Bureau of Taxation. The primary responsibility of the audit staff is the audit of taxpayer's returns, much of which is performed at the taxpayer's place of business. This means that different

auditors might visit the same taxpayer at different times for the audit of sales tax, income tax, excise tax, etc.

We believe that efficiency would be improved and that operating costs could be reduced if the various audit staffs of the Bureau were combined into a single audit division. A unified audit division would have the following advantage over the present system:

A given taxpayer could receive a simultaneous audit of all tax returns and reports.

Audit time per taxpayer would be reduced as the auditors become familiar with the taxpayers record keeping and accounting procedures. The time savings would come from the fact that it would no longer be necessary for several different auditors to become familiar with the taxpayers record keeping procedures.

Utilization of the audit staff could be improved with a broad use of assignments.

Members of the audit staff would develop a knowledge of all taxes and related audit procedures.

Travel would be less costly by reducing the number of visits to each taxpayer.

(Departmental reply: The potential for unified direction of the audit field staff was recognized as the major benefit of a single audit division. The utilization of multi-purpose auditors was not thought to be practical. Previous requests to centralize control of field auditing had been denied.)

We believe that the benefits to be derived from centralized audit administration deserves further consideration as does the use of multi-purpose auditors.

At the present time there is no enforcement staff in the individual income tax division. We recommend that the necessary steps be taken to insure that the taxpayers are meeting filing requirements of the law.

At present the Income Tax Division is making no assessments for interest and penalties to Withholding Agents for late filing. During our tests we noted several returns filed which were delinquent from 3 to 6 months. We recommend the Division take immediate action on late filings by assessing interest and penalties on delinquent payments from due date of return to the date of payment.

(Departmental reply: The computer program was not designed to assess interest and penalties on delinquent accounts. The program will be revised when an opportunity to do so is found.)

We believe that the required revisions should be made to the computer program in order to assess interest and penalties as noted in our earlier comment.

Quarterly estimated tax payments are required under the individual income tax law. We recommend that the same requirements be placed on corporations which are subject to Maine income tax payments. This would improve cash flow to the State and produce additional revenues if the additional funds

received were invested. Along this line we also recommend that serious consideration be given to the feasibility of establishing a direct deposit system for the estimated tax payments as well as the monthly payment of taxes withheld by employers.

(Departmental reply: A change is required in the statutes in order to require estimated corporate income tax payments. The direct deposit system was not considered practical.)

We believe that the legislature should consider a change in the statutes to require estimated income tax payments by corporations as is the practice of the Federal government and many states. Also the direct deposit system is recommended for further study.

We noted that a significant time lag is involved in crediting estimated income tax payments made by taxpayers to their account in the computer file. In order to facilitate the best audit of individual returns, we recommend that all payments made during the period be updated in the computer as soon as possible.

(Departmental reply: Corrections to the system have been implemented.)

It was noted that no master control card is maintained for Inheritance Tax ledger cards. Thus it is necessary at the present time to prepare the monthly assessment from a tape of all bills with no control figure to reconcile to. We recommend that a master control card be utilized to improve accounting controls and to enable management to be better informed as to the current status of Inheritance Taxes.

(Departmental reply: Existing procedures are adequate to provide any information from a summary card.)

DEPARTMENT OF INLAND FISHERIES AND GAME

The following comments were outlined in our interim management letter dated January 2, 1974. Departmental replies are paraphrased in parenthesis:

Receipts used for initial issue of licenses to agents and return receipts used for unsold licenses should be pre-numbered. Pre-numbered receipts are required for an effective reconciliation of licenses as the numbering guards against substitution for or loss of documentation.

The Department should consider reconciliation of total licenses sold to the number of licenses printed prior to the destruction of reconciling items. Currently reconciliations are for individual agencies only and not in total.

(Departmental reply: The additional costs are not justified under the present manual system, however, a mechanized system under consideration would have this capability.)

We believe that the reconciliation of licenses by license type is an important internal control and would not impose substantial additional time.

Although qualifications for agency and the current status of all agents' accounts are closely reviewed by several people within the Department, there exists no requirement that agents be bonded. We recommend that either all agents other than town clerks be bonded or refundable deposits be required of all new and out-of-state agencies.

(Departmental reply: The idea is being explored but the annual premiums quoted have been far in excess of the annual losses and coverage for bankruptcy of an agent is not available.)

Our recommendation is that the agencies should bear the cost of bonding or provide a deposit. The concept is particularly appropriate for new out-of-state agencies.

TREASURER OF STATE

The weekly cash proofs prepared by the State Treasurer's department for the three operating accounts were noted to be deficient during most of the period under review due to lack of adequate identification of reconciling items. The snowballing problem was apparently due to poor supervisory control by the department as well as a lack of communications with one of the banks. At March 31, 1974 \$28.6 million of unidentifiable differences were being shown in the cash reconciliations. Subsequently, most of the items have been identified and corrected. An additional problem was noted with respect to cash disbursements created during a change over in the computer system in 1972. The differences created have never been completely documented. We recommend increased coordination with the operating banks and increased monitoring of the reconciliations by department supervisory personnel and the internal auditors in order to eliminate re-occurrence of the problem.

The department appears to be having difficulty maintaining detail records of protested checks on a current basis. (Balance exceeds \$60,000 at June 30, 1974.) We believe that the volume of protested checks could be substantially reduced if an agreement could be worked out such that the banks would make the initial attempt at collection. Protested checks would be charged back against the State only if the banks collection efforts fail.

The State Treasurer's department prepares a listing of demand and time cash by depository at the end of each month. We noted however, that the report was not reconciled to the controller's records. We understand that the report is utilized in part to measure compliance with the statute requiring collateralization of deposits over a certain amount. The reports should be reconciled timely by either the preparing department or the controller's staff to insure that all balances are considered. Our tests disclosed that the reports were incomplete.

Our review of departmental operations indicated that the State is not maximizing its cash position as follows:

A \$450,000 certificate of deposit is maintained at zero interest rate with the bank which manages the State's trust portfolios; the interest foregone represents the trust fee to the trustee. We believe the arrangement should be reviewed.

We noted instances of excessive delays in bank transfers, the reasons for which were not adequately documented. In one instance, a \$700,000 transfer between two operating accounts took 17 days to complete. Increased daily supervision should eliminate transfer delays.

We recommend the use of wire transfers for transfers of funds from the various depository banks to the operating bank. The depository accounts should be maintained under an imprest system whereby excess funds over a stated amount would be available for investment. Additionally we recommend that the department coordinate with the Central Computer Service for the development of daily cash balance reports which would be used as a basis for investment decisions.

Purchase of short term investments with excess cash on hand at the end of the month is made by verbal order and reflected on the Treasurer's cash records. The same transaction takes five days to be recorded on the Controller's

records. We recommend that the transaction be reflected on the Controller's record timely using a journal entry such that the Treasurer's and Controller's records are in agreement at month end.

The department maintains a hand posted cash book which, except for differences in the timing for recording investment purchases, is a duplication of data processing records prepared by the State Controller's office. We recommend that the duplicate efforts be abandoned.

Currently investment income is distributed to the various funds on the basis of month end balances. We recommend that the daily cash balance report cited above also be available by fund so as to enable investment income to be distributed more equitably on an average daily basis.

Income on investments is recorded on a cash basis unless the investment is transferred between funds at which time a prorata share is credited to the transferor fund as of the date of transfer. We recommend that all investment income be recorded on an accrual basis. Mechanization of the investment records would be the most efficient way to implement the recognition of investment income on an accrual basis.

We previously issued additional comments on the Treasury Department in letters dated June 16, 1972, and January 2, 1974. The comments are summarized below:

Purchases, sales, maturities, gains, losses, and earnings of the securities and other investments of the various trust funds of the State are reported to Treasury in June and December of each year. After the semi-annual reports are received, the department prepares a journal to record transactions for the six-month period in the general ledger. Consequently the general ledger balance at June 30 reflects investments owned as at the prior calendar year-end.

The department is maintaining hand-posted ledgers for the trust funds held in custody. These ledgers could be eliminated if monthly reports were received from the custodian and the transaction listings were used to prove the validity of the security listing from month to month.

We have reviewed the State Municipal Revenue Sharing Program as established under Public Laws, 1971, Chapter 478, as revised, and the related accounting controls. Our tests of the records disclosed that the input to the Revenue Sharing Formula was not being reconciled to control totals; in fact, we were unable to fix responsibility for such reconciliations. We recommend that responsibility for reconciliation of input data be assigned. Also we recommend a formal program for periodic updating of the input data be adopted.

DEPARTMENT OF HEALTH AND WELFARE

Our review of the expenditure cut-off procedures at the department disclosed substantial out of period expenses. Our management letter dated November 21, 1973 outlined the following recommendations for correcting the problems noted. Departmental rebuttal is included in parenthesis.

Administrative and general expenses - The amount of these expenditures which are recorded in the improper accounting period could be minimized by the following:

Increase the use of encumbering at year end for all bills over \$75 in amount.

Increased management pressure to have all invoices processed and forwarded to the Bureau of Accounts and Control before the annual closing of the books.

(Departmental reply: The department recognizes no advantage to accruing expenditures as long as there is a reasonably regular payment cycle. Encumbrance of bills over \$75 would be costly and not improve the speed of payment. The suggestions would cause reporting problems with the Federal government.)

We disagree with the department and feel that it should be subject to the same accrual accounting requirements as are the other departments.

New grants and retroactive payments on welfare payables - We noted that in many instances processing of benefits to new applicants were delayed due to lack of funds. We believe that the department should measure and consider the impact that

acceleration of applications will have on program expenditures and provide for some in its budget request.

In addition we believe that these out of period expenditures hinder the measurement of departmental operations and performance. We suggest consideration be given to the use of "encumbering by letter" known and estimated amounts in order to better reflect the operations of the department in any given period.

(Departmental reply: The procedures recommended would require additional personnel and expense.)

Medical and general assistance payments - We noted that processing delays of medical payments and the accounting for the bills held were due to lack of funds. We recommend that the department reflect the expenses in the accounting period in which the vendor's requisition is received rather than in the period funds become available. We also recommend that the department research the possibility of setting a time limit for the filing of claims.

(Departmental reply: Backlog of payments were due to normal processing delays and bills held due to lack of funds. The department notes that the program is difficult to control and recommends adequate appropriations.)

We again emphasize that the recording of expenditures should not be dependent upon the availability of funds but rather on the submission of the request for payment and proper audit thereof.

Inherent in our recommendations are additional needs and needed procedures in this department. These are:

An ability to estimate invoices in process

An ability to predict expenditures accurately

An ability to predict needed cash flow

An ability to estimate claims incurred but not reported

Someone to assist in expediting requests for State and Federal funds on a current basis

Presently all of the above are performed on a part-time basis by the Director of the Bureau of Administration and the Director of the Division of Accounts and Audit. Based on the complexity of the aforementioned procedures, their importance and time requirements, it is our opinion that an additional administrative staff member with experience in forecasting health care expenditures and cash flow projections is required to provide the Department with the necessary information to properly estimate expenditures and requests for State and Federal funds.

DISTRICT COURT SYSTEM

The following comments are excerpts from our management letter dated June 12, 1972:

We recommend that all operations of the district court system should be centralized through the Business Office for the courts. This would require the employment of a Business Manager for the Court System (which we believe would be a much needed aid to the Chief Judge) and whatever additional staffing required to process the transactions.

We believe that the following procedural changes should be made in centralizing operations in the Business Office of the Court System:

The checking accounts maintained by each of the courts should be eliminated.

Daily receipts collected by each of the courts should be deposited to the credit of the State in existing depository accounts which are now being utilized by the Liquor Commission and Department of Motor Vehicle Registration.

Copies of the deposit slips should be forwarded to the Business Office of the District Court System, where the income statement would be prepared and forwarded along with the deposit slips to the State Treasurer for recording. (The system currently being used by the Liquor Commission provides an excellent guide for the detail of the procedure.)

Monthly docket reports prepared by each of the courts should be forwarded to the Business Office, where cash receipts for the month should be balanced and the other procedures currently being performed by the Treasury should be completed.

Many of the courts maintain separate bank accounts for the processing of bail receipts. The accounts are also under the complete control of court clerks. We believe that the collection and distribution should be a function of the Bail Commissioner. The Commissioners receive collection fees of \$7 per day collections and \$10 for night collections. These amounts should be adequate to compensate the Commissioners for appearing in court on court days to administer the distribution of bail money. This would eliminate the necessity of maintaining the bail accounts and reduce the work requirements of the court clerks.

We also recommend that the Bail Commissioners should be required to give the payee a receipt of bail collected showing the distinction between the amount of bail and the collection fee.

DEPARTMENT OF MENTAL HEALTH AND CORRECTIONS

Weaknesses noted during our tests of the accounting records at the Maine State Prison were reported in our management letter dated January 2, 1974.

Significant comments and the replies thereto are summarized below:

The business office was noted to be understaffed despite additional authorized manpower. The vacancy had adverse effects on the timely maintenance and accuracy of the accounting journals and supporting detail.

(Bureau reply: Another employee has been added, records updated and corrections processed.)

Inactive accounts of deceased inmates were noted to be commingled with active accounts. We recommend that the accounts be turned over to the next of kin.

(Bureau reply: Action on these accounts is pending instructions from the Department of Mental Health and Corrections.)

Weaknesses noted during our test of the accounting records at the Pineland Hospital and Training Center were communicated in our management letter dated January 2, 1974. The significant comments and replies thereto are summarized below:

We recommend consolidation of the various checking accounts and investment of idle cash. We also pointed out a need for additional segregation of duties.

(Superintendent's policy: Recommendations have been implemented.

We noted that the continuing property records of fixed assets were inaccurate due to unrecorded transfers and recommended an inventory of fixed assets be compiled.

(Superintendent's reply: Manpower is lacking to conduct a physical inventory; an alternative solution is under consideration.)

FEDERAL SURPLUS PROPERTY PROGRAM

The following recommendations were outlined in our management letter dated May 17, 1972:

Current procedures require that potential donees file an authorization form with the State Agency indicating those persons authorized to acquire property for the donee. We make the following recommendations with respect to such authorizations and the use thereof.

That authorizations for a given donee be kept to a minimum and be limited to responsible officials of the donee.

That the signature of the donee's authorized agent be placed on the authorization or that an identification card system be used.

That each agent visiting the warehouse be admitted only through the business office and that he be required to sign in and out on a visitation log.

The log should be compared to the signed authorization form or identification card if the agent is not well known to office personnel.

Federal regulations require that the donee maintain property records on all items which originally cost the government \$2,500 or more. Such records are subject to audit by the Federal government and to periodic reports required by the State Agency. We recommend that those state agencies and institutions subject to control and/or audit by the State also be required to maintain property records on items such as binoculars, cameras, projectors, tape recorders, etc. which are easily portable and of a relatively high value.

The State Agency currently maintains a perpetual inventory of property held in the warehouse. A physical inventory is taken each year and compared to the perpetual records to determine overages and shortages. We believe that better control would be exercised over the inventory if cyclical counts were made periodically and reconciled to the perpetual cards. We realize that such counts would place additional demands on the small existing staff but believe the demands would not be unreasonable if the counts were limited to items stored in the yard and to the more popular and usable items in the warehouse.