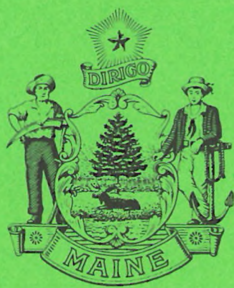
1987

Sixty-eighth Report of the State Auditor : for Period July 1, 1986 - June 30, 1987

STATE OF MAINE



68TH REPORT

OF THE

STATE AUDITOR

FOR PERIOD

JULY 1, 1986 — JUNE 30, 1987

RODNEY L. SCRIBNER, CPA
STATE AUDITOR

SIXTY-EIGHTH REPORT OF THE STATE AUDITOR

Title 5, M.R.S.A., Section 244, provides in part, "The State Auditor shall keep no accounts in the Department of Audit, but he shall conduct a continuous postaudit of the accounts, books, records and other evidences of financial transactions kept in the Department of Finance or in the other departments and agencies of the State Government. He shall prepare and publish a report for each fiscal year, setting forth the essential facts of such audit in summary form, within the following fiscal year after the books of the State Controller have been officially closed."

Published Under
Appropriation 1010.1

STATE AUDITORS AND TERMS OF OFFICE

1907-1910	Charles P. Hatch	Portland
1911-1912	Lamont A. Stevens	Wells
1913-1914	Timothy F. Callahan	Lewiston
1915-1916	J. Edward Sullivan	Bangor
1917-1921	Roy L. Wardwell	Augusta
1922-1940	Elbert D. Hayford	Farmingdale
1940-1944	William D. Hayes, CPA	Bangor
1945-1956	Fred M. Berry	Augusta
1957-1964	Michael A. Napolitano	Augusta
1965-1968	Armand G. Sansoucy	Lewiston
1969-1970	Michael A. Napolitano	Augusta
1970-1970	William L. Otterbein	Farmingdale
1971-1976	Raymond M. Rideout, Jr.	Manchester
1977-1977	Rodney L. Scribner, CPA	Augusta
1977-1984	George J. Rainville	Lewiston
1985-1987	Robert W. Norton	Biddeford
1987-	Rodney L. Scribner, CPA	Augusta

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FOREWORD

The Departmental Bureau of the Department of Audit, for the first time, conducted a Single Audit of the State of Maine, for the 1987 fiscal year. This audit was performed in conformity with the provisions of the Single Audit Act of 1984, and included the preparation of certain other required reports, in addition to our qualified opinion on the component unit financial statements. These other reports relate to compliance with laws and regulations and to a study of internal accounting and administrative controls; as well as an additional opinion on the Schedule of Federal Financial Assistance.

Following is our qualified opinion on the component unit financial statements of the State of Maine, as well as a summary of our audit findings. Due to their program specific nature, certain other findings, which relate to federally funded programs, are not included in this summary. Findings related to federal programs have been communicated to the appropriate agencies of the federal government and are included in our complete four volume report which is available at our office, Room 700, State Office Building, Augusta, Maine.

In addition to the 1987 Statewide Single Audit, the Departmental Bureau also reported on several individual state agencies and departments for the 1985 and 1986 fiscal years since our last annual report. These reports are also available at our office.

DEDICATION

Many thousands of hours of audit effort were expended in the transition from prior audit practices and procedures during this year. The support of many dedicated employees was essential to this accomplishment. However, one person stands head and shoulders above all others and her efforts deserve special recognition. Her unflagging efforts and dogged determination carried the first Statewide Single Audit of the State of Maine to a successful completion; therefore we are pleased to dedicate this report to:

Carol A. Lehto CPA, CIA

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

AUDITOR'S REPORT ON COMBINED FINANCIAL STATEMENTS

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

We have examined the component unit financial statements of the State of Maine oversight unit as of and for the year ended June 30, 1987, as listed in the table of contents. 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. We did not examine the financial statements of the Division of Community Services, which represent less than one percent of the assets and revenues of the general and special revenue fund types. Those financial statements were audited by other auditors whose report thereon has been furnished to us and our opinion expressed herein, insofar as it relates to the amounts included for the Division of Community Services, is based solely upon the report of the other auditors.

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 are not included.

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

As more fully described in note 1C to the financial statements, the state does not record certain accruals and payables as required by generally accepted accounting principles.

As described in note 9, the state has underaccrued the cost of its retirement plan. The cumulative amount of the underaccrual cannot be estimated.

As more fully described in note 15, the state is a defendant in numerous lawsuits. The state's legal counsel is unable to determine the potential outcome of several of these lawsuits. No adjustment has been made to record the effects of the ultimate settlement of these lawsuits.

In our opinion, except for the effects on the financial statements of not recording certain transactions in accordance with generally accepted accounting principles as described in the third preceding paragraph and subject to the effects on the financial statements of such adjustment, if any, as might have been required had the ultimate outcome of the various lawsuits referred to in the second preceding paragraph been known, and except for the effects on the financial statements of such adjustments, if any, as might have been required had the amount of the underaccrued pension costs described in the preceding paragraph been known, the component unit financial statements referred to above present fairly the financial position of the State of Maine, oversight unit, at June 30, 1987 and the results of its operations and the changes in financial position of its proprietary fund types for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. For the reason discussed in the third paragraph, we do not express an opinion on the General Fixed Assets Account Group.

Rodney L. Scribner CPA

Rodney L. Scribner, CPA
State Auditor

August 8, 1988

FINDINGS AND NONCOMPLIANCE WITH LAWS AND REGULATIONS

AGENCY/PROGRAM	CONDITION
Public Utilities Commission 1987 assessment recorded in 1988 fiscal year	Fiscal year 1987 recorded revenues and receivables were understated and 1988 fiscal year revenues overstated by $2,218,999 as an entry was not made in fiscal year 1987 to record the May assessment made on each utility operating in the state. 35-A, M.R.S.A., Section 116 requires the annual assessment to be levied prior to May 1st (at which time the revenue should be recognized) and utilities to pay the assessment on or before July 1st of each year. Assessment billings were mailed to the utilities within the required time frame, however, the journal entry to record the billing was not prepared until July 23, 1987. We recommend that the assessment journal be prepared and recorded on a timely basis. Administrative personnel of the Public Utilities Commission concur with our recommendation.
Department of Professional and Financial Regulation — Bureau of Insurance Late billing of assessments	Title 24-A, Section 237, Maine Revised Statutes Annotated of 1964, as amended, promulgates that "the expense of maintaining the Bureau of Insurance shall be assessed annually by the Superintendent of Insurance against all insurers licensed to do business in this State...". Other provisions in the applicable law state, in part, that "on or before April 20th of each year, the superintendent shall notify each insurer of the assessment due...and that "payment shall be made on or before June 1st." A review of assessments levied on insurers in the 1986-87 fiscal year revealed that the notifications of total assessments due of $752,748 were not forwarded to the respective insurers as of April 20th. This was apparently the result of ineffective scheduling of staff time on the part of bureau administrative personnel. Our review also disclosed that these

AGENCY/PROGRAM	CONDITION
Bureau of Insurance	assessments due were not established as taxes receivable as of the prescribed billing date and were not recognized on the records of the State Controller until the subsequent accounting period. This was apparently due, in part, to the untimely preparation of the assessment notifications. As a result, revenues and taxes receivable for the 1986-87 fiscal year were understated and the respective accounts for the 1987-88 fiscal year were overstated. We recommend that assessments be billed on or before April 20th of each year and that the assessments be recorded and recognized as taxes receivable/revenue at the date of billing in order to present fairly the financial position and results of the financial operations of the bureau. Administrative personnel of the Bureau of Insurance concur with the recommendation.

MATERIAL WEAKNESSES OF INTERNAL CONTROL

Material weaknesses are significant weaknesses in the state's system of internal accounting control and should be acted upon as soon as practicable.

AGENCY/PROGRAM	CONDITION
Department of Administration — Bureau of Data Processing Understatement of Revenues	A review of accounts receivable records for computer services provided to user agencies revealed that unbilled receivables for the month of June 1987 were not accrued. The total amount due to the bureau for services provided in June 1987 was $751,057. The billings for the receivable amounts which comprise this total did not transpire until the subsequent month — after the expiration of the 1986-87 fiscal year. This practice resulted in an understatement of revenues and an understatement of assets (due from other funds) for the 1986-87 fiscal year. Generally accepted governmental accounting principles regarding proprietary funds assert that revenue should be recognized in the accounting period in which they are earned and become measurable. We recommend that unbilled receivables be accrued and thus recognized as revenue in the fiscal year in which they are earned. Because rate-setting procedures depend on an accurate accounting of revenue and expenses at selected times, we further recommend that the accrual of unbilled receivables be performed on a monthly basis to properly reflect the financial position of the centralized computer operations as well as to provide more accurate reporting of profit and loss by cost center. Bureau administrative personnel concurred with our recommendation and indicated that the recommendation was being carried out in fiscal year 1988.
Inventory valuation	An examination of agency equipment records revealed a lack of sufficient detail information to support and substantiate depreciation schedules used in the valuation of assets. Inadequate maintenance of these records in

AGENCY/PROGRAM	CONDITION
Bureau of Data Processing	prior periods resulted in unreliable asset and depreciation information for financial reporting purposes. We therefore recommend that the bureau perform a complete physical inventory of capital equipment items and that the related records be maintained on a current basis (i.e., additions, retirements, etc.). We further recommend that the bureau assign values to those items found which are not currently catalogued on the inventory listing (through the use of original purchase orders when available or via best estimate through current cost comparison if original purchase orders are not available); review past financial records to determine total depreciation charged which was not applicable to current inventory items and compare this amount to the original valuation of inventory to which it applies to determine if equipment has been depreciated beyond its original value; and finally, document procedures followed to bring inventory and depreciation records up-to-date to provide an audit trail for the verification of inventory valuation (when the previously described recommendations have been implemented). Agency personnel concur with the recommendations and have initiated efforts to implement them.
Department of Educational and Cultural Services Educational loans receivable	Loans are available through the department to students participating in post graduate education in the field of medicine and to students meeting the criteria of the Blaine House Scholars Program. These loans must be repaid either by cash repayment or by return service in the state. Laws establishing these two loan programs permit repayment over a number of years once the repayment phase is entered. Repayment is not required until the program of education is complete.

AGENCY/PROGRAM	CONDITION
Department of Educational and Cultural Services	In our current audit, we noted that loans made to Post Graduate Health Professional Program recipients still in school and some loans made to Blaine House Scholars are not established as loans receivable nor otherwise recorded on the records of the State Controller. State assets are therefore understated by the amounts not recorded ($7,282,626). We also noted that the related reserve for uncollectible accounts was established at 100% of the recorded receivables balance. Per discussion with department personnel, this was done so that the dedicated revenue balance would represent only the cash available for expenditure. A combination of new personnel and new programs was the reason other receivables were not recorded. Amounts to be repaid to the state represent an asset and should be so recorded. Preferred accounting practices require those assets recorded in advance of the appropriate timing for revenue recognition to be offset by a credit to deferred revenue. We therefore recommend that the department record all amounts due the state on the records of the State Controller along with appropriate credit entries either to revenue for those amounts measurable and available or, to deferred revenue for those amounts not yet available for revenue recognition. We also recommend that the department annually age the loans receivable so that an adjustment may be made that will ensure that a sufficient reserve for uncollectible accounts is established.
Errors in distribution of state subsidies to local educational agencies	Maine's School Finance Act of 1985 provides for state subsidies to local educational agencies (LEAs). We examined distributions which had been made to 85 LEAs and noted variances which totaled $93,123 in 17 of them. Incorrect allocation computations were primarily the result of errors in consolidation of supporting data.

AGENCY/PROGRAM	CONDITION
Department of Educational and Cultural Services	Each LEA receives a copy of their allocation and agency personnel rely in part on the LEA's review to detect errors. The agency has since strengthened their internal supervisory review process to prevent similar errors in the future. We recommend that supervisory personnel periodically spot-check and verify the transferral and accumulation of data.
Department of Finance — Bureau of Taxation Control over and recognition of tax revenues resulting from audit assessments	Amounts due as a result of sales and/or use tax assessments made by the bureau's audit division are not recorded as receivables/revenue on the records of the State Controller. Also, amounts paid prior to final reconsideration of the amount assessed are credited to accounts receivable but have not been established as accounts receivable. As a result of these payments, General Fund receivables, revenues and fund balance were understated by $995,878 at June 30, 1987. In addition, substantial time may elapse from initial assessment to final reconsideration. Assessments are controlled during this time period through the use of 3″ x 5″ index cards. This weak control could result in assessment records being lost or improperly altered. Bureau personnel indicated that assessments have not been booked due to the substantial number of adjustments that take place prior to final reconsideration. They also indicated that additional staff would be made available to reduce the backlog of assessments under reconsideration. We recommend that assessments be established as receivables once the bureau has completed its final reconsideration. Partial payments received prior to final reconsideration and credited to receivables should be established as receivables/revenue. We also recommend that assessments be numbered and that a detail ledger control of such assessments be maintained. If assess-

AGENCY/PROGRAM	CONDITION
Bureau of Taxation	ments are abated, evidence of proper authorization of the abatement should be retained and noted in the ledger.
Department of Finance — Bureau of Accounts and Control Improper use of prepaid expense	At June 30, 1987 recorded assets were overstated and expenditures understated by $2,599,096, due to improper use of the prepaid expense account. In the General Fund a $2,460,920 debit to prepaid expense (rather than to expenditures) was made as the balancing entry to the amount recorded as "Due to" other agencies for services received. In the General and Special Revenue Funds, we noted other debits to prepaid expense of $206,130. Those entries had been made to avoid deficits which would have been created by recording expenditures to accounts in which sufficient funds were not available. Administrative personnel of the bureau indicated that their current coding procedures were a long standing practice, but agreed in principle that proper coding would be to record expenditures rather than prepaid expense in the above situations. To present an accurate picture of financial position and to record expenditures in the period in which the obligations are incurred, we recommend that use of the prepaid account be limited to those situations where the obligation or expenditure is for goods or services to benefit a future period. We also recommend that the system be more closely monitored to avoid the overexpenditure of available funds.
Funds entrusted to the state not recorded on the Controller's official records	The State of Maine is accountable for amounts received from participants in a Deferred Compensation Plan as well as from representative payee and guardianship relationships and for patient/inmate funds at state institutions. At June 30, 1987 such Deferred Compensation

AGENCY/PROGRAM	CONDITION
Bureau of Accounts and Control	assets were approximately $34.9 million and other assets approximately $1.7 million. Responsibility for those funds was not reflected on the official accounting records of the state. Past practice has been that Deferred Compensation Plan assets are reflected in the State Controller's Annual Financial Report but not otherwise reflected in state accounting records. Other referenced funds have not been centrally recorded. So that state accounting records will present a more accurate record of agency activity and financial liabilities, we recommend that all funds or assets in the custody of the state or any of its individual agencies be recorded on the official accounting records of the state. Bureau administrative personnel indicated general agreement with our recommendation.
Department of Mental Health and Mental Retardation Augusta Mental Health Institute Billings for patient care and treatment not up-to-date	During our review of accounts receivable records for Augusta Mental Health Institute, we noted that as of May, 1988, billings for patient care and treatment were 23 months behind. Medicare billings for the period July 1986 — May 1988 are now being generated and mailed while billings to other payers are now almost all current. We also noted that posting of receipts was approximately two months behind. In addition, we noted that pharmaceutical services rendered are not billed. Billing delays are primarily the result of converting from a manual to a computer billing system, which is neither fully functional nor efficient. Bills cannot be generated without extensive manual review and corrections. The billing section is understaffed for the demands of current and retro billings and the manual rework required of the computer system output.

AGENCY/PROGRAM	CONDITION
Department of Mental Health and Mental Retardation	General fund revenue is understated as Medicare reimbursements are recorded at time of receipt, not as services rendered are billed. Agency estimates of such reimbursement revenue for the 23 month period ranged from $1.2 million to $2 million. There is also a possibility of lost General Fund revenue due to the following: loss of interest income; loss of payments due to insurers' limited payments having been made to other providers who are more timely in their submission of bills; not having billed for all reimbursable services provided; lack of time to pursue delinquent accounts; and the lesser likelihood of receiving payment on old bills. Receivable records also do not present a true picture of financial position due to the delays in posting transactions. Agency administrative personnel indicated their agreement with our findings. They are now reviewing and researching ways to revise the billing system and have been catching up old bills two to three months at a time every two-three weeks. Most billings are now current except for Medicare bills, which must go in order. To permit timely and efficient processing of complete and accurate bills, as well as posting of payments, we recommend that a workable billing system be installed/implemented. We also recommend that additional personnel be brought in to catch up posting billings and posting of transactions, and that all reimbursable services rendered be billed.
Errors in rate structure resulting in underrecovery of Medicaid reimbursements to General Fund	For the period July 1, 1983 — June 30, 1987, Department of Mental Health and Mental Retardation (M.H.M.R.) patient care and treatment billing rates, as established by the Maine Department of Human Services, were understated, resulting in underrecovery of Medicaid reimbursement revenue to the General Fund. Daily reimbursement rates were understated due, in part, to the effects of incorrectly in-

Department of Mental Health and Mental Retardation

cluding in the rate structure a penalty that had been assessed in 1982, and, in part, to improperly incorporating census changes and certified bed changes that affected the occupancy rate and therefore the reimbursement rate.

With the aid of an outside consultant, M.H.M.R. personnel detected these errors and an additional reimbursement of $1,698,854 for this period was received in June of 1988, via Health and Human Services audit revision settlements. This reimbursement pertained to Augusta and Bangor Mental Health Institutes. Lesser amounts may be obtainable for other state mental health agencies.

We recommend that agency personnel continue their efforts to obtain all available reimbursements at the highest possible reimbursement rate.

Department of Transportation

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

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

Augusta State Airport:	
Land	$ 70,220
Buildings	85,215
Structures and Improvements	5,173,346
	5,328,781
Marine Ports:	
Equipment	19,500,000

AGENCY/PROGRAM	CONDITION	
Department of Transportation	Island Ferry Service:	
	Land	86,000
	Buildings	72,826
	Structures and Improvements	280,635
	Equipment	46,739
		486,200
	TOTAL	$25,314,981

Included in the Augusta State Airport total is $5,271,000 which was reported as Construction in Process at June 30, 1984 and incorrectly journal transferred to the General Fixed Assets Account Group.

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

Augusta State Airport	$ 14,132
Marine Ports	2,295,000
Island Ferry Service	280,886
TOTAL	$2,590,018

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

AGENCY/PROGRAM	CONDITION
Department of Transportation — Motor Transport Service Revenue and expenses understated	Motor Transport Service revenues and expenses are understated due to incorrect coding of vehicle repair and fuel sales transactions. Motor Transport Service does not record any expenses or revenues as a result of fuel sales to, or vehicle repairs for, other state agencies. Fuel sales are recorded as a credit to fuel inventory and as a debit to due from other funds. When payment is received, cash is debited and due from credited. Vehicle repair costs are credited to inventory and debited to work in progress. When payment is received, cash is debited and work in progress credited. At no time are the transactions recorded as revenues or expenses. To accurately reflect the actual results of operations in the financial statements, we recommend that Motor Transport Service record expenses for the costs associated with fuel sales and repair services rendered, and record revenue for receipts in payment of such expenses. Department of Transportation administrative personnel concur with the recommendation.

OTHER WEAKNESSES OF INTERNAL CONTROL

AGENCY/PROGRAM	CONDITION
Department of Administration — Bureau of Data Processing	An analysis of the system of internal control over bilings and related accounts receivable accounting procedures followed by bureau personnel revealed that the clerk responsible for the accounts receivable ledgers also maintains the cash receipts log.
Segregation of Duties	Generally accepted accounting and internal control standards require that accounting responsibilities and duties in recording, processing and reviewing transactions be properly separated among individuals. We recommend that the duties and responsibilities associated with the cash receipt function and the maintenance of the accounts receivable ledgers be properly segregated.
Prepayment was misclassified as a reduction of receivables	The Bureau of Data Processing received a prepayment of $22,493 during fiscal year 1987 for services to be rendered during fiscal year 1988. Such a transaction should be recorded as a liability under "customer deposits payable" until such time as services are rendered. The bureau, however, recorded the transaction as a reduction of "due from other funds," thereby understating both their liabilities (customer deposits payable) and assets (due from other funds). We recommend that the bureau record any receipts of prepayments for services to be rendered, as increases to liabilities (until such time as the services are performed) payable from restricted assets (and present the related cash as restricted). The bureau indicated this was a one time occurrence. Any similar situations in the future will be handled in accordance with our recommendation.
Cost of goods sold is incorrectly calculated	Expenses associated with the acquisition of equipment to be leased to user agencies were incorrectly categorized by the bureau as "cost of goods sold." These costs (rental and interest) represent operational expenses

AGENCY/PROGRAM	CONDITION
Bureau of Data Processing	associated with the activity of leasing equipment, used to offset the resulting rental revenue in determining net income from leasing activity. The erroneously calculated cost of goods sold is overstated as a result, and operating expenses are understated by $144,244.
	We recommend that, in accordance with generally accepted accounting principles, the bureau categorize these costs as operating expenses, not cost of goods sold (maintenance expense on leased equipment, however, may be charged to cost of goods sold).
Accrued compensated absences are inaccurately calculated	The method that the Bureau of Data Processing utilizes to calculate the liability for accrued compensated absences considers only earned vacation and the corresponding retirement contribution. Significant factors, such as accrued compensatory and personal time, applicable medicare contribution and the additional retirement contribution for "confidential" employees, are not included in calculating the amount of the liability. This results in an understatement of the total liability reported by the bureau.
	We recommend that the Bureau of Data Processing revise the method to include all factors that affect the balance of accrued compensated absences, in order to provide a more accurate reflection of the actual liability.
Computer service billings which involve federal programs and interest payments	A review of rate-setting procedures and calculations followed in the computation of billing rates for computer services provided to user agencies revealed that interest expenses paid by the Bureau of Data Processing for borrowing costs associated with equipment are included in the rates being charged. Failure to exclude interest charges in the base to which billing rates are applied results in unallowable costs for those user agencies who reimburse the bureau with Federal funds.

AGENCY/PROGRAM	CONDITION
Bureau of Data Processing	According to paragraph G.2., Atachment A of OMB Circular A-87, "the cost of service provided by other agencies may only include allowable direct costs of the service plus a pro rata share of allowable supporting costs" .... Attachment B, paragraph D.7. of the same Circular also states, in part, that "interest on borrowings (however represented) .... are unallowable except when authorized by Federal legislation and except as provided for in paragraph C.2.a. of this Attachment" .... which applies to the rental cost of space for grant program usage, not equipment. We therefore recommend that the Bureau of Data Processing, when establishing and computing billing rates, determine what portion of the rate base is comprised of interest charges. When billing user agencies the bureau should indicate on the invoice that portion of the billing which represents interest charges. This will provide user agencies with an opportunity to pay with Federal funds, those charges which are allowable under Federal regulations; and to pay, with other funds, those charges which are not allowable under federal regulations. The bureau agrees with this recommendation and indicated plans were already in place to implement the segregation of interest charges on user invoices.
Valuation of assets	A test of expenditures revealed that computer software expenses were recorded as operating expenses (with the exception of one purchase of license rights recorded as an asset) rather than assets. This resulted in an understatement of assets and an overstatement of expenditures and retained earnings on the financial statements of the bureau for the 1986-87 fiscal year. The cost of computer software used to enhance or provide the means for the bureau to provide their specialized services to

Bureau of Data Processing

user agencies (for the prupose of generating revenues to finance current and future operations) should be capitalized rather than expensed at the time of acquisition.

We therefore recommend that the bureau capitalize the cost of computer software used to generate revenues rather than recording the cost as an expense. The capitalized costs should be amortized over the estimated economic life of the software (the projected future period for which this asset will provide economic benefit). Software used solely for pusposes other than providing services to user agencies with no direct relationship to the revenue-generating operations should be recorded as an expense during the accounting period in which they are incurred.

Capital improvements

The Bureau of Data Processing capitalized and is depreciating costs of $155,713 which were incurred for leasehold improvements. As the bureau does not have a fixed term lease, but is a tenant-at-will, these improvements should have been expensed in the period in which they were incurred.

We recommend that any transactions involving major additions to leased property be recorded as expenses in the period in which they are incurred unless one of the following is obtained: an agreement stating a fixed lease term of at least the depreciation period of the construction project, or an agreement stating that the landlord will purchase at the termination date of the lease, the constructed addition for an amount equal to the undepreciated value of the addition.

Bureau personnel do not concur with our finding and recommendation.

AGENCY/PROGRAM	CONDITION
Department of Administration — Bureau of Human Resources Non-proration of benefits for part-time employees	The Bureau of Human Resources is a main factor in approval of pay and benefits for state employees. Their approval is conveyed through use of Human Resource Profile (HRP) forms. We noted two instances where information on these forms incorrectly authorized full employee benefits for part-time employees. In both instances the employees received the correct pro-rated benefits, as the Payroll Division staff of the Bureau of Accounts and Control were aware of problems with the form and applied the correct information. Administration personnel indicated that the incorrect information was due to a problem in the computer system used by the Bureau of Human Resources. To avoid unnecessary expense to the state through use of incorrect information, we recommend that the problem in the computer system be corrected and the HRP forms be closely monitored until such correction is made.
Department of Administration — Bureau of Public Improvements Documentation is insufficient to assure that public improvement project procedures are being followed	A sample of the Bureau of Public Improvements (BPI) project files was tested for compliance with established procedures as outlined in the State of Maine Manual of Financial Procedures and the Architectural and Engineering Services Manual. We were unable to locate certificates of acceptance in six of the twelve files reviewed. An affidavit by the general contractor that all bills and charges against the project have been paid in full could not be located in four of the files. Proof of a year-end warrantee inspection could not be located in six of the files. Bureau personnel indicated that all projects are inspected at least once before payment is made; staff members signatures on pay requisitions is viewed as evidence that the jobs were inspected.

AGENCY/PROGRAM	CONDITION
Bureau of Public Improvements	To provide evidence that required procedures have been followed and to document work done, we recommend that standard and complete documentation be included in all project files.
Department of Administration — Bureau of Purchases The Bureau of Purchases' Manual of Standard Operating Procedures has not been revised since 1974	The manual of Standard Operating Procedures used by the bureau is not current; procedures may be outdated, and may contradict current revised state statutes, policies or procedures. Procedures do not exist for uniform recording and filing of bid documents, the organization of these files varying from one buyer to another. Unwritten procedures are being followed: e.g., informal bureau policy is that contracts may be extended twice but definitely no more than three times, while the manual does not address the number of times a contract can appropriately be extended. In order to ensure compliance with state requirements, provide consistent and current policies, and prevent misunderstanding and misapplication of directives, we recommend that the Manual of Standard Operating Procedures be reviewed and updated.
Written procedures currently in force at the bureau are not consistently adhered to	Results of a questionnaire completed by ten buyers showed that there was unfamiliarity with the bureau's written procedures. This has led to a series of violations of bureau policies and inadequate procurement procedures. 1. Procedures are not being followed for extensions of commodity contracts. Requirements that extensions be justified by a written explanation which is to be included in the contract file, and that signed approval be received from the State Purchasing Agent, are not always being fulfilled. Contracts are extended beyond the bureau's informal limits: one contract was extended for eight years.

AGENCY/PROGRAM	CONDITION
Bureau of Purchases	2. Invoice prices were found to differ from contract prices. One supplier increased prices after having signed a contract; prices did not appear to have been compared, and the contract was subsequently extended.
	3. Surgical supplies were purchased from a non-contracted source, effectively subverting the procurement process. Invoices tested over a nine month period showed approximately $7,500 in supplies purchased from a source other than the one under contract.
	4. The bureau has no evidence that service contracts are competitively bid, as required by 5 MRSA Section 1816. The state agencies requiring services place ads and evaluate replies, sending the name of the chosen vendor to the bureau to have a contract prepared. The service contract buyer at the bureau apparently does not monitor agencies' procurement procedures, although responsibility for competitive bidding rests with the bureau.
	5. Pharmaceutical contracts are not competitively bid. Agencies refer interested pharmaceutical companies to the bureau to apply for a one-year contract. The bureau responds to a request to be included in the State of Maine bidders list for pharmaceuticals by asking for twelve copies of a current price list, which is used as a contract. Agencies may purchase from any company on the list. No effort is made to evaluate prices, or to determine low bidder.
	6. Inadequate documentation of product evaluation and contract award. Documentation of testing and evaluation of alternate products was inadequate to support decisions made about a product's suitability for purchase. In addition, one bidder was inadvertantly omitted from the list of vendors to be evaluated. Complaints were lodged about the product provided by the bidder that was

AGENCY/PROGRAM	CONDITION
Bureau of Purchases	awarded the contract; regardless, the contract was not put out to bid the following year, but was extended for three more one-year periods with no documentation of the appropriateness of that decision. 7. Vendor performance files are incomplete. A central file should be created that would include reports of exceptional service, of all complaints, and of action taken in response to such commendations or complaints. Documentation of correspondence and conversations should also be included in the file. Title 5 MRSA Sections 1811 et seq., provides the authority for the Bureau of Purchases to purchase all services, supplies, materials and equipment for any department or agency of the state government. The bureau is charged with procurement by competitive bidding and with securing the greatest possible economy, consistent with grade or quality, for the state. The bureau is further charged with awarding contracts to the lowest responsible bidder, considering quality, conformity with specifications, delivery, and ultimate costs. State statutory requirements should be reflected in the bureau's Manual of Standard Operating Procedures and should be adhered to. Proper procurement procedures are essential to responsible use of public funds. In order to ensure this, we recommend that supervision of contract activities be strengthened. Staff should receive training, if necessary, to ensure familiarity with procedures. Contracts should be reviewed by management before being signed, and extensions to contracts fully justified and approved. Invoices should be reviewed periodically for conformity with contract prices. Purchases from noncontract sources should not be permitted; if prices from other sources are more beneficial to the state, those sources should be encouraged to participate in the bid process. Documentation

AGENCY/PROGRAM	CONDITION
Bureau of Purchases	of vendor performance should be maintained. We recommend that every effort be made to ensure competitive bidding, and to document steps taken toward that end.
Service providers' insurance coverage has expired and no renewal information is on file	Contracts for rubbish removal and for custodial services require that the contractor carry workers' compensation insurance and liability insurance of not less than $300,000 per claim. One rubbish removal contractor, whose contract is in force until April 20, 1990, was insured for $100,000 per claim. The policy expired on September 27, 1987, and the bureau has no evidence that the policy was renewed. One custodial services contractor, whose contract is in force until February 18, 1991, was also insured for $100,000 per claim. That policy expired on March 25, 1988, and the bureau has no evidence that the policy was renewed. In order to protect the state, state departments and the contractor from claims arising out of work performed under contract, we recommend that the bureau verify that the contractors' insurance coverage conforms to contract requirements. We also recommend that the bureau require proof of insurance policy renewal in contracts with service providers. Bureau personnel were in general agreement with our findings and recommendations. They have already taken action to update their manual and to have vacancies on the Standardization Committee filled.
Department of Administration — Risk Management Division/Self Insurance Fund Provision for loss prevention not in compliance with 5 MRSA §1731	Title 5, Section 1731, Maine Revised Statutes Annotated of 1964, as amended, states, in part, that the total amount of the self insurance fund provided for loss prevention programs in any given year may not exceed 5% of the fund as of July 1 of that fiscal year. It is our opinion that the fund balance used to calculate that 5% provision should consist of

AGENCY/PROGRAM	CONDITION
Risk Management Division /Self Insurance	only unreserved fund balance. The department did not consider those funds reserved for encumbrances as a reduction of fund balance prior to calculating the 5% provision for loss prevention, therefore, funds provided for loss prevention during the fiscal year 1987 exceeded that which is allowed by statute by $22,811. We recommend that the Department of Administration consider only those funds which are not otherwise obligated from the self-insurance fund, to determine the proper base (fund balance) to be used to calculate the 5% provision for loss prevention.
Department of Economic and Community Development Community Development Block Grant (CDBG) CFDA #14.228 Documentation of required award procedures was not always available in grant files.	Procedures for determining eligibility and awarding grants are defined in Part C, Program Rules, of the *Final Statement for the 1986 State of Maine Community Development Program*. For any grant proposal to be considered, the applicant must meet the basic eligibility criteria, defined as threshold criteria. Assurances that these criteria have been met are documented by the completion of the "threshold checklist." Once an application has met the threshold criteria, special program requirements must be met. These requirements are designed to address the needs for each program. Adherence to federal regulations, state eligibility criteria and program requirements and procedures can be proven only if the necessary documents (threshold checklists, score sheets, etc.) are available. A test of grant documentation for a sample selected from a June 30, 1987 listing of all active grants disclosed that documentation of required procedures was not always available in the grant file. Misplacing and misfiling occurred during routine handling of files. Follow-up activitiy, indicated to be necessary by a grant recipient's initially low score, was not documented. Evidence of resolution of issues raised during the threshold review was not in the files.

AGENCY/PROGRAM	CONDITION
Department of Economic and Community Development	In order to document compliance with procedures required by federal statutes and state regulations, we recommend that the Office of Economic and Community Development be certain that all necessary documents are filed in the grant files, and that these files are maintained.
Cash returned from sub-grantees is posted to a special revenue account rather than to the federal program account.	Cash returned to the Department of Economic and Community Development (DECD) by sub-grantees (as a result of excessive cash on hand, unexpended fund balances, etc.) should be posted to the federal program account from which the funds were disbursed. DECD personnel feel that posting such receipts to the contract appropriation is a cumbersome process. Instead, receipts are posted to a special revenue account. As a result, the department's account balances could not be readily reconciled with the controller's records. In order that appropriations designated for sub-recipient contract activity reflect all activity, we recommend that cash receipts resulting in a reduction of contract expenditures be posted to the appropriation from which the original disbursement was made.
Daily cash receipts log is not being reconciled to accounting records.	Community Development Block Grant (CDBG) cash receipts consist primarily of drawdowns on a letter of credit. However, cash is also received when program funds are returned by sub-recipients. When those funds are initially reviewed by the Department of Economic and Community Development (DECD) receptionist, a receipt is sent to the payor, and a carbon copy retained. The Community Development office receives the check and maintains a receipts log. The finance department deposits the receipts with the State Treasury.

AGENCY/PROGRAM	CONDITION
Department of Economic and Community Development	No reconciliation occurs between the respective records of the receptionist, the Community Development Office and the finance department. In order to provide adequate internal control, we recommend periodic reconciliation be performed of the receipts log with records of funds deposited.
Department of Educational and Cultural Services **Department of Finance Bureau of Accounts and Control** Salary Overpayment	Our examination of a sample of the entity's payroll expenditures revealed one instance in which a federally funded Department of Educational and Cultural Services employee was overpaid $1,462. This was the result of the employee having been paid at a salary rate one step over the actual step approved and authorized by the state's Bureau of Human Resources due to human error. Compensating an individual over and above their prescribed pay rate resulted in an uneconomical use of funds and could have resulted in improper amounts being charged to grant programs for personal services. This would not be in accord with principles for determining allowable costs as established in OMB Circular A87. A questioned cost was not developed as a result of this detected overpayment since federal funds were replenished and a repayment schedule has been set up. The employee is currently making payments to reimburse the state for the overpayment. We recommend that state agencies accurately record changes in an individuals confidential pay range/step and that the Payroll Division of the Bureau of Accounts and Control periodically verify their information to the applicable Bureau of Human Resources Profile form, which indicates an individual's current salary range and pay step within that range.

AGENCY/PROGRAM	CONDITION
Department of Educational and Cultural Services Chapter I — Education Consolidation and Improvement Act of 1981 Educationally Deprived Children CFDA #84.010 Carryover of program fund balance was not requested at the end of the fiscal year.	Local educational agencies are required to request the use of excess year end program funds from the state or have those funds reallocated by the state (34 CFR §200.45 (b)(1) and State of Maine Manual for the Operation of Chapter I ECIA Programs in Maine Schools). Our examination disclosed one instance where a LEA did not request carryover of unexpended funds at the end of the year and based its budget for the next year on the assumption of the availability of those funds. We recommend that the Education Consolidation and Improvement Act office monitor the annual reports submitted by the LEAs for adherence to federal and state regulations concerning carryover of Chapter I fund balance.
Written financial procedures manual needed.	There is no written financial procedures manual for the Department of Educational and Cultural Services, Finance Division, staff to use. A manual is essential to document procedures used in processing financial transactions, in preparing and submitting reports and in training of new personnel. Without a manual, steps in processing financial data could be omitted, reports could be submitted late, and training of new personnel could be inconsistent. While we recognize that a substantial amount of time may be required to produce a manual, we feel that maintaining greater control through documentation of procedures is a benefit which outweighs the initial investment of time. We recommend that a financial procedures manual be written and implemented.
Food Distribution Program CFDA #10.550 Quality assurance reports are not being reviewed.	Section 250.6 of 7 CFR requires adequate personnel, including supervisory personnel, be provided to review distribution programs. A Sanitarian II acts as a monitor of the commodities distributed throughout the state. This position is charged with the responsibili-

AGENCY/PROGRAM	CONDITION
Department of Educational and Cultural Services	ty of acting as the quality control for the program. The Sanitarian II does make reports of his review findings but, at present, there is no one responsible for ensuring that the quality control function is fulfilling its intended purpose. In order to provide quality assurance in the Food Distribution Program, we recommend that the program director review reports submitted by the Sanitarian II.
Maine Guaranteed Loan Program 84.032 The Maine Guaranteed Student Loan Program has not been monitoring United Student Aid Funds, which perform administrative functions associated with student loans.	The Maine Guaranteed Student Loan Program (MGSLP) has not been adequately monitoring the activities of the United Student Aid Fund (USAF). The MGSLP does receive a copy of the annual audit of USAF, however, information contained in the audit is not specifically related to the MGSLP. According to A-102, Attachment I, paragraph 2, "grantees shall constantly monitor the performance under grant supported activities." We recommend that the MGSLP conduct monitoring reviews of the USAF on a systematic basis to assure the accuracy of information received.
Federal advances received were not recorded as liabilities.	The Maine Guaranteed Student Loan Program received $618,783 from the U.S. Department of Education from 1978 to 1980 as a reserve for default payments. Neither the funds nor the interest earned on the funds was credited to a liability account, in accordance with generally accepted account principles. We recommend that all federal advances received be recorded as liabilities.
Lender agreements are pre-signed.	Agreements between the State of Maine and lenders are pre-signed by the chairman of the Board of Education. As the board meets only once monthly, agreements are pre-signed to avoid delay.

AGENCY/PROGRAM	CONDITION
Department of Educational and Cultural Services	Since no other signature from the Department of Educational and Cultural Services is required to bind the agreement, the control measure of having the board chairman review and approve all agreements is defeated. It is possible for program personnel to enter into agreements without the board's approval. To assure that agreements are properly reviewed and authorized, we recommend that they be signed by the department representative only after having been completed by lenders.
No written policies delineating allowable costs have been established for sub-contractors.	No written policies pertaining to cost allowability criteria (OMB Circular A-87) have been developed. Written policies provide a basis for the control of expenditures by subcontracting agencies. Without such written policies, there is the possibility of incurring unallowable costs due to a lack of knowledge of eligibility criteria. We recommend, therefore, that the Department of Educational and Cultural Services prepare and distribute cost allowability policies.
Division of School Nutrition National School Lunch Program CFDA #10.555 Expenditure reports are submitted from the Division of School Nutrition without being approved by, or reconciled to, the records of the Finance Division of DECS.	There are no formal lines of communication between the Division of School Nutrition and the Department of Educational and Cultural Services' Finance Division. Financial Status Reports are submitted from the program office without approval from the Finance Division, and no procedures for reconciliation have been established. In order to ensure correct reporting and provide an opportunity to resolve discrepancies between program and financial records, we recommend that expenditure reports be prepared by, or in consultation with, the Finance Division.

AGENCY/PROGRAM	CONDITION
Department of Educational and Cultural Services The Division of School Nutrition has no written operating procedures or policies.	The Division of School Nutrition has no written manual of policies and procedures to be used in administering the National School Lunch Program. To provide detailed descriptions of responsibilities within the division, to identify duplication and/or gaps in procedures and to ease transitions resulting from staff turnovers, we recommend that the division produce an operations manual.
Notes receivable not reconciled to supporting records.	The department's Division of Finance detail ledger for Osteopathic student loans disagreed in several cases with related records (loan agreements, manifests. warrants), maintained by the department's Division of Higher Education Services. This resulted in the notes receivable balance being mistated on both the records of the State Controller and the department's Division of Finance. We therefore recommend that the notes receivable detail ledger be periodically compared with the related student loan records and that any differences be noted and corrected.
Reconciliation of federal accounts recevable records and medical student loan records needs to be improved.	The Department maintains its federal accounts receivable records for grant funds awarded on a computerized system (monthly totals only) at its Division of Finance and utilizes a manual accounts receivable ledger to record and monitor the relevant detail information at the Division of Higher Education Services. Our examination of the manual ledger revealed that reconciliation to the State Controller's balances were not being performed on a regular basis. We determined that the computer control records had been regularly reconciled to the Controller, however, the individual involved was apparently unaware of the parallel manual system. Our reconciliation of the manual ledger for the months ending June 30, 1987 and January 30, 1988 revealed variances with the records of the State Controller.

AGENCY/PROGRAM	CONDITION
Department of Educational and Cultural Services	Our examination of the department's notes receivable records for medical student loans revealed that the account was not being reconciled on a consistent basis. According to department personnel, this account has been historically reconciled every six months. We determined that this account had not been reconciled for the six month period ending December 31, 1987. This nonperformance was attributed to new accounting personnel being unfamiliar with procedures related to these records. To be in compliance with generally accepted accounting procedures and for the purpose of improved internal control, records of receivables should be reconciled and any variances explained. Failure to regularly reconcile these records could adversely affect the internal control over these assets and could result in information which is not sufficiently useful. We therefore recommend that the manual federal accounts receivable records be reconciled on a monthly basis or that detail records be established on the computerized system and also be reconciled monthly. We also recommend the same be performed on the notes receivable account and that all variances as a result of these reconciliations be explained.
Handling of cash receipts for medical student loans needs better controls.	A review of the department's handling of cash receipts for student loan repayments by personnel of the Division of Higher Education Services revealed the following accounting control weaknesses: (1) Individuals who receive student loan repayments in the form of cash receipts are also involved in the maintenance of the receivable records.

AGENCY/PROGRAM	CONDITION
Department of Educational and Cultural Services	(2) Cash receipts received at the division which are not forwarded to the Division of Finance for deposit on a given day are occasionally being taken home for safekeeping before deposit. Generally accepted accounting and internal control standards require that accounting responsibilities and duties in recording, processing, and reviewing transactions be properly separated among individuals and that assets be safeguarded. We recommend that medical student loan recipients be instructed to submit their payments directly to the department's Division of Finance for recording and deposit purposes. We further recommend that a secure place be provided within the Division of Higher Education Services for any cash receipts retained overnight before being deposited.
Division of Special Education CFDA #84.027 Payments to subrecipients are not approved by an individual with knowledge of the program.	In the course of conversations with personnel of the Department of Educational and Cultural Services, Division of Special Education and the Department of Educational and Cultural Services, Finance Division, it was disclosed that payments to sub-recipients were generated by one individual and forwarded for payment without approval by a second individual who has knowledge of the program. The payments are approved by Finance Division officials, whose authorized signatures are recognized at the Bureau of Accounts and Control. In order to exercise control over funds, we recommend that the division institute a policy of review and approval for all documents being forwarded to the Finance Division for payment.

AGENCY/PROGRAM	CONDITION
Executive Department — Office of Energy Resources Petroleum Violation Escrow/Exxon Fund Reports submitted to the federal funding source for the same program and same period report different amounts for total expenditures; documentation of the source of data is not available	The Office of Energy Resources (O.E.R.) submits a Financial Status Report (F.S.R.) and a Federal Assistance Management Summary (F.A.M.S.) to the U.S. Department of Energy. These two reports reflected different amounts for total expenditures, primarily because the amounts reported on the F.S.R. forms were based on O.E.R.'s financial records of funds transferred, and the amounts reported on the F.A.M.S. forms were stated to be based on information gathered via telephone conversations with sub-recipients. Staff turnover and the newness of the program were also cited as reasons for the differences. We recommend that reporting procedures be reviewed to assure consistency, and that documentation supporting amounts reported be maintained.
Funds were incorrectly transferred and disbursed	$22,538 was transferred from the Office of Energy Resources' interest-bearing Exxon account to the Schools and Hospitals account, and disbursed to the Maine Center for the Blind, in fiscal year ended June 30, 1987 rather than in fiscal year ended June 30, 1988. Allotments had been established before the budget was approved by the U.S. Department of Energy (U.S.D.O.E.). We recommend that budget allotments not be established before budgets are approved.
Agreements with sub-recipient agencies were not in place during the audit period. Memoranda of understanding subsequently negotiated do not provide adequate information to either party	As of June 30, 1987, Office of Energy Resources (O.E.R.), administrator of Exxon settlement funds, had no written agreement in place with the agencies to which O.E.R. was distributing funds. In December of 1987, memoranda of understanding were signed with two of the four sub-recipient agencies. These memoranda and their amendments are limited in value to both parties. Administrative charges are stipulated as unallowable by court settlement and legislative appropriation, however, this prohibition is not included in the agreement.

AGENCY/PROGRAM	CONDITION
Office of Energy Resources	Although it is O.E.R.'s intention that funds be requested to meet immediate cash needs, as stated in the agreement, this provision may be difficult to enforce for the two agencies without a signed memorandum of understanding.
	Budgets incorporated into the agreements are too general to be of significant value to the administering agency. Many include only entries to "contractual" and/or "other" with no breakdown of anticipated expenditures for program supportive activities. The U.S. Department of Energy (D.O.E.), as a result of their December, 1987 management assessment, stated in their report that "The budget for these projects should be incorporated into O.E.R.'s line item budget categories and not lumped under "contractual" or "other"."
	We recommend that agreements be signed with all Exxon sub-recipients, and that all agreements contain provisions that clearly define the responsibilities of both parties.
The Office of Energy Resources considers its oversight role to primarily consist of disbursing funds	As administrator of the "Exxon Fund", the Office of Energy Resources (O.E.R.) disburses funds from the legislatively established interest bearing fund and prepares reports of program expenditures.
	O.E.R.'s role as administrator of Exxon funds has not been clearly defined by the legislature or by the U.S. Department of Energy (D.O.E.), which disburses Exxon funds to the states.
	O.E.R. receives no funding to administer Exxon programs. As a result, the office limits its role to the disbursing/reporting functions mentioned above. The office does not monitor fiscal activities of sub-recipients, but places reliance on audits to determine any inconsistencies or disallowances. There are no procedures in place to verify sub-recipient compliance with provisions of agreements on an on-going basis.

AGENCY/PROGRAM	CONDITION
Office of Energy Resources	We recommend that O.E.R. provide an appropriate level of assurance that applicable federal regulations, as well as the terms and conditions of sub-recipient agreements, are followed.
Department of Finance — Bureau of Accounts and Control Journal approval procedures needed	Journal entires frequently are not reviewed nor approved by an individual other than the preparer except for a cursory review when processed by personnel of the Bureau of Accounts and Control; review for necessity, reasonableness, allowability and proper coding is primarily the responsibility of each agency. During our audit, we noted coding errors and duplicate journal entries that had gone undetected. An accounts receivable balance of one agency was overstated by $2,957,121 at fiscal year end due to duplicate journal entries having been processed. Preprocessing review would also decrease the number of correcting journal entries currently needed. We recommend that the Commissioner of Finance set a policy whereby journal entries over a specified dollar amount be reviewed and approved by someone other than the preparer.
General Fixed Assets Account Group (GFAAG) amounts reported in the Controller's Annual Report cannot be substantiated on a timely basis	Capital asset records in the Bureau of Public Improvements are incomplete and inaccurate. Ledger posting is not done currently. Some equipment purchase activity for the fiscal year ended June 30, 1987 was posted subsequent to the publication of the controller's report for the fiscal year. Many agencies do not return continuing property reconciliations on a timely basis, if at all. Information regarding assets retired in 1987 was lacking. A $10 million error was made in the preparation of the controller's report when transferring information from one schedule to another. These factors have resulted in the GFAAG balance for the fiscal year being understated.

AGENCY/PROGRAM	CONDITION
Bureau of Accounts and Control	In order to provide accurate account balances and to ensure control of state assets, we recommend that the GFAAG records be brought up to date and that agencies providing asset information give higher priority to inventory records.
State Controller's report contained incorrect amounts for nonrevenue receipts and beginning fund balances	During the fiscal year, one fund was eliminated and the balance transferred to another fund. The transfer was erroneously reported as proceeds from bonds. This resulted in a misstatment of the financial statements: receipts were overstated and the beginning fund balance was understated by \$20,248,944.
Travel advances are not accounted for as prescribed	Our review of travel advances disclosed that outstanding advances as of June 30, 1987 had increased by \$50,595, or 49.3% over outstanding advances as of June 30, 1986. Settlement of accounts within 15 days, is required by section 40.13 of the State of Maine Manual of Financial Procedures. Further review also disclosed that \$6,920 of legislative travel advances were incorrectly charged to travel expense without being properly documented by supporting receipts.
	In order to comply with state procedures, to maintain control of cash and to improve settlements, we recommend that the state use every means available, including payroll deductions, to settle overdue travel advances in a timely manner. We further recommend that if advances are to be written off, the procedures contained in 5 MRSA, Section 1504, requiring certification by the Attorney General, the Commissioner of Finance and the agency head, subject to the approval of the Governor, be followed.

AGENCY/PROGRAM	CONDITION
Bureau of Accounts and Control Interfund receivables and payables not properly balanced	Interagency/interfund transactions resulting in amounts receivable and payable should be so reflected in the financial statements as offsetting balances. Procedures at year end to balance "due to" and "due from" were to establish "due to" based on listing of billings between agencies sent to the Bureau of Accounts and Control. The bureau then established "due to" with an offsetting debit to prepaid expense (an asset), even though such expenditures had not yet been made. This results in an overstatement of assets (prepaid expense) and an understatement of expenditures. In addition, procedures followed by the bureau failed to disclose a difference of $173,502 between the "due to" and "due from" accounts. We recommend that the bureau review the post-closing trial balance to insure that inferfund receivables and payables balance and, if they do not, to determine and correct any discrepancies. In addition, the bureau should accrue interfund payables with an offsetting debit to expenditures, not prepaid expense.
Interfund advances not adequately accounted for	We noted two instances of noncompliance with repayment terms of General Fund advances. The Bureau of Labor Standards received a $45,000 advance to be repaid prior to May 1, 1985 and a second advance of $59,000 to be repaid prior to September 30, 1985. Repayment did not take place until February 25, 1988. We also noted that the detail ledger maintained by the Bureau of Accounts and Control on such advances showed an incorrect distribution of the total owed by agencies as of June 30, 1987. Also, a $75,000 loan from the Contingency account to the Division of Community Services was not recorded.

AGENCY/PROGRAM	CONDITION
Bureau of Accounts and Control	To ensure compliance with the terms of financial orders or laws by the authority of which advances were made and to properly reflect agency repayment liability, we recommend that a specific individual be assigned responsibility for monitoring repayment of advances and that the detail ledger be adjusted to properly reflect each agency's liability.
Control over blank checks and signature plates needs improvement	A review of the bureau's internal control structure revealed the following accounting control weaknesses in relation to the processing of checks issued by the state: (1) "Leader" checks which are blank checks used to properly align the computer printer used to impress the typset information on the checks, are kept in an open mesh wire in-basket while awaiting recording, destruction and disposal by the bureau's Control Section. (2) The responsibility for the typing and recording of "makeover" checks, which are issued as replacements for voided checks is assigned to one employee. The same individual is also responsible for acquiring the necessary facsimile signatures. (3) Signature plates for State of Maine checks (second set) are kept in an unlocked cabinet during the day. Overnight, both sets of signature plates are placed in the locked cabinet and cabinet keys are kept in the same room. Check signing personnel are apparently allowed to remove plates without requiring the presence of another employee.
Disbursements	For the purpose of improved internal control, adequate security as well as prescribed processing procedures should be instituted to assure efficient operational activity associated with mechanically processed checks. To protect against any potential loss, responsibilities should be properly assigned and segregated and adequate safeguards

AGENCY/PROGRAM	CONDITION
Bureau of Accounts and Control	should be developed to ensure control over the processing/printing of checks. We recommend the following with regard to internal control over the check processing operations: (1) That "leader" checks be kept in a locked drawer or cabinet until such time as they can be voided, destroyed or discarded. (2) That facsimile signatures or "makeover" checks should be affixed by an individual other than the employee who typed and recorded the checks. We further recommend that "makeover" checks be substantiated by appropriate documentation to be reviewed by the person affixing the signature to the checks. (3) That the file cabinet in which the signature plates are stored be locked at all times; that the keys to this cabinet be kept in an area away from the file cabinet; that only designated individuals (someone other than the employee responsible for operating the check signing machine) be allowed access to the keys and storage cabinet for the removal of the signature plates.
Department of Finance — Bureau of Alcoholic Beverages Reconciliation of supplies inventory records	Our review of the supply inventory records revealed that the balance of supplies on hand per the inventory records did not agree with the bureau's general ledger balance at June 30, 1987 and March 31, 1988. In order to maintain accurate and reliable records, the detail should be reconciled to the general ledger balance on a periodic basis. It appears that the supply inventory records were not reconciled, due in part to a lack of communication between the Bureau of Alcoholic Beverages and the Liquor Accounting Division of the Department of Administration. The result is records which do not accurately reflect the bureau's supply inventory balance on the above dates.

AGENCY/PROGRAM	CONDITION
Bureau of Alcoholic Beverages	We recommend that the Bureau of Alcoholic Beverages and the Liquor Accounting Division establish procedures that will augment the flow of information from the bureau to the Liquor Accounting Division to properly record changes affecting the supply inventory.
Liquor store inventories	During our examination of the system employed by the bureau to account for its inventory, and as a result of subsequent audit test work performed on the reliability of this system, the following accounting control weaknesses and/or deficiencies were revealed: 1. Liquor store managers and/or assistant managers are not consistently signing receiving reports for the purpose of verifying shipments received. 2. Monthly adjustments for physical inventory counts are not approved by supervisory personnel. 3. A test of physical inventories conducted at four store locations revealed significant variances. We recommend the following with regard to internal control over inventory maintenance at the state's licensed liquor stores: 1. That store managers document their verification of items received by signing a copy of the shipping document and that such documentation be retained on file for future auditing purposes. 2. That all adjustments to inventory resulting from monthly inventory counts conducted by store managers be reviewed and approved by a responsible official. Implementation of the aforementioned recommendations should improve internal control over liquor store inventories and minimize inventory variances.

AGENCY/PROGRAM	CONDITION
Bureau of Alcoholic Beverages There has been a decrease in the quantity and timeliness of issuance of internal audit reports; workpaper cross references are not noted	The number of internal audits of liquor stores decreased from an average of 124 per year during calendar year 1983-1986 to 44 for 1987 and to 10 as of June 8, 1988. The decrease appears to be the result of an effort to improve the quality of the audits by reducing the number of audits performed. Of the ten 1987 audits reviewed, three performed in May and June of 1987 had not been issued as of June, 1988. In order to provide more useful and meaningful audits and audit reports, we recommend that internal audits of liquor stores be performed more frequently, that reports be issued promptly and that audit workpapers be cross-referenced to the audit program.
Documentation supporting reconciliation of differences between warehouse inventory and Bureau of Alcoholic Beverages inventory report is not retained	Confirmation from the Fore River Warehouse of the number of bottles in liquor inventory at June 30, 1987 did not agree with the balance as presented in the bureau's annual report. The warehouse confirmed 287,478 bottles, while the annual report reflects 279,467 bottles, a variance of 8,011 bottles. Although recent reconciliations of the warehouse and bureau balances can be verified, documentation to support a reconciliation at June 30, 1987 was not available. We were therefore unable to verify that a reconciliation took place or to determine which, if either, inventory balance was correct. We recommend that inventory reconciliations be documented and that all documentation supporting reconciliations be retained until an audit is performed.
Department of Finance — Bureau of Lottery Accounts receivable subsidiary ledger is incorrectly maintained	A review of the accounts receivable records disclosed that, as in the previous year of audit, subsidiary ledgers are being maintained by name of the field representatives in chronological order rather than by individual agents owing money. As amounts are paid, the entry which established the receivable is lined out. If the amount is a partial payment, the new

AGENCY/PROGRAM	CONDITION
Bureau of Lottery	balance is noted by the original entry. All entries that have not been lined out are transcribed forward (in chronological order) at the beginning of a new fiscal year. These procedures make it impossible to determine an account balance for an individual agent at a specific time without reconstructing all activity of the field representative servicing that agent. Generally accepted accounting principles prescribe that such records be maintained in a manner that properly reflects account balances. In order to provide useful records and control of assets, we recommend that subsidiary ledgers be maintained in a manner that properly reflects activity and balances of individual accounts.
The petty cash account had an unreconciled variance as of June 30, 1987	An attempt to reconcile the petty cash checking account showed a variance of $390 between bank records and agency records. To provide proper accounting for funds entrusted to the agency, we recommend that the variance be located, and that the account be reconciled to bank statements on a monthly basis.
Prenumbered petty cash vouchers are not being used.	The agency's response to a recommendation of the previous year's audit was that a system of prenumbered petty cash vouchers had been implemented to improve accountability for petty cash funds. Our review disclosed that only one prenumbered voucher was used since that response; purchases continue to be made from the fund without the use of prenumbered vouchers. We recommend in order to control and account for use of the petty cash fund, that the agency use the prenumbered petty cash vouchers.

AGENCY/PROGRAM	CONDITION
Bureau of Lottery Capital equipment purchases were not adequately accounted for	Equipment purchased during the fiscal year ended June 30, 1987, was not included in the agency's capital equipment records. Depreciation for the period was not always recorded, and the Continuing Property Reconciliation for 1987 was not completed. In order to ensure asset accountability, we recommend that all equipment and depreciation activity be recorded and reconciled as of June 30, 1987, that current activity be consistently recorded and that the Continuing Property Reconciliation be completed in a timely fashion.
Rental charges were coded to the capital equipment account	Our review disclosed that $1,895 in equipment rental was incorrectly coded to the controller's capital equipment account, thereby overstating that account and understating equipment rental expense. In order to reflect correct balances in the two accounts, we recommend that an adjustment be made to them for $1,895.
Department of Finance — Division of Payroll	A sample review of payroll transactions revealed the following deficiencies:
Employee work records	1. Two weekly time sheets of a Department of Educational and Cultural Services Administrative Council member did not bear the approval signature of the employee's supervisor. 2. Two weekly time sheets of two respective unclassified employees of the Department of Attorney General indicated recording of leave time taken while neglecting to record hours worked. Chapter 14 of the State of Maine Civil Service Rules (under agency personnel records) states, in part, that "each department or division shall maintain an adequate set of employee records for the purpose of recording attendance and leave actions. These records

AGENCY/PROGRAM	CONDITION
Division of Payroll	shall contain the following information: attendance on official duty; vacation leave earned, used and accrued; sick leave earned, used and accrued; and any other leave with or without pay". According to department personnel, Administrative Council members are not required to obtain signed approval of their time sheets as they report directly to the Commissioner of Educational and Cultural Services. According to Attorney General personnel, there is a department requirement that time sheets for Assistant Attorneys General contain supervisory approval signatures, however, there is no department requirement to record hours actually worked. Based on the foregoing, we recommend that time sheets be completely filled out, listing time worked as well as leave time, and that the time sheets be signed by a supervisor.
Department of Finance — Bureau of Taxation Overstatement of General Fund revenues and expenditures	Journals are periodically prepared to reimburse the state's General Fund for the costs attributable to the collection of gasoline and industry taxes which are credited as revenue in the General Highway Fund and Special Revenue Fund, respectively. These journals record the reimbursements as expenditures in the General Highway and Special Revenue Funds (the reimbursing funds) and as revenue to the General Fund (the fund being reimbursed). A review of the 1986-87 fiscal year journals revealed that this described practice resulted in an overstatement of General Fund revenues and expenditures of $594,100. According to Section 1800.103 of the Codification of Governmental Accounting and Financial Reporting Standards, transactions that constitute reimbursements should be recorded as expenditures or expenses (as appropriate) in the reimbursing fund and as

AGENCY/PROGRAM	CONDITION
Bureau of Taxation	reductions of the expenditure or expense in the fund that is reimbursed. We therefore recommend that reimbursement journals be prepared to charge expenditures to the reimbursing funds and as a reduction of expenditures in the fund being reimbursed.
Collection of use tax and charitable contributions	A review of collection service fees charged to other state agencies revealed that there is no consistent method/treatment employed in accounting for fees collected for setoffs of debts against refunds and fees for the crediting of contributions collected on behalf of the Maine Endangered and Nongame Wildlife Fund and the Maine Children's Trust Fund. Generally accepted accounting principles assert that collections should be recorded as reductions of expenditures in the fund being reimbursed and as expenditures in the reimbursing fund. It should be noted that applicable state statutes with regard to accounting for the cost of the above noted activities (Title 29, Section 201, M.R.S.A. of 1964, as amended) appear to be in conflict with the previously described accounting principle. We recommend that the Bureau of Taxation strive to effect a change in the pertinent state statutes in order that taxes collected and contributions credited in these areas be reflected on the state's accounting records in accordance with applicable accounting and financial reporting standards.
Adherence to R.F.T.A. auditing standards	Effective October 1, 1984, the State of Maine entered into a pact with several other New England states known as the Regional Fuel Tax Agreement (R.F.T.A.). Effective for fiscal year 1986 and beyond, a R.F.T.A. audit manual was developed to standardize audit procedures to be followed when auditing R.F.T.A. licensees.

AGENCY/PROGRAM	CONDITION
Bureau of Taxation	A review of R.F.T.A. audit reports and the related working papers revealed that bureau auditors are not performing a study and evaluation of licensee's internal controls as prescribed in Section VII, Paragraph 3, of the Regional Fuel Tax Agreement Audit Manual. It was also noted that audit working papers did not contain a description of audit procedures considered and followed or an adequate recounting of the results obtained as required by Section VII, Paragraph 8, of the audit manual. We therefore recommend that R.F.T.A. audits be conducted in accordance with prescribed R.F.T.A. audit procedures as follows: 1. That a separate study and evaluation of internal accounting controls be performed as part of each audit so that the auditor gains an understanding of the reliability of the licensee's accounting system. 2. That auditor's working papers present sufficient documentation to adequately support findings reported, that working papers contain documentation with regard to sources of information used in these examinations and clear statements of purpose to assure that information accumulated is properly tied to the audit objectives, and that working papers present findings and conclusions reached.
Sales and use taxes receivable	An analysis of procedures followed in the billing of sales and use taxes due the state revealed that the bureau does not maintain a detail ledger for individual taxes receivable accounts. Failure to maintain a detail ledger results in unverifiable or incomplete account balances and a lack of accountability for monies due and/or received. We recommend that administrative personnel review the bureau's procedures for internal control over taxes receivable. We further recommend that detail records of individual

AGENCY/PROGRAM	CONDITION
Bureau of Taxation	accounts be maintained and reconciled to the taxes receivable control records and to the records of the State Controller on a monthly basis.
Billings for additional sales and use tax due are not timely	Bureau personnel scan each sales tax (ST7) registration form received from the Division of Motor Vehicles to determine reasonableness and accuracy of information. If the sales or use tax paid appears to be incorrect, or based on an erroneous valuation, the bureau bills or contacts the taxpayer requesting the additional tax due or additional information.
	Our test disclosed that between six months and two years elapsed between the registration of vehicles and the billing or initial contact. Such a substantial time delay diminishes the chances of collecting taxes due or obtaining reliable information on which to base additional tax.
	We recommend that the bureau perform a cost/benefit analysis of assigning additional personnel or initiating new procedures to ensure more timely assessment and collection of sales and use taxes.
Computer runs necessary to verify income tax refunds were not retained, and were unavailable for audit	A test of individual income tax refunds disclosed that refunds were properly authorized, but a comparison of refunds withheld could not be made as computer runs T125B and T130B prior to July, 1987 were not available.
	In order that a proper audit trail be established to verify the propriety of actions taken regarding income tax refunds, we recommend that the bureau maintain T125B and T130B computer runs until after the audit of the affected fiscal year.

AGENCY/PROGRAM	CONDITION
Department of Human Services Child Care Food Program CFDA #10.558 Drawdowns of federal cash are not timed to meet immediate cash needs.	Child Care Food Program personnel usually request federal cash twice monthly. Calculation of the average number of days' cash on hand revealed a 6 day supply in June 1986, 3½ day supply in August 1986 and 9 day supply in September 1986. The amount represented by the average oversupply range from $4,317 to $31,857, which are not material in relation to the total program. However, examination of actual daily balances indicated sizable fluctuation in those balances for lengthy periods with relatively little activity (e.g. negative $27,000 for a week and a positive $200,000 during another week) which indicates inconsistent and ineffective cash management practices. OMB Circular A-102, Attachment G, requires that the financial management system of federal grant-supported activities of the state provide procedures to minimize time elapsed between receipt of federal funds and disbursement. Section 2(e) specifically states that the grantee shall make drawdowns from the U.S. Treasury as close to possible to the time of making the disbursements. In order to provide a greater degree of consistency in cash management, we recommend that drawdowns of federal funds be made more frequently, and that they be timed to coincide more closely with expected disbursement dates.
Social Services Block Grant CFDA #13.667 The Social Services Block Grant Utilization Report has not been prepared or submitted in a timely fashion.	As of May 10, 1988 the Social Services Block Grant Utilization Report for the period October 1, 1985 through September 30, 1987 had not been completed. The reports are intended to disseminate information on the utilization of block grant funds for use by the states, their citizens and legislatures, and by the Department of Health and Human Services and the United States Congress. "Although the statutes do not expressly require that the reports be transmitted within a particular period of time, a requirement that this be done within a reasonable period of time is implicit in these provisions.... The reports can only

AGENCY/PROGRAM	CONDITION
Department of Human Services	serve these functions if they are prepared in a timely fashion." (Federal Register, Tuesday, October 13, 1987). We recommend that the biennial utilization report be prepared and made public in a timely manner.
Alcohol and Drug Abuse and Mental Health Services Block Grant CFDA #13.992 Follow-up procedures for collecting block grant sub-recipient audit settlement amounts are not established.	The Department of Human Services, Bureau of Social Services, Purchase of Service Policy Manual states that any amount due the department from a provider organization shall be paid within 30 days unless the bureau has authorized an alternate plan for repayment. A review of sub-recipient audits disclosed that there are no established procedures in place to follow-up on amounts which are not paid within the required 30 day period. We recommend that the Department of Human Services establish follow-up collection procedures in order to adequately control the recovery of funds.
The Office of Alcohol and Drug Abuse Prevention does not address allowability of costs in contracts with sub-grantees.	Contracts awarded to sub-grantees through the auspices of the Office of Alcohol and Drug Abuse Prevention are generated both in-house and by the contract review division of the Bureau of Social Services. Contracts generated in-house, unlike those awarded by the contract review division of the bureau, do not detail unallowable costs. The office has no established policy or procedure to preclude sub-grantees charging costs unallowable under OMB Circular A-87. We recommend that formal procedures be established to insure that sub-grantees are informed as to allowability of costs.

AGENCY/PROGRAM	CONDITION
Department of Human Services Bureau of Income Maintenance Food Stamp Program CFDA #10.561 The Bureau is not taking advantage of the availability of federal funds for fraud investigations.	The Bureau of Income Maintenance has the responsibility for investigating fraud for both the Food Stamp and AFDC programs. Investigations are conducted concurrently. As a result the Food and Nutrition Service (FNS) will not provide federal funding, at the rate of 75% (7 CFR § 277.4), for expenses incurred in the investigation of Food Stamp fraud. The state, therefore, must bear the full cost of such investigations. We recommend that FNS be contacted to determine the requirements which must be met to qualify for federal assistance payments in the area of Food Stamp investigations and examine the feasibility of implementing those requirements.
Food stamp collections or recoveries are not immediately deposited into the State Treasury.	Cash, checks, money orders and food stamps received for detected instances of fraud or unintentional program violation by Food Stamp Program participants are noted in a manual ledger and entered into the Food Stamp Issuance Unit computer daily. Collections are hand-delivered, usually on a weekly basis, to the cashier's section of the Department of Human Services, where they are forwarded to the State Treasury. In order to prevent losses and to be in compliance with Section 38.1 of the State of Maine Manual of Financial Procedures, we recommend that all Food Stamp Program collections/recoveries be deposited immediately into the State Treasury.
Disagreements between program administration and the federal oversight agency are unresolved.	The proposed State of Maine Simplified Food Stamp Manual was mailed to all concerned parties early in July 1987, with a comment deadline of August 4, 1987. The Northeast Regional Office of the Food and Nutrition Service, U.S.D.A. (FNS) reviewed the manual and commented upon policy that appeared to be in conflict with federal regulations. The areas of contention are: conversion of weekly in-

AGENCY/PROGRAM	CONDITION
Department of Human Services	come to monthly income, inclusion of general assistance payments as unearned income and issuance of supplemental benefits for new household members. In order to preclude disallowances or the imposition of fiscal sanctions by the federal government, we recommend that the Department of Human Services make every effort to resolve differences in interpretation of food stamp regulations.
Medical Assistance Program CFDA #13.714 Audits of cost reports of nursing homes, intermediate care facilities, skilled nursing facilities and early periodic screening and diagnostic testing agencies are not being performed annually.	The State of Maine (Department of Human Services) principles of reimbursement for long-term care facilities, section #7071, states, "All facilities will be required to submit a cost report at the end of their fiscal year on cost report forms provided by the department. The department will conduct a fiscal audit of each facility's cost report which may consist of a full scope examination by department personnel and will be conducted on an annual basis." A test sample of nursing homes, intermediate care facilities and skilled nursing facilities discloses a 20% rate of noncompliance while a test sample of Early Periodic Screening and Diagnostic Testing (EPSDT) agencies indicates a 64% rate of noncompliance with annual audit requirements. While maintaining compliance will significantly increase the workload of a small staff, the effect of the problem is to allow poor management practices or incorrect billings to go undetected for extended periods. In order to determine that the financial resources of the medicaid program are properly used, to insure timely colleciton of funds due, and to be in compliance with state requirements, we recommend that the Department of Human Services take steps to complete annual audits of medicaid funded facilities.

AGENCY/PROGRAM	CONDITION
Department of Human Services A third party suspect list, generated by the MMIS to identify potential third party liabilities, is not being fully utilized.	As part of the Medicaid Management Information System (MMIS), a third party liability suspect list is generated. Claims appear on this list when: a diagnosis code indicates an accident, emergency or trauma; when another individual, a business or an employer may be responsible for payment; there is an absent parent who may maintain insurance coverage for a child; there is partial payment of a claim, suggesting private insurance coverage; there is a claim refusal from Medicare, as the possibility of appeal exists. At present the majority of these cases are not being investigated. The director of the Third Party Liability (TPL) unit reviews the list but staffing limitations preclude investigation of all but the highest priorities. In order to be certain that third party liabilities are not being paid by the Medicaid program, the agency must take reasonable measures to determine the legal liability of third parties to pay for services under the plan (42 CFR Sub-part D, §433.138(a). We therefore, recommend that the TPL unit perform follow-up investigations of suspected third party liabilities.
Inventory of capital equipment is not current.	According to 45 CFR, Sub-part G, §95.707, the state medicaid agency is responsible for adequately managing equipment, maintaining equipment records, and taking periodic physical inventories. State of Maine Financial Procedures state that all agencies having capital equipment must maintain equipment records used to record and report any capital equipment transactions. Examination of equipment related records disclosed that property records have not been adequately maintained. In order to safeguard assets, we recommend that the Department of Human Services Medical Services Bureau develop an inventory system as required by state and federal regulations.

AGENCY/PROGRAM	CONDITION
Department of Human Services The daily cash log for currency and coin is not reconciled on the cashier's deposit.	When mail containing currency and/or coin is received in the Department of Human Services mail room, the amount received is recorded in a daily log and sent to the Department of Human Services cashier. There is, however, no reconciliation of daily or monthly log totals, to deposit records. Although the amounts involved are minor, OMB Circular A-102, Attachment G, Section 2(c), states that there must be effective control over and accountability for all funds, property, and other assets, and that grantees shall adequately safeguard those assets. To improve internal control, we recommend that the cash log be reconciled with the cashier's deposit record.
Cash receipts are not deposited intact; receipts are returned to payors with no independent review of returned funds.	When checks are received in the Medical Services Bureau mail room and given to an account clerk, they are date stamped, logged into a receipts logbook, and segregated by type ("regular," third party liability and other Medical Service Bureau units). A copy of the "regular" Medicaid receipts is sent to the adjustment unit, where it is attached to source documentation. Any required adjustments to the Maine Management Information System are made, and copies of the receipts and the source documentation are returned to the account clerk, who reviews the information. If the receipt cannot be identified, is a duplication of a previous receipt, or is received for an amount which has been deducted from a subsequent payment, the receipt and an explanation are returned to the payor. The entry in the cash log is annotated "returned". These transactions are not accounted for in the official state records. In order to properly account for, and safeguard assets per OMB Circular A-102, Section G(2)(c), we recommend that all receipts be deposited in the State Treasury and that any refunds be

AGENCY/PROGRAM	CONDITION
Department of Human Services	issued by State Treasury checks to insure proper review and authorization, and to provide a clear audit trail.
Cash receipts are held at the Medical Services Bureau for up to nine days without being endorsed "for deposit only." Unendorsed checks and cash sent through interdepartmental mail.	When checks are received in the Medical Services Bureau mail room they are date stamped and logged into a receipts logbook. The week's checks are held until Thursday, when copies of the checks are distributed to the adjusters (for "regular" receipts) and to the Third Party Liability unit (for third party payments). The copies are returned by the following Tuesday, after which time the receipts and source documentation are submitted to the Department of Human Services (DHS) cashier. The checks are not stamped "for deposit only" until they reach the DHS cashier. Unstamped checks, cash and source documents are sent through interdepartmental mail. There is nothing enclosed to verify the total being sent. An examination of cash receipts revealed that funds are held for up to nine days before being sent to the DHS cashier. To improve internal controls, we recommend that checks be endorsed "for deposit only" as soon as they are received by the Bureau of Medical Services. We also recommend that procedures be established to deposit monies received in the State Treasury as soon as possible after receipt.
The Claims Processing Assessment System does not use source documentation or complete an accurate backup information to ensure accuracy of the Medicaid Management Information System.	The approved State of Maine Claims Processing Assessment System (CPAS) consists of a random sample of 45 claims per month for review. An individual claim is compared to the client record and the provider record, and reviewed to ensure that the claim has been submitted by an allowable provider, and that the claim is based on allowable rates for allowable procedures.

AGENCY/PROGRAM	CONDITION
Department of Human Services	The source of the information for the client records and the provider records is the document to which the claim form is compared. No other documentation is utilized. Provider numbers are not reviewed with respect to current accuracy. The provider may be deceased and still be in the data base. There is acceptance of billings for special procedures with no reference to the approval by qualified personnel. Billings for pharmaceutical refills cannot be verified, as the information received from the pharmacy includes only the prescription number, date, and client's last name and first initial. Neither manual nor programming errors are easily detected when information is compared to other information from the same source, or simply accepted with comparison to no information at all (e.g., special procedures and pharmaceutical refills billings). In order to be able to detect errors, and to properly state the error rate in the sample, we recommend the CPAS evaluator use sources independent of the MMIS system to verify the system procedures, and that the evaluator obtain source documentation and required attachments.
License numbers for certificates issued are not recorded in the logbook.	The Bureau of Medical Services' Licensing and Certification logbooks include the name of the licensee, the date the license was issued, the amount collected for the license and the number of the receipt issued. The license number, however, is not recorded. In order to improve accountability for licenses issued, we recommend that the license number be included in the license payment log.

AGENCY/PROGRAM	CONDITION
Department of Human Services Bureau of Vocational Rehabilitation Rehabilitation Services — Basic Support Section 110 CFDA #84.126 The Bureau of Vocational Rehabilitation has no written policy regarding program income.	It is the policy of the Bureau of Vocational Rehabilitation to credit federal accounts for program income that has been generated through the sale of property. There is, however, no written policy concerning the handling of program income. We recommend that formal written policies addressing program income transactions be prepared.
Department of Labor Unemployment Insurance CFDA #17.225 Job Service CFDA #17.207 No accounting or administrative procedures manual has been developed	The Department of Labor, Office of Administrative Services, has no written procedures or accounting and administrative manual to ensure continuity and consistency in the processing and recording of transactions. As a result, no reference material is available to employees when questions arise. The department relies upon the fact that key individuals have been employed for extended periods of time, know the required procedures, and can convey them to new employees or perform the function of unavailable employees. We recommend that the office prepare and distribute an accounting and administrative procedures manual and, as automation of the systems increase, publish any necessary revisions.
Maine Employment Security Commission Improvements needed in the processing of unemployment checks	A review of procedures for the processing of unemployment benefit checks disclosed the following: 1. Blank checks were kept on a shelf in the agency's computer room. 2. After its use, the facsimile signature plate remained unsecured in the commissioner's mail room.

AGENCY/PROGRAM	CONDITION
Maine Employment Security Commission	3. The check-signing machine does not have a counter to indicate the number of checks signed. 4. Printed checks are not compared to the check register or reviewed for corrections before being released for signing. Lack of security with regard to the safekeeping of blank checks and the signature plate, as well as the absence of a counter on the check-signing machine, could result in unauthorized issuance of checks. We recommend that: 1. Security measures be adopted to assure adequate safekeeping of blank checks. 2. That after its use, the facsimile signature plate be returned to the Benefits Section and that safekeeping measures be adopted with regard to plate use. 3. That a counter be installed on/in the check-signing machine and that readings be compared to the quantity of actual checks signed. 4. That agency personnel review printed benefit checks for accuracy and cross-match them to the check register prior to their release for signature. Agency personnel were in agreement with the findings and have already taken steps to secure and safeguard blank checks and signature plates.
Bureau of Employment & Security (BETP) Job Training & Partnership Act (JTPA) CFDA #17.250 The Bureau of Employment & Training Programs has no disaster back-up procedures for the Burroughs computer	The ability of the Bureau of Employment and Training Programs to function would be seriously jeopardized in the case of partial or complete system data loss, as the bureau has no disaster back-up procedures for the personal computer system. Back-up disks are stored in the same area as the computer. We recommend that the bureau find secure storage for data back-up disks and that a data

AGENCY/PROGRAM	CONDITION
Bureau of Employment and Security	back-up schedule be established and maintained.
The final report for the Summer Youth Employment Training Program was submitted after the due date of the report	Final reports for the Job Training Partnership Act must be submitted to the Secretary within 45 calendar days after the end of the report period (20 CFR §629.36). All reports for the period under audit were submitted on time but one: the final report for the Summer Youth Employment Training Program was submitted 47 days after the end of the program. A delay in the receipt of information from sub-recipients (which is summarized in the report) could cause a delay in the submission of the report. We recommend that receipt of sub-recipient reports be monitored to insure the timely collection, summarization and reporting of program information.
The Bureau of Employment & Training Programs' record of capital equipment is not reconciled to the State Controller's records	The Bureau of Purchases records capital equipment pruchases on a CPR #17, based on information submitted by the Bureau of Employment and Training Programs. This report differed from the State Controller's records by $5,000. The difference has not been located and there has been no physical inventory taken and inventory records are incomplete. It is necessary to assure accountability and control of assets, required by both 20 CFR 629.35(a) and OMB Circular A-102, Attachment N (Property Management). We recommend that the Bureau of Employment and Training Programs take an inventory of equipment, and reconcile the CFR #17 and the Controller's records to the actual inventory.

AGENCY/PROGRAM	CONDITION
Bureau of Employment and Security The Bureau of Employment & Training Programs is not utilizing security features of the Burroughs computer system	The Bureau of Employment and Training Programs has personal computers which are used for word processing and the maintenance of accounting records for the State Administrative Unit, 15 County SDA and the Direct Delivery Unit. Access to the Department of Labor mainframe computer from the Burroughs system via a modem is also possible. All operations have access to all of the data in the system, (i.e., users of the word processor have access to financial data in the accounting package).The system has access control and level of access control, as well as processing controls that should be utilized. To protect confidential data from unauthorized access, and to remove the possibility of inadvertent or unauthorized changes to the files, we recommend that the bureau utilize the security features within the Burroughs system.
Monitoring programs do not utilize available means of evaluating the Job Training Partnership Act program performance	Public Law 97-300, Section 165 (c)(2) requires the state to prescribe and maintain a management information system designed to facilitate uniform compilation and analysis of programmatic and financial data, on statewide and service delivery area bases, for reporting, monitoring, and evaluation purposes. 629.43(b) of 20 CFR states that the Governor is responsible for oversight of all SDA grant recipient activities and State supported programs. While the Bureau of Employment and Training Programs maintains a management information system and monitors that system as well as client eligibility, placement and termination, it does not use the results to evaluate the program. The errors found through sample testing are reported to the sub-recipient agency for correction. However, no evaluation of the effect of the errors on the entire population is performed. The results of the monitoring are not summarized in a form that allows analysis of problems or a means of evaluating

AGENCY/PROGRAM	CONDITION
Bureau of Employment and Security	systems or programs. As a result, management is not able to take advantage of the results to improve the performance of the program. We recommend that the results of monitoring tests be compiled in such a way as to allow for analysis and evaluation of the program and to provide indicators as to corrective action that may be necessary.
There is no allocation plan in place to properly charge the state for administration of non-federal programs	Beginning July 1, 1988, the Bureau of Employment and Training Programs will be charged with the administration of several state employment and training programs. The bureau will administer these programs using existing staff in the state administration, service delivery area and direct delivery unit. At present, this staff is federally funded in its entirety. In order to prevent charging the Job Training Partnership Act (JTPA) for costs that are not allowable under Public Law 97-300, Section 164, and OMB Circular A-87, Attachment A, C(1)(a), the bureau must develop a cost allocation plan. According to the Employment and Training Administration Management Review dated June, 1988, "Where an allocation of joint costs will result in charges to a federally supported program, a cost allocation plan will be required." Also, "The state should determine the basis for their cost allocation scheme before the July 1, 1988 target date." In order to prevent significant disallowed costs, we recommend that the bureau take immediate steps to develop an allocation plan. In the interim, staff should be instructed to record the amount of time spent on federal versus state programs. In addition, a record should be kept of material (e.g., office supplies) purchased through the federal JTPA program which are being used for the state programs.

AGENCY/PROGRAM	CONDITION
Bureau of Employment and Security The 15-county service delivery area's monitoring system was not utilized during the period under audit	The Bureau of Employment and Training Programs provides administrative services for the 15-county Service Delivery Area (SDA), including comparing cash advances to sub-recipients with the Summaries of Expenditures provided upon close of contract. The summaries include no supporting documentation, and the bureau provides no fiscal monitoring service. The SDA, however has an extensive guide which establishes a monitoring system to include at a minimum, an examination of internal controls, compliance, financial transactions, accounts, financial statements and reports of recipient organizations. It appears that no financial monitoring was done during the fiscal year ended June 30, 1987. While there appears to have been a staff position of fiscal monitor, no monitoring reports could be produced. In order to verify sub-recipient financial reports and to ensure reasonableness, allowability and allocatability of costs charged, we recommend that the SDA re-institute fiscal monitoring procedures.
Maine State Retirement System Individual interest earnings and contributions for teachers have not been posted since May, 1986	A review of methods for collecting and crediting employee and employer retirement contributions disclosed that individual interest earnings and contributions for teachers have not been posted since May, 1986. As a result, the Members' Contribution Account is understated, and the Retirement Cost Clearing Account is overstated, by $15-20 million. This delay in posting causes a significant delay whenever providing information regarding an individual's contributions or interest earnings. Posting delays were caused, in part, by the age and condition of the machines used, as well as employee turnover, and training time for new employees. Two "project" employees

AGENCY/PROGRAM	CONDITION
Maine State Retirement System	have been hired and posting is being brought up-to-date in three month segments. In order to determine the accuracy of district reports and remittance of funds, to allow ready reference to an individual's records, and to provide correct fund balances, we recommend that Maine State Retirement System make every effort to post teacher contribution and interest information. In addition, we recommend a conversion to an automated system.
Department of Mental Health and Mental Retardation Alcohol and Drug Abuse and Mental Health Services (ADAMHS) block grant (CFDA #13.992) licenses not monitored annually	34-B M.R.S.A. Section 3606 (5) requires licensed ADAMHS sub-recipients to be monitored at least once per year for continued compliance with applicable laws and rules. The Department of Mental Health and Mental Retardation employed one person part-time during the period of audit to review ADAMHS recipients for compliance with state licensing requirements. The annual progress report for mental health activities under the ADAMHS block grant (for the period October 1, 1986 to September 30, 1987) states that the department was without a licensing director for several months, and, as a result, only three community mental health centers received site visits during the period. In order to assure that ADAMHS block grant subrecipient qualifications are being met, and in order to insure compliance with state licensing requirements and Maine statutes, we recommend that the license review monitoring function be expanded.
Secretary of State Motor Vehicle Division Processing of Certificates of Title	An analysis of the system of internal control with regard to the processing of motor vehicle and trailer certificates of title revealed the following control weaknesses: (1) Title examiners who review and approve title applications are directly involved in the destruction of printed certificates of title

AGENCY/PROGRAM	CONDITION
Motor Vehicle Division	which are rejected due to inaccuracies and/or incomplete information. No record is maintained of these certificates rejected and disposed of by examiners. (2) Blank (unprinted) titles returned by the Bureau of Data Processing when the Division of Motor Vehicle sends blanks in excess of those necessary for printing are not logged into the title control numbers log when received. (3) The employees responsible for maintaining the title control number log are also responsible for reprinting individual titles which have been mutilated, inaccurately printed or must be printed as a "rush" job and for the assignment of title control numbers for truck trailers. The foregoing weaknesses create a lack of accountability of certificates of title and may result in the unauthorized issuance of such titles. We therefore, recommend the following: (1) All rejected or improperly printed titles be stamped "void" and sent to the proper employee to be recorded in the destruction log and properly disposed of. (2) Blank titles returned from the Bureau of Data Processing should be logged in on the control log and properly safeguarded in the cashiers office. (3) The responsibilities for maintaining the title control number log and reprinting individual titles be segregated between different employees.
Accounts receivable Highway Fund	An analysis of internal control with regard to Highway Fund accounts receivable revealed that the collective accounting functions were being performed by one individual. In addition, it was determined that the data processing record check log for the period prior to

AGENCY/PROGRAM	CONDITION
Motor Vehicle Division	January of 1987 could not be located. The loss of these records prevented us from accurately verifying whether services provided were accurately billed and whether subsequent collections were accurately processed and accounted for. We recommend that duties and responsibilities related to the internal control system over the accounts receivable functions be properly segregated among individuals. We also recommend that the motor vehicle record check logbook be retained for audit purposes.
Insufficient internal control over motor vehicle registrations, licenses and fuel use identification decals.	Audit tests of monies remitted to the state for motor vehicle registrations issued by municipal agents, for non-photo motor vehicle operator licenses issued by the division's various mobile units, and for fuel use identification decals issued by agents in the towns of Jackman and Fort Kent revealed a lack of internal control. There are apparently no established control procedures being followed to ensure that all registrations/licenses/decals issued are reported as such. A reconciliation is not being performed of the blank non-photo licenses assigned to the mobile units versus the actual number of issuances and the fees deposited or of the number of decals assigned/distributed to agents versus the number of decals reported as issued. We recommend that the division periodically reconcile the total number of motor vehicle registrations, non-photo motor vehicle operator licenses, and fuel use identification decals reported as issued to the total number of registrations/licenses/decals originally distributed to the marketing agents or that some other verifiable means of accountability (i.e., machine validation) be implemented to properly account for these registrations, licenses and decals.

AGENCY/PROGRAM	CONDITION
Motor Vehicle Division Delay in preparation of income statements.	Income statements were not prepared in a timely fashion to properly credit the General Highway Fund with revenues collected and deposited by the division's mobile units. A lack of accounting staff apparently caused this condition. The delay in submission of income statements could result in revenues not being recognized in the correct accounting period and results in lost interest income to the Highway Fund and additional reconciliation efforts by the State Treasury Department. We therefore, recommend that income statements for mobile unit deposits be prepared on a more timely basis.
Timeliness of RFTA revenue transfers from other jurisdictions.	A review of Regional Fuel Tax Agreement (RFTA) revenue transmittals from other jurisdictions disclosed that 23% of Vermont and 91% of New Hampshire transmittals were late. This resulted in noncompliance with Article 8.5 of the Regional Fuel Tax Agreement. All funds received during the month shall be forwarded to the appropriate jurisdiction by the end of the following month. This resulted in tax revenues not being recognized in the proper accounting period. We recommend that the State of Maine work with the other member states to accelerate the timing of RFTA tax revenue transfers to Maine in order to achieve compliance with RFTA requirements.
Department of Transportation — Motor Transport Service Accounts receivable duties not adequately segregated	A single individual who has responsibility for accounts receivable prepares journals to set up the receivables, posts to the receivables ledger, prepares income statements for deposits of payments to receivables, reconciles accounts and prepares aging of receivables. Proper internal controls require that accounting functions not be performed by the same individual who is responsible for cash functions.

AGENCY/PROGRAM	CONDITION
Motor Transport Service	In order to ensure control of assets, we recommend that the service establish and maintain separation of accounting and cash responsibilities.
Follow-up by the Legal Services Division of uncollected amounts was untimely	A review of accounts receivable records revealed that the majority of accounts were in excess of three years past due (many were in excess of five years past due). Apparently, the Legal Services Division of the Department of Transportation was responsible for the enforcement of these past due balances and failed to take timely action regarding collection of such accounts. Failure to enforce collection in a timely manner results in a decreased likelihood of recovery. We therefore recommend that Motor Transport Service and the Legal Services Division address the untimely collection efforts or find other means of enforcing the collection of past due accounts.
Revenues earned in June, 1987 were not accounted for in the correct fiscal year	A review of revenue and receivable records disclosed that services provided in June, 1987 of $853,770 were not billed until the next fiscal year and, as a result, were not recorded as revenue or receivables in the proper period. In order to correctly reflect the balances of revenue and receivables on the financial statements, we recommend that the Motor Transport Service, in accordance with generally accepted accounting principles, accrue unbilled receivables for services provided at the end of the fiscal year.
Fuel usage not well controlled	When fuel is dispensed from each location, a prenumbered gas slip is completed, and an entry made in the location usage log. The slips are not accounted for in numerical order. The usage log is not reconciled to the gas slips or to the Weekly Fuel Report generated from information taken from gas tank readings. The Weekly Fuel Report, likewise, is not supported by the detailed gas slips.

AGENCY/PROGRAM	CONDITION
Motor Transport Service	The incomplete accounting for source documents and absence of reconciliation of information from different sources provides weak control over fuel inventory. In order to improve control, we recommend that the Motor Transport Service require each location maintaining fuel tanks to account for its prenumbered fuel slips and to reconcile the Weekly Fuel Report for that location with its own Location Usage Log.
Inadequate control of supplies inventory	Our review of internal control of assets disclosed the following weaknesses in supplies inventory control: 1) A physical count revealed variances in 68% of a sample of 28 items tested. 2) Signed receiving reports are not required for items issued to service truck operators who maintain inventory items in stock, or for items transferred from one location to another. 3) Individuals who are responsible for maintaining bin control cards also post to computerized inventory records and add and remove stock via requisitions. 4) Management does not review or approve adjustments (for items located in Augusta) made by one employee who tests 50 items daily and reconciles them to bin records and actual inventory. 5) Our physical count disclosed items stored in several areas, making an accurate total count difficult. 6) Stockroom security is weakened by an unlocked second floor door. Lack of internal controls over physical inventory and computerized inventory data jeopardizes the reliability and integrity of the supply inventory reports. In order to improve the security of physical inventory and the reliability of data, we recommend the following:

AGENCY/PROGRAM	CONDITION
Motor Transport Service	1) Management should review inventory procedures and controls to determine the reason for the high percentage of variances, and should approve all adjustments to inventory records. 2) Shipping and receiving records should be utilized and signed when items are transferred to other locations or when issued to service truck operators. 3) The duties of adding and removing stock, posting information to bin cards, and entering information into the automated system should be segregated. 4) Items of a like nature should be stored together when ever possible. 5) Stockroom security should be strengthened and a lock placed on the second floor door.
Inventory not reconciled to controller's records at fiscal year end	The State Controller's inventory valuation includes account #72060 (inventory) and #72066 (work-in-progress). Motor Transport Service personnel reconciled the inventory account to the controller's records on March 31, 1987. Neither inventory nor work-in-progress balances were reconciled as of June 30, 1987. In order to provide verifiable balance sheet account totals, we recommend that Motor Transport Service personnel reconcile both inventory and work-in-progress accounts at the end of the state's fiscal year.
Division offices outside of Bangor and Augusta do not negotiate prices for bulk fuel purchases	During our audit of the fiscal year ended June 30, 1986, it was found that, with the exception of the Augusta and Bangor offices, obtaining price quotations or negotiating with vendors for the best possible price of fuel had not been done. To date, there has been no change in Motor Transport Service's procurement methods, and purchases continue to be made

AGENCY/PROGRAM	CONDITION
Motor Transport Service	from current suppliers, with no price negotiation. Price quotes are to be requested in late September, 1988. Legislation allowing purchase of fuel through negotiation with vendors, as opposed to formal bidding procedures was enacted in 1983. The purpose of the legislation is to enable the state to obtain fuel at the most favorable price during periods when price fluctuations are commonplace. With annual fuel purchases exceeding 4 million gallons, any reduction in unit cost would result in savings to the state. We recommend that all division offices be instructed to obtain, and maintain on file, price quotations from vendors when purchasing petroleum products.
Working capital advance funds may be misclassified	The working capital advance account balance at June 30, 1987 was $13,182,115, an accumulation of advances dating back to 1947. Only one repayment, of $1,000,000 in 1982, has been made. If the intent was that the amounts be repaid, they are properly classified. If there is no intention to repay the funds, they should be reclassified as a capital contribution and reflected in the equity section of the balance sheet. We recommend that research be conducted to determine whether advance funds are considered to be loans or contributed capital. If a loan, the agency should prepare a repayment schedule. Otherwise, the balance should be reclassified.
Some billings to the Department of Transportation for Motor Transport Service equipment rentals are incorrectly calculated	Our test of billings to the Department of Transportation for rental of Motor Transport Service equipment revealed errors in the usage charge billed. While neither the error rate (6%) nor the value of the variances (1.54% of the total value of the transactions that had variances) was great, the possibility exists of computer error and mistakes of significant value could occur.

AGENCY/PROGRAM	CONDITION
Motor Transport Service	We recommend that the errors be reviewed, and that the computer program utilized for calculating and generating billings to the Department of Transportation be examined to determine the cause of the errors and the corrective action that will be necessary.
No signed approval of shop work orders	Information regarding labor and materials used for work orders received by Motor Transport Service is logged into the automated data processing system and verified for accuracy. Printouts are requested, and the costs that have been generated are transferred to the work order. There is no signed supervisory approval of either the printouts or of the work orders. In order to assure the departments being billed that the work was properly completed and that charges represent work actually performed, we recommend that a supervisor, shop foreman or superintendent approve all shop work orders after the costs have been computed and recorded.
Inventory procedures need to be improved	Motor Transport Service uses three inventory accounts: Equipment — Auto and Working (#72114), Shop Equipment (#72115) and Furniture and Office Equipment (#72116). A complete inventory was not done for the year of audit. At present, a complete inventory is being done for account #72114; when it is completed, an inventory of account #72115 will be taken. An inventory of account #72116 has not been scheduled. Currently, procedures for taking inventory are as follows: a computer-generated list of equipment is sent from the business office to each department or unit supervisor, who notes any changes, makes necessary corrections to reflect actual inventory, and returns the list. The computerized accounts are adjusted through an Equipment Change Report based on the returned lists.

AGENCY/PROGRAM	CONDITION
Motor Transport Service	The supervisors, who have custodial responsibilities for the equipment in their departments, are also responsible for accounting for equipment inventory and reporting changes. An authorized equipment adjustment form is not used for changes to equipment records (e.g., when items are transferred from one location to another). No one from the business office verifies the inventory count, even on a spot-check basis.
	In order to provide proper control of inventoried assets, we recommend that a complete physical inventory of all eqiupment be performed by an employee who does not have custodial responsibility for the equipment, or that an independent employee periodically verify the physical inventory taken by the equipment custodian. We further recommend that the appropriate forms, with authorizing signatures, be used for changes to equipment records.
Procedures for capitalization and depreciation of equipment are inadequate	Work shop orders are prepared by garage personnel when work is done on vehicles or equipment. The decision as to which work shop orders to capitalize and which to treat as repairs expense is made by one employee without the benefit of written standards or procedures.
	Motor Transport Service depreciates all capitalized assets with a value of $150 or more. Straight-line depreciation is used (cost less salvage value, divided by useful life). However, when the useful life of the equipment is extended through job orders, an arbitrary method ("remaining months corrections") is used to adjust depreciation. This method assigns additional months of depreciation based on a range of additional cost (e.g., an additional 12 months of depreciation for any vehicle or piece of equipment to which $1000-$2000 of improvements have been made). This method

AGENCY/PROGRAM	CONDITION
Motor Transport Service	does not consider the expected extension to the useful life of the asset. In order to properly value capital assets, and to depreciate assets in accordance with generally accepted accounting principles, we recommend that policy and procedures for capitalization of work order costs be written and administered centrally and consistently. We further recommend that depreciation of vehicles or equipment that have been improved be determined in accordance with generally accepted accounting principles.
Equipment control account not reconciled	Due to an inventory clerk position vacancy, equipment account #72115 was not reconciled to the controller's records for the months of April, May and June, 1987. At June 30, 1987 there was an unreconciled variance of $79,405. The vacant position has since been filled and monthly reconciliations are now being done.
Improper valuation of capital equipment obtained from surplus property	During our audit of the fiscal year ended June 30, 1986, we found that capital equipment obtained from surplus property was being recorded at cost rather than at fair market value. The agency had no written procedures for determining the fair market value of surplus equipment acquisitions. In order to ensure proper valuation of assets, we recommend that the agency establish and implement written procedures for valuing surplus property equipment purchases at fair market value.

AGENCY/PROGRAM	CONDITION
Department of Transportation Federal Highway Administration CFDA #20.205 Descriptions of work charged to federal programs are incomplete or unclear. A similar condition was reported in the audit report for fiscal year ended June 30, 1986.	During a review of Department of Transportation payroll records, several examples of incomplete or unclear descriptions of work done were noted. We recommend that personnel be instructed as to the correct method of payroll voucher preparation and that supervisory personnel be held accountable for insuring that correctly prepared documents are submitted for payroll processing.
Procedures and controls over UMTA transactions have not been established.	No formal procedures or management controls pertaining to requesting reimbursement from the Urban Mass Transit Authority (UMTA) and the preparation of journal entries associated with these transactions have been established. Our examination disclosed the following: (1) At June 30, 1987, $1,403,929 of reimbursable expenditures had not been billed to UMTA. Subsequent examination noted that $977,999 remained unbilled at April 30, 1988. (2) Journal entries to properly record UMTA reimbursements in the amount of $184,616 were not prepared and recorded until 11 months after the transaction date. (3) Journal entries to properly record the receipt of $498,029 were not prepared within the correct fiscal year. As a consequence, state highway funds and federal expenditure appropriations are misstated on the State Controller's records. We recommend that formal procedures be established to insure that federal funds due the state are requested and received in a timely manner and that journal entries required to properly record transactions also be prepared and posted in a timely manner.

AGENCY/PROGRAM	CONDITION
Department of Transportation There is a lack of control over recording and accounting for equipment inventory. The department and the division's records are not in agreement.	A comparison of the property management records of the Maine Department of Transportation, Bureau of Finance and Administration, to the property management records of the Maine Department of Transportation, Public Transportation Division, revealed significant differences. Twenty-five items of equipment totaling $973,926, recorded on the Public Transportation Division's inventory, were not included in the department's inventory. These account for 28% of the 88 items on the division's inventory to which the department holds title. Twenty-seven additional items were not equally valued in the inventories of the department and the division. The net value of the differences in those twenty-seven items is $47,854. The above differences appear to be caused by the method the division uses to record equipment purchases and to charge the purchases to the appropriate grants. One inventory item, purchased with three other identical items on April 26, 1984, was recorded as having been purchased on April 26, 1987. The system does not, at present, prevent the entry of a date of purchase subsequent to the date of the data entry. In order to correct the current record, and to prevent further inaccuracies to inventory records, we recommend: (1) that the Public Transportation Division enter unrecorded equipment on the department's inventory records; (2) that the division adjust its records and the department's records as needed for incorrectly recorded equipment values; (3) that the department purchase state-owned Public Transportation Division equipment directly from the 7200 (equipment) character and object series; (4) that the department institute a control in its computer program that will not allow the entry of a date of purchase subsequent to the date of data entry.

AGENCY/PROGRAM	CONDITION
(Office of) Treasurer of State	
Demand deposits reconciled on days other than the end of the month	Six demand deposit bank accounts report balances as of a date other than the end of the month. Treasury reconciliations were done as of statement date, as a result, fiscal year end balances were not directly reconciled.
	To allow ease of reconciliation at month-end and year-end, we recommend that all banks be requested to send statements as of the last day of the month.
The agreement for demand deposit banking services has not been renewed since 1984	The last written contract with the Bank of Maine (currently Fleet Bank), made on April 1, 1982, terminated on April 1, 1984. Extensions to this contract have been made orally. The only contracted cost (unit cost per check paid other than payroll check) has remained unchanged, but the state has no binding agreement concerning this, or any other charge.
	In order that the state be protected against undesirable charges, or changes in work performed, we recommend that new contracts or extensions be prepared when existing contracts expire.
Fiduciary names and numbers for guarantor funds are insufficiently recorded	The accuracy of balances of guarantor funds maintained in the Treasury's ledgers should be verifiable to bank records by bank name and number. Our test showed that bank numbers were missing or inaccurate and that changes in fiduciary names were not recorded.
	In order that the accuracy of Treasury records be verifiable, we recommend that more attention be given to guarantor and private trust ledgers.
Legislature does not receive written advice as to the effects of new bond issues proposed	Title 3, §551 of the Maine Revised Statutes Annotated requires the Commissioner of Finance and the Treasurer of State to advise the legislature and the Governor, in a timely manner and in written form, as to the effect of any bond issue on the state's bonded debt. Presently the legislature is advised on an as needed basis regarding that effect; this advice is provided orally.

AGENCY/PROGRAM	CONDITION
(Office of) Treasurer of State	We recommend, in order to be in compliance with Maine statutes, that the required written advice be provided to the legislature regarding the effect of any bond issue on the state's bonded debt.
Abandoned property detail subsidiary ledgers are not reconciled to the control ledger	During the previous audit (fiscar year ended June 30, 1986), a review of the various abandoned property division records indicated numerous differences when an attempt was made to reconcile the accounting ledgers which detail the various types of abandoned properties. We noted that the State Treasurer's abandoned properties control ledger is reconciled, on a monthly basis, to the records of the State Controller; however, we also noted that the detail subsidiary ledgers were found not to be in agreement with the control record. We recommend that a complete and thorough review be made of the abandoned property detail subsidiary ledgers in order to locate the numerous variances, make the proper adjustments and reconcile them to the control accounts. We also recommend these records be properly maintained and reconciled on a periodic basis (monthly) in order to provide for a complete and accurate record of all abandoned properties. During the current year of audit (fiscal year ended June 30, 1987), a review of the abandoned property records again revealed little or no improvements over the previous fiscal year. The State Treasurer's control ledger is periodically (monthly) reconciled to the controller's records; the detail subsidiary ledgers are not reconciled to the control ledger. In order to follow generally accepted accounting principles and to insure internal control, we recommend a review of the subsidiary ledgers to locate the variances, an adjustment of the ledgers and periodic (monthly) reconciliation to the abandoned property control account.

AGENCY/PROGRAM	CONDITION
(Office of) Treasurer of State There is a credit balance in the abandoned property cash account (#83001)	Maine statutes require the Treasurer of State to transfer to the General Fund all money in the Abandoned Property Fund that is in excess of $50,000 (MRSA Title 33, §1358 (2)(B). Abandoned Property Division personnel had interpreted the statute to mean that the Liability to Trust Funds Account (#83340) should be debited to equal $50,000 or less. As a large part of the liability account is made up of property (account #83079, Abandoned Property) rather than cash, the entries transferring cash to the General Fund resulted in a cash account (#83001) balance of ($234,930). It is our opinion that the statutory reference to money means cash balance, so only cash in excess of $50,000 should be transferred to the General Fund. We therefore recommend that the Abandoned Property Fund accounts be reviewed and adjustments made as needed, and that amounts transferred at year-end include only cash.
Private trusts records are not reconciled to State Controller's trial balance	A comparison of the Treasurer of State's Private Trust Account with the State Controller's records revealed the need for net adjustments of $4,955,000. The account is not periodically reconciled to the controller's records, resulting in inaccurate account balances. To ensure accuracy of account balances, we recommend that the Private Trust Account be periodically reconciled to records of the State Controller.
Private trusts investment records provide no clear audit trail	Files for 39 of 41 guaranty deposit accounts (securities held in trust by the State of Maine) were examined. The most recent fiduciary summary of investment for one account is dated September 26, 1975; for seven accounts is dated December 31, 1986; and for 29 accounts is dated December 31, 1987.

AGENCY/PROGRAM	CONDITION
(Office of) Treasurer of State	It is management's opinion that only the original investment account and the original depository name used need be recorded in the subsidiary ledgers for trusts. Tracing account balances as of June 30, 1987 could not be done, as no investment summaries were prepared for June 30, 1987. Since the ledgers do not reflect investment activity, some amounts could not be traced to investment summaries. Some amounts could not be traced through a depository name as changes in depositories are not recorded in the ledgers.
	In order to provide an audit trail, and to improve control over, and accountability for, private trusts investments, we recommend that fiduciary statements be obtained periodically and reconciled to trusts ledgers.
Contracts for custodial services for investments not approved by Governor	Maine law requires the approval of the Governor for all custodial contracts and agreements (Maine Revised Statutes Annotated, Title 5, §135). It is the opinion of the Office of Treasurer of State that approval of the Governor means the Governor or his designee, and that the Commissioner of Finance, appointed by the Governor, can approve custodial contracts in her role as member of the Investment Advisory Committee. However, an examination of the committee's minutes revealed no specific approval of a contract with Casco Northern Bank for full custodial and investment services in force from May 1, 1988 to May 1, 1990.
	In order that the Treasurer's office be in compliance with Maine statutory requirements, we recommend that the Governor's approval be obtained for all investment securities safekeeping or custodial contracts.

AGENCY/PROGRAM	CONDITION
(Office of) Treasurer of State Special service contracts originated by the State Treasurer are not approved by the Bureau of Purchases	Maine statutes give authority for all purchases of services, supplies, materials and equipment required by the state government or any of its departments to the Department of Administration, through the Bureau of Purchases. It is the opinion of the Office of the Treasurer of State that service contracts made by the treasurer, as a constitutional officer, need not be approved by the Bureau of Purchases or its Contract Review Committee. It is our opinion that the Office of the Treasurer of State is bound by state statutes and official procedures as any other department. To ensure proper procurement procedures are followed, we recommend that all special services contracts be approved by the Bureau of Purchases.
A copy of a notice of securities pledged to indemnify the State of Maine against any loss of deposited funds is not received by the State Department of Audit	Title 5, Section 135, M.R.S.A. of 1964, as amended, requires the state to be indemnified against loss of deposited funds exceeding 25% of the capital, surplus and undivided profits of the depository bank or trust company; they require a copy of the notice of the hypothecation to be mailed to the State Department of Audit. No notice was received by the department. To ensure compliance with state statutes, we recommend that a copy of the notice of securities pledged as indemnification of the state be sent to the State Department of Audit.