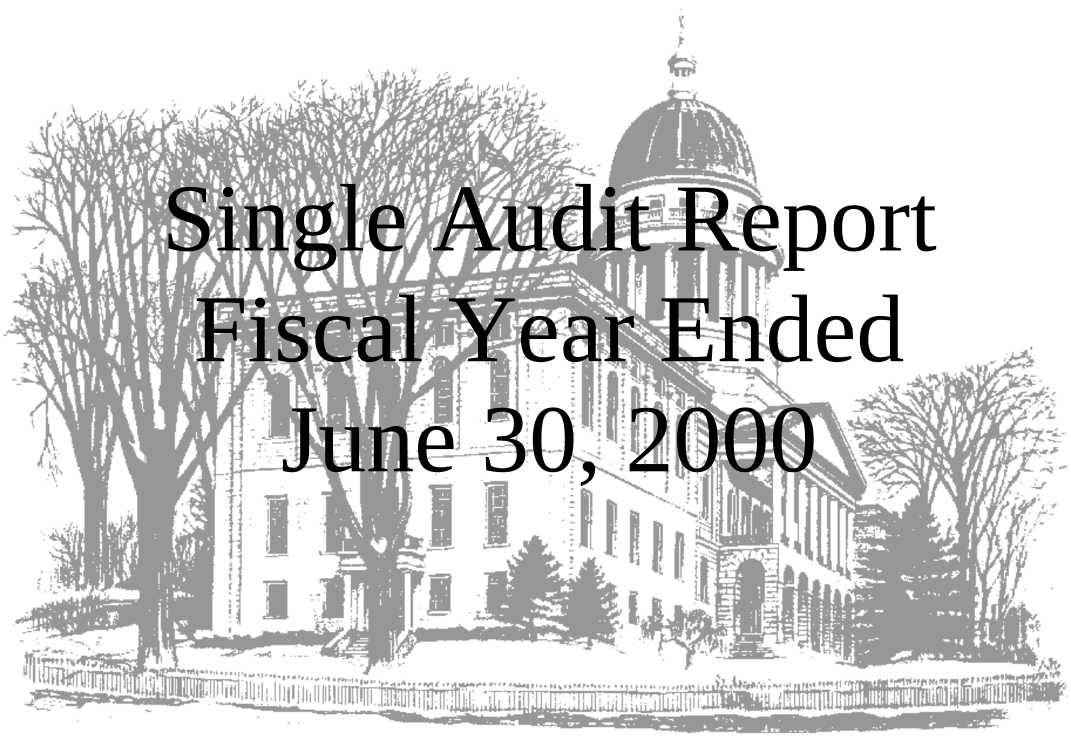
State of Maine



Single Audit Report
Fiscal Year Ended
June 30, 2000

Prepared by
State Department of Audit
Gail M. Chase, CIA, State Auditor

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STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2000

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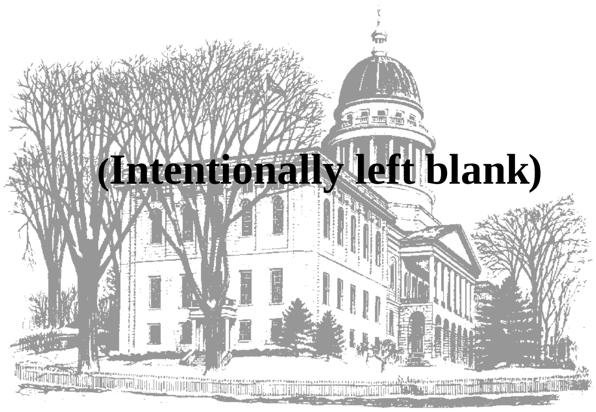

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Letter of Transmittal

Senator Michael H. Michaud
President of the Senate

Senator Richard A. Bennett
President Pro Tempore

Representative Michael V. Saxl
Speaker of the House of Representatives

The Honorable Angus S. King, Jr.
Governor of Maine

We are pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2000. This report complies with the State's audit requirements, including those placed upon the State as a condition for the receipt of approximately $1.7 billion in federal funds. The audit was conducted in accordance with *Government Auditing Standards,* issued by the Comptroller General of the United States; the requirements of the Single Audit Act Amendments of 1996; and the Office of Management and Budget Circular A-133,*Audits of States, Local Governments, and Non-Profit Organizations*.

This document contains the following reports and schedules:

? Independent Auditor's Report

? Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

? Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133

- ? Schedule of Expenditures of Federal Awards

- ? Schedule of Findings and Questioned Costs

- ? Corrective Action Plan

- ? Summary Schedule of Prior Audit Findings

On behalf of the Department of Audit, I would like to express my gratitude to employees throughout State government who have assisted us during the conduct of our audit and in the issuance of this report. We continue our mutual effort to improve financial reporting and accountability to the citizens of our State.

We would be pleased to respond to any questions or comments about the 2000 Single Audit of the State of Maine.

Respectfully submitted,

Gail M. Chase, CIA
State Auditor

August 10, 2001

EXECUTIVE SUMMARY

Introduction:

The *Single Audit of the State of Maine for the Year Ended June 30, 2000* is a financial and compliance audit that fulfills State and Federal requirements. The audit is of the general purpose financial statements of the State of Maine. These statements include all funds, organizations, institutions, agencies, departments and offices of the State, as well as twelve entities that meet the criteria for component units due to the significance of their operational or financial relationships with the State. To satisfy the needs of report users, and to be in compliance with federal regulation, the *Single Audit* is presented in three individual reports: the *Independent Auditor's Report*; the *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*; and the *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.* There is also a separately issued management letter.

Results:

Our audit resulted in a qualified audit opinion. Controls over accounting and financial management systems are not adequate to report some amounts or to support others. For certain federal programs, controls are insufficient to ensure compliance with program rules and regulations. There were instances of noncompliance with laws, rules or regulations that were not material either to the financial statements or to a major federal program. We found no instances of fraud, illegal acts or other irregularities.

Opinion:

Our opinion on the financial statements of the State of Maine was qualified because of the following departures from generally accepted accounting principles:

? inadequate systems to report capital leases
? omission of General Fixed Assets Account Group
? inadequate disclosure of pension information

In our opinion, amounts reported on the Schedule of Expenditures of Federal Awards were fairly stated, in relation to the general purpose financial statements.

Financial Statement Controls and Compliance:

We identified seven reportable conditions relating to deficiencies in internal controls that could adversely affect the State's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. These conditions are described in detail in the accompanying Schedule of Findings and Questioned Costs as items 00-01 through 00-07 and are as follows:

? fixed assets records incomplete
? internal control system to identify capital leases inadequate
? internal control system to ensure accurate budgetary reporting inadequate
? internal control system to ensure accurate financial reporting of Alcoholic Beverage Fund and State Lottery Fund inadequate
? loans receivable balances not recorded on the State's financial statements
? amounts held in trust for clients not adequately supported
? subsidiary records duplicative and incorrect

We found no noncompliance with laws and regulations that could have a direct and material effect on the financial statements.

Federal Funds Controls and Compliance:

We identified 51 reportable conditions relating to significant deficiencies in the design or operation of controls over compliance that could adversely impact the State's ability to administer a major federal program in accordance with the requirements of laws, regulations, contracts and grants. These conditions related to the following areas:

? Allowable costs and cost principles
? Cash management
? Equipment and real property management
? Matching, level of effort, and earmarking requirements
? Expenditure of funds within the period of availability
? Procurement
? Accounting for and reporting of federal funds
? Subrecipient monitoring
? Other special tests and provisions

There were five instances of noncompliance not included among the reportable conditions that are required to be reported in compliance with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The reportable conditions and instances of noncompliance are identified as items 00-08 through 00-63 in the accompanying Schedule of Findings and Questioned Costs.

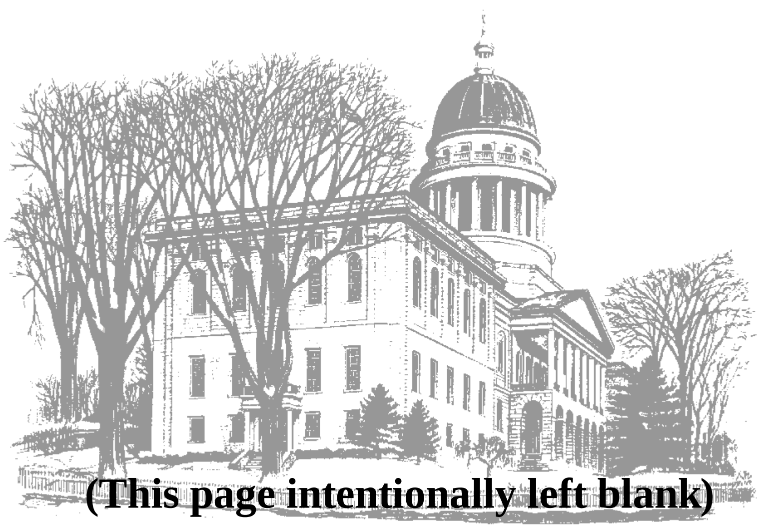
Twelve of the deficiencies resulted in questioned costs that totaled $1,595,885. Questioned costs represent the amount of federal financial assistance that we believe was not spent in compliance with program rules or regulations or that was insufficiently documented for us to determine compliance. The federal government may, or may not, disallow these costs and require reimbursement from the State.

Other:

Other less significant instances of noncompliance, as well as comments that may improve internal controls, are reported in the separately issued management letter.

Conclusion:

Our audit resulted in a qualified opinion and identified serious weaknesses in systems of internal control, as well as various instances of noncompliance. However, we recognize that State financial managers have initiated action that should resolve many of these issues. While the nature of any audit report is inherently critical, we believe that the State of Maine has improved both its financial reporting and its systems to ensure accountability.



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Independent Auditor's Report

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

We have audited the accompanying general purpose financial statements of the State of Maine, as of and for the year ended June 30, 2000, as listed in the table of contents. These general purpose financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on thesegeneral purpose financial statements based on our audit. We did not audit the financial statements of the discretely presented component units listed in Note 1, which represent 100 percent of the total assets and 100 percent of the total revenues of the component unit column, 100 percent of the changes in pension plan net assets and 100 percent of the assets and 100 percent of the revenues of the college and university component unit funds. We did not audit the financial statements of the Maine Governmental Facilities Authority, which represents 6.35 percent of the assets and .16 percent of the total revenues of the Special Revenue Fund Type. Those financial statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for the discretely presented component units and for the Maine Governmental Facilities Authority, is based solely on the reports of the other auditors.

Except as discussed in the first succeeding paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. The financial statements of the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, and the Maine Health and Higher Education Facilities Authority were not audited in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

Because the State of Maine does not maintain adequate systems to identify, classify and report capital leases in conformity with generally accepted accounting principles, we were unable to satisfy ourselves regarding the amounts at which fixed assets (stated at $84.8 million), and obligations under capital leases (stated at $39.4 million) are recorded in the Internal Service Fund.

The general purpose financial statements referred to above do not include the General Fixed Assets Account Group, which should be included in order to conform with generally accepted accounting principles. The amount that should be recorded in the General Fixed Assets Account Group is not known.

The State's financial statements include pension information as audited by other auditors. The Statement of Changes in Pension Plan Net Assets is presented as if the Maine State Retirement System were the administrator of a single plan. Also, Notes 1 and 9 to the financial statements state that the System is the administrator of an agent, multiple-employer system. Further, Note 9 states that Maine State Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries, and that the System is therefore regarded as administering a single plan for reporting purposes. The State's legal counsel does not agree with the accumulated assets representation. In our opinion, there is more than one pension plan and additional disclosure is required to conform with generally accepted accounting principles.

In our opinion, based on our audit and the reports of other auditors, except for the effect on the financial statements of the omission and representation described in the first preceding paragraph, the omissions described in the second preceding paragraph, and the effect of such adjustments, if any, as might have been determined to be necessary had records concerning capital leases been adequate (discussed in the third preceding paragraph), the general purpose financial statements referred to in the first paragraph (as included in the table of contents) present fairly, in all material respects, the financial position of the State of Maine, as of June 30, 2000, and the results of its operations and the cash flows of its proprietary fund types, nonexpendable trust funds and discretely presented component units, the changes in pension plan net assets, and the changes in fund balances and current funds revenues, expenditures, and other changes of the college and university funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2001 on our consideration of the State of Maine's internal control over financial reporting and on our tests of its compliance with laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in Notes 1 and 3 to the financial statements, the State of Maine reporting entity changed to include the Northern New England Passenger Rail Authority.

The schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* and is not a required part of the general purpose financial statements of the State of Maine. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects, in relation to the general purpose financial statements taken as a whole.

Gail M. Chase, CIA
State Auditor

February 28, 2001

GENERAL PURPOSE FINANCIAL STATEMENTS

STATE OF MAINE
COMBINED BALANCE SHEET
ALL FUND TYPES, ACCOUNT GROUP AND DISCRETELY PRESENTED COMPONENT UNITS

June 30, 2000
(Expressed in Thousands)

	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Assets and Other Debits			
Cash and Short-Term Investments	$ 151,490	$ 139,148	$ 77,955
Cash with Fiscal Agent	16,006	3,579	-
Investments	204,005	250,287	9,034
Restricted Deposits and Investments	8,016	44,552	-
Investments of Deferred Compensation Plan	-	-	-
Assets Held in Trust	-	-	-
Unemployment Deposits with US Treasury	-	-	-
Receivables, Net of Allowance for Uncollectibles:			
Taxes Receivable	348,061	36,992	-
Due from Other Governments	-	175,206	-
Loans Receivable	1	2,979	-
Notes Receivable	-	-	-
Other Receivable	36,713	41,501	-
Due from Other Funds	14,054	5,006	-
Due from Primary Government	-	-	-
Inventories	445	21,470	-
Fixed Assets - Net of Depreciation Where Applicable	-	-	-
Working Capital Receivable	1,336	69	-
Other Assets	8,992	1,254	-
Amount to be Provided for Retirement of General Long-Term Obligations	-	-	-
Total Assets and Other Debits	$ 789,119	$ 722,043	$ 86,989
Liabilities, Fund Equity and Other Credits			
Liabilities:			
Accounts Payable	$ 74,061	$ 164,224	$ 3,662
Accrued Payroll	14,548	17,428	-
Compensated Absences	1,495	1,754	-
Tax Refunds Payable	102,209	-	-
Due to Other Governments	-	51,510	-
Due to Other Funds	5,840	22,434	267
Due to Component Units	6,659	4,881	8,552
Agency Liabilities	-	-	-
Claims Payable	-	-	-
Interest Payable	-	-	-
Other Accrued Liabilities	24,947	1,272	196
Certificates of Participation and Other Financing Arrangements	-	-	-
Obligations under Capital Leases	-	-	-
Pension Obligation	-	-	-
Amounts Held under State Loan Programs	-	-	-
Deferred Revenue	35,999	25,867	-
Undisbursed Grant and Administrative Funds	-	-	-
Bonds and Notes Payable	448	11	-
Working Capital Advances Payable	-	225	-
Total Liabilities	266,206	289,606	12,677
Fund Equity and Other Credits:			
Contributed Capital	-	-	-
Retained Earnings:			
Reserved	-	-	-
Unreserved	-	-	-
Fund Balances (Deficits):			
Reserved for Continuing Appropriations	77,288	385,147	-
Reserved for Unemployment Benefits	-	-	-
Reserved for Nonexpendable Trusts	-	-	-
Reserved for Rainy Day Fund	143,479	-	-
Reserved for Pension Benefits	-	-	-
Reserved for Debt Service	15,630	8,124	-
Reserved for Capital Projects	-	39,644	74,312
Other Reservations	36,240	943	-
Net Investment in Plant	-	-	-
Unreserved	250,276	(1,421)	-
Total Fund Equity and Other Credits	522,913	432,437	74,312
Total Liabilities, Fund Equity and Other Credits	$ 789,119	$ 722,043	$ 86,989

The accompanying notes are an integral part of the financial statements.

	Primary Government						
	Proprietary Fund Types		Fiduciary Fund Types	Account Group	Total (Memorandum Only)		Total (Memorandum Only)
	Enterprise	Internal Service	Trust and Agency	General Long-Term Obligations	Primary Government	Component Units	Reporting Entity
	$ 2,056	$ 19,804	$ 11,866	$ -	$ 402,319	$ 307,754	$ 710,073
	-	2,579	2	-	22,166	12,151	34,317
	2,625	33,160	82,038	-	581,149	8,498,863	9,080,012
	-	-	-	-	52,568	5,222	57,790
	-	-	207,316	-	207,316	-	207,316
	-	-	318,506	-	318,506	-	318,506
	-	-	286,199	-	286,199	-	286,199
	-	-	41,634	-	426,687	-	426,687
	-	-	-	-	175,206	979,403	1,154,609
	7,479	-	-	-	10,459	2,182,083	2,192,542
	-	-	-	-	-	68,919	68,919
	10,674	205	-	-	89,093	289,588	378,681
	17	10,780	395	-	30,252	-	30,252
	-	-	-	-	-	20,737	20,737
	3,337	5,506	-	-	30,758	5,913	36,671
	41,122	84,783	-	-	125,905	386,968	512,873
	-	-	-	-	1,405	-	1,405
	194	933	23	-	11,396	50,255	61,651
	-	-	-	661 789	661 789	-	661 789
	$ 67,504	$ 157,750	$ 947,979	$ 661,789	$ 3,433,173	$ 12,807,856	$ 16,241,029
	$ 5,375	$ 7,965	$ 10,089	$ -	$ 265,376	$ 40,933	$ 306,309
	477	1,185	-	-	33,638	282	33,920
	333	1,122	-	28,600	33,304	-	33,304
	-	-	-	-	102,209	-	102,209
	-	-	-	-	51,510	19,788	71,298
	1,478	233	-	-	30,252	-	30,252
	645	-	-	-	20,737	-	20,737
	-	-	321,686	-	321,686	-	321,686
	-	83,591	-	-	83,591	-	83,591
	-	148	-	-	148	43,872	44,020
	6,346	-	6,059	-	38,820	330,468	369,288
	-	19,297	-	105,971	125,268	-	125,268
	-	39,393	-	-	39,393	5,292	44,685
	-	-	-	74,243	74,243	-	74,243
	-	-	-	-	-	90,396	90,396
	352	4,785	1,536	-	68,539	42,770	111,309
	-	-	-	-	-	8,195	8,195
	-	-	-	452,975	453,434	3,396,988	3,850,422
	1 000	180	-	-	1 405	-	1 405
	16,006	157,899	339,370	661,789	1,743,553	3,978,984	5,722,537
	56,606	27,393	-	-	83,999	-	83,999
	-	-	-	-	-	242,250	242,250
	(5,108)	(27,542)	-	-	(32,650)	256,334	223,684
	-	-	-	-	462,435	-	462,435
	-	-	322,973	-	322,973	-	322,973
	-	-	21,013	-	21,013	-	21,013
	-	-	-	-	143,479	-	143,479
	-	-	-	-	-	7,618,480	7,618,480
	-	-	-	-	23,754	48,688	72,442
	-	-	-	-	113,956	102,318	216,274
	-	-	-	-	37,183	224,657	261,840
	-	-	-	-	-	315,447	315,447
	-	-	264,623	-	513,478	20,698	534,176
	51,498	(149)	608,609	-	1,689,620	8,828,872	10,518,492
	$ 67,504	$ 157,750	$ 947,979	$ 661,789	$ 3,433,173	$ 12,807,856	$ 16,241,029

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 2000
(Expressed in Thousands)

	Primary Government						
	Governmental Fund Types			Fiduciary Fund Type			
	General	Special Revenue	Capital Projects	Expendable Trust	Total (Memorandum Only) Primary Government	Component Unit	Total (Memorandum Only) Reporting Entity
Revenues:							
Taxes	$ 2,384,032	$ 248,433	$ -	$ 135,855	$ 2,768,320	$ -	2,768,320
Assessments and Other Revenues	60,447	128,766	-	-	189,213	-	189,213
Federal Grants and Reimbursements	1,896	1,554,074	-	-	1,555,970	30,440	1,586,410
Service Charges	27,652	43,746	-	-	71,398	6,431	77,829
Received and Receivable from Institutions	-	-	-	-	-	81,633	81,633
Income from Investments	18,920	15,662	2,512	38,127	75,221	13,610	88,831
Net Increase in the Fair Value of Investments	-	-	-	4,026	4,026	(55)	3,971
Miscellaneous Revenues	2 950	110 755	-	23 445	137 150	1 282	138 432
Total Revenues	2,495,897	2,101,436	2,512	201,453	4,801,298	133,341	4,934,639
Expenditures:							
General Government	228,388	198,322	5,249	10,003	441,962	190,306	632,268
Economic Development	28,883	83,196	-	-	112,079	-	112,079
Education and Culture	841,818	115,474	9,655	-	966,947	-	966,947
Human Services	769,158	1,163,479	1,606	-	1,934,243	-	1,934,243
Labor	12,430	67,260	-	78,340	158,030	-	158,030
Natural Resources	52,113	64,458	3,212	-	119,783	-	119,783
Public Protection	22,657	59,538	446	-	82,641	-	82,641
Transportation	7,112	334,589	14,100	-	355,801	-	355,801
Debt Service:							
Principal Payments	59,810	23,570	-	-	83,380	32,205	115,585
Interest Payments	17,497	12,103	-	-	29,600	50,790	80,390
Total Expenditures	2,039,866	2,121,989	34,268	88,343	4,284,466	273,301	4,557,767
Revenues over (under) Expenditures	456,031	(20,553)	(31,756)	113,110	516,832	(139,960)	376,872
Other Financing Sources (Uses):							
Operating Transfers In	86,441	125,146	-	1,362	212,949	-	212,949
Operating Transfers Out	(120,687)	(16,659)	(3,157)	(13,068)	(153,571)	(3,409)	(156,980)
Bond Proceeds	-	76,595	66,991	-	143,586	112,345	255,931
Operating Transfers from Component Units	-	1,000	-	-	1,000	-	1,000
Operating Transfers to Component Units	(239,404)	(33,544)	(14,669)	-	(287,617)	-	(287,617)
Operating Transfers from Primary Government	-	-	-	-	-	7,005	7,005
Net Other Financing Sources (Uses)	(273 650)	152 538	49 165	(11 706)	(83 653)	115 941	32 288
Excess (Deficiency) of Revenues and Other Financing Sources over (under) Expenditures and Other Financing Uses	182,381	131,985	17,409	101,404	433,179	(24,019)	409,160
Fund Balances at Beginning of Year (As Restated)	340,532	300,452	56,903	486,192	1,184,079	183,071	1,367,150
Fund Balances at End of Year	$ 522,913	$ 432,437	$ 74,312	$ 587,596	$ 1,617,258	$ 159,052	$ 1,776,310

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

BUDGETARY BASIS - BUDGET AND ACTUAL - GENERAL AND SPECIAL REVENUE FUND TYPES

Fiscal Year Ended June 30, 2000
(Expressed in Thousands)

	General Fund			Special Revenue Fund		
	Actual	**Budget**	**Variance Favorable/ (Unfavorable)**	**Actual**	**Budget**	**Variance Favorable/ (Unfavorable)**
Revenues:						
Taxes	$ 2,296,644	$ 2,288,583	$ 8,061	$ 226,535	$ 222,844	$ 3,691
Assessments and O her Revenues	60,447	55,117	5,330	130,560	141,845	(11,285)
Federal Grants and Reimbursements	11,260	10,287	973	1,466,680	1,680,893	(214,213)
Service Charges	30,132	26,738	3,394	70,906	92,357	(21,451)
Miscellaneous Revenues	19,704	24,173	(4,469)	205,544	125,366	80,178
Total Revenues	2,418,187	2,404,898	13,289	2,100,225	2,263,305	(163,080)
Expenditures:						
General Government	347,128	342,835	(4,293)	177,173	237,910	60,737
Economic Development	42,327	44,670	2,343	87,306	115,935	28,629
Education and Culture	1,060,906	1,065,719	4,813	116,362	130,809	14,447
Human Services	790,257	821,298	31,041	1,215,335	1,320,207	104,872
Labor	12,659	16,551	3,892	70,836	93,924	23,088
Natural Resources	51,140	53,897	2,757	63,105	100,580	37,475
Public Protection	22,512	23,828	1,316	58,038	76,628	18,590
Transportation	7,160	10,289	3,129	365,460	470,299	104,839
Total Expenditures	2,334,089	2,379,087	44,998	2,153,615	2,546,292	392,677
Excess Revenues over (under) Expenditures	84,098	25,811	58,287	(53,390)	(282,987)	229,597
Other Financing Sources (Uses):						
Operating Transfers In	90,835	67,257	23,578	126,835	114,343	12,492
Operating Transfers Out	(118,630)	(108,749)	(9,881)	(14,659)	(7,998)	(6,661)
Net Other Financing Sources (Uses)	(27,795)	(41,492)	13,697	112,176	106,345	5,831
Excess Revenues and Other Sources over (under) Expenditures and Other Uses	56,303	$ (15,681)	$ 71,984	58,786	$ (176,642)	$ 235,428
Beginning Fund Balances	502,294			366,400		
Ending Fund Balances	$ 558,597			$ 425,186		

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CONTRIBUTED CAPITAL

ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 2000
(Expressed in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Types	Total	
	Enterprise	Internal Service	Nonexpendable Trusts	(Memorandum Only)	Component Units
Operating Revenues:					
Charges for Services	$ 230,869	$ 148,460	$ -	$ 379,329	$ -
Interest on Loans Receivable from Governmental Units	-	-	-	-	47,244
Income from Investments	-	-	602	602	37,162
Fair Value Increases (Decreases)	-	-	(203)	(203)	(5,939)
Interest Income from Mortgages and Notes	-	-	-	-	84,347
Grant Revenue from Other Governments	-	-	-	-	44,428
Federal Rent Subsidy Income	-	-	-	-	51,303
Miscellaneous Revenues	(80)	140	-	60	19,171
Total Operating Revenues	230,789	148,600	399	379,788	277,716
Operating Expenses:					
General Operations	173,686	108,042	-	281,728	23,638
Depreciation	16,357	12,314	-	28,671	43
Interest Expense	35	9,981	-	10,016	139,228
Grant Related Expenses	-	-	-	-	37,317
Federal Rent Subsidy Expense	-	-	-	-	51,303
Claims / Fees Expense	-	11,571	-	11,571	-
Miscellaneous Expenses	-	-	-	-	17,159
Total Operating Expenses	190,078	141,908	-	331,986	268,688
Operating Income (Loss)	40,711	6,692	399	47,802	9,028
Nonoperating Revenue (Expenses):	1,109	3,062	-	4,171	(121)
Income (Loss) before Operating Transfers	41 820	9 754	399	51 973	8 907
Transfers In (Out):					
Operating Transfers In	2,704	-	-	2,704	-
Operating Transfers Out	(60,629)	(1,453)	-	(62,082)	-
Operating Transfers from Primary Government	-	-	-	-	50,361
Operating Transfers to Primary Government	-	-	-		(1,000)
Total Operating Transfers	(57,925)	(1,453)	-	(59,378)	49,361
Income (Loss) before Extraordinary tem	(16,105)	8,301	399	(7,405)	58,268
Income (Loss) from Extraordinary Item:					
Loss on Bond Redemption					(1,164)
Net Income	(16,105)	8,301	399	(7,405)	57,104
Add: Depreciation of Fixed Assets Acquired from Contributed Capital	2,662	180	-	2,842	-
Increase (Decrease) in Retained Earnings/Fund Balances	(13,443)	8,481	399	(4,563)	57,104
Retained Earnings/Fund Balances at July 1, 1999 (As Restated)	8,335	(36,023)	20,614	(7,074)	429,269
Retained Earnings/Fund Balances at June 30, 2000	$ (5 108)	$ (27 542)	$ 21 013	$ (11 637)	$ 486 373
Contributed Capital at July 1, 1999 (As Restated)	56,586	27,307		83,893	
Add: Capital Contributions	2,682	266		2,948	
Less: Depreciation of Fixed Assets Acquired from Contributed Capital	(2,662)	(180)		(2,842)	
Contributed Capital at June 30, 2000	$ 56 606	$ 27 393		$ 83 999	

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 2000
(Expressed in Thousands)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpend-able Trusts	Total (Memorandum Only)	Component Units
Cash Flows from Operating Activities:					
Net Income	$ (16,105)	$ 8,301	$ 399	$ (7,405)	$ 57,104
Adjustments to Reconcile Net Income to					
Net Cash Provided by Operating Activities:					
Investments and Other Income	-	-	602	602	(9,910)
Depreciation/Amortization	16,357	12,314	-	28,671	2,255
Amortization	-	-	-	-	336
Accretion on Capital Appreciation of Bonds	-	-	-	-	1,254
Net Increase in Fair Value of Investments	-	-	(1,204)	(1,204)	9,122
Interest on Bonds and Other Investments	-	-	-	-	113,237
Interest Income on Mortgages, Notes and Loans	-	-	-	-	(87,101)
Grants from Federal Government and Primary Government	-	-	-	-	(219,444)
Provision for Losses on Insured Commercial and Student Loans	-	-	-	-	2,678
Extraordinary Loss on Early Extinguishment of Bonds	-	-	-	-	27
Changes in Assets and Liabilities:					
Accounts Receivable	-	-	-	-	1,078
Other Receivable	(2,096)	762	-	(1,334)	(263)
Loans Receivable	(688)	-	-	(688)	(59,738)
Receivable Reserves	(198)	-	-	(198)	-
Due from Other Funds	(9)	(1,004)	-	(1,013)	-
Inventories	(353)	(465)	-	(818)	-
Accrued Interest Receivable from Governmental Units	-	-	-		-
Other Assets	115	(477)	-	(362)	(1,637)
Accounts Payable	(1,802)	3,292	-	1,490	(520)
Accrued Payroll	136	302	-	438	-
Compensated Absences	(96)	50	-	(46)	-
Due to Other Funds	(1,802)	(115)	-	(1,917)	-
Due to Component Unit	(292)	-	-	(292)	-
Deferred Revenue	18	(1,052)	-	(1,034)	4,172
Claims and Judgments	-	(2,523)	-	(2,523)	-
Other Accrued Liabilities	923	(52)	1	872	(3,054)
Default Payments (Net of Recoveries) on Commercial and Student Loans	-	-	-	-	(329)
Investment in Mortgage and Other Notes	-	-	-	-	98,759
Principal Payments Received on Notes Receivable	-	-	-	-	5,629
Interest Received on Educational Loans	-	-	-	-	87,278
Disbursements for New Notes Receivable	-	-	-	-	(10,810)
Educational Loans Originated	-	-	-	-	(9,438)
Educational Loans Originated for Sale to Related Party	-	-	-	-	(8,786)
Sale of Educational Loans to Related Party	-	-	-	-	8,786
Increase in Amounts Held in State Revolving Loan Programs	-	-	-	-	7,527
Grant Program Funds Received (Disbursed)	-	-	-	-	634
Net Cash Provided by Operating Activities	$ (5,892)	$ 19,333	$ (202)	$ 13,239	$ (11,154)

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS

Fiscal Year Ended June 30, 2000
(Expressed in Thousands)
(continued)

	Primary Government				
	Proprietary Fund Types		Fiduciary Fund Type		
	Enterprise	Internal Service	Nonexpendable Trusts	Total (Memorandum Only)	Component Units
Cash Flows from Noncapital Financing Activities:					
Proceeds from Bonds & Notes Payable	$ -	$ -	$ -	$ -	$ 337,441
Principal Paid on Bonds & Notes Payable	-	-	-	-	(241,509)
Interest Paid on Bonds & Notes Payable	-	-	-	-	(131,503)
Grant Receipts from Other Governments	-	-	-	-	47,447
Capital Contributions	-	266	-	266	-
Change in Retained Earnings	132	(2,742)	-	(2,610)	-
Net Cash Provided by Noncapital Financing Activities	132	(2,476)	-	(2,344)	11,876
Cash Flows from Capital and Related Financing Activities:					
Proceeds from Bonds & Notes Payable	-	8,384	-	8,384	-
Additions to Land, Buildings and Equipment	(2,672)	(52,183)	-	(54,855)	(2,329)
Principal Payments on Bonds and Notes	-	(8,369)	-	(8,369)	-
Obligations under Capital Leases	-	37,915	-	37,915	-
Capital Contributions	2,682	-	-	2,682	-
Net Cash Provided by Capital and Related Financing Activities	10	(14 253)	-	(14 243)	(2 329)
Cash Flows from Investing Activities:					
Proceeds from Sales and Maturities of Investments	-	-	497	497	460,630
Purchase of Investments	-	-	(896)	(896)	(502,918)
Income Received from Investments	-	-	602	602	38,193
Miscellaneous Activities	-	-	-	-	4,194
Net Cash Provided by Investing Activities	-	-	203	203	99
Increase (Decrease) in Cash and Cash Equivalents	(5,750)	2,604	1	(3,145)	(1,508)
Cash and Cash Equivalents at Beginning of Year (as restated)	7 806	19 779	95	27 680	43 623
Cash and Cash Equivalents at End of Year	2,056	22,383	96	24,535	42,115
Reconciliation to the Combined Balance Sheet:					
Add: Agency Funds	-	-	9,934	9,934	-
Expendable Trust Funds	-	-	1,838	1,838	-
Component Unit Amounts Other Than Proprietary Funds	-	-	-	-	277,790
Cash and Cash Equivalents at End of Year	$ 2,056	$ 22,383	$ 11,868	$ 36,307	$ 319,905
Supplemental disclosure of non-cash information					
Real estate acquired through foreclosure					4,597

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
STATEMENT OF CHANGES IN PLAN NET ASSETS
DISCRETELY PRESENTED COMPONENT UNIT - PENSION PLAN

Fiscal Year Ended June 30, 2000
(Expressed in Thousands)

Additions:	
Investment Income:	
Interest	$ 109,587
Dividends	18,325
Net Appreciation in the Fair Value of Investments	562,502
Less: Investment Expenses	(12,174)
Net Investment Income	678,240
Contributions:	
Members	117,883
State and Local Agencies	258,261
Total Contributions	376,144
Total Additions	1,054,384
Deductions:	
Benefits Paid	343,316
Refunds and Withdrawals	17,729
Administrative Expenses	7,949
Total Deductions	368,994
Net Increase	685,390
Net Assets Held in Trust for Pension Benefits:	
Beginning of Year	6,933,090
End of Year	$ 7,618,480

The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNITS - COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 2000
(Expressed in Thousands)

	Current Funds					
	Unrestricted	**Restricted**	**Loan Funds**	**Endowment and Similar Funds**	**Plant Funds**	**Total (Memorandum Only)**
Revenues and O her Additions:						
Unrestricted Current Fund Revenues	$ 201,739	$ -	$ -	$ -	$ -	$ 201,739
Education and General	21,236	9,987	-	-	430	31,653
Government Grants and Contracts - Restricted	-	62,979	680	-	6	63,665
Private Gifts, Grants and Contracts - Restricted	-	23,967	225	5,364	4,655	34,211
Endowment Income - Restricted	-	4,472	15	347	-	4,834
Investment Income - Restricted	-	1,246	1,134	-	852	3,232
Interest Income on Loans Receivable	-	-	73	-	-	73
Unrealized Gains on Investments	-	7	38	556	-	601
Expended for Plant Facili ies	13	-	-	-	11,363	11,376
Other Addi ions	4,826	286	2	4,470	6,359	15,943
Total Revenues and O her Additions	227,814	102,944	2,167	10,737	23,665	367,327
Expenditures and O her Deductions:						
Educational and General Expenditures	352,323	116,362	1,646	2,849	15,788	488,968
Auxiliary Enterprise Expenditures	56,098	6	-	-	-	56,104
Administrative and Collec ion Costs	-	-	22	-	4	26
Interest on Indebtedness	-	-	-	-	487	487
Disposal of Plant Assets	-	-	-	-	59	59
Expended for Plant Facili ies	-	-	-	-	1,537	1,537
Write Down of Asset Values	-	-	1	1	22,341	22,343
Total Expenditures and O her Deductions	408,421	116,368	1,669	2,850	40,216	569,524
Transfers Among Funds - Additions (Deductions):						
Mandatory:						
Principal and Interest	(786)	-	-	-	786	-
Loan Fund Transfers	(20)	-	20	-	-	-
Restricted Resources Allocated	11	(11)	-	-	-	-
Nonmandatory Transfers from Plant	(801)	(263)	-	(361)	1,425	-
Nonmandatory Transfers to Endowment	507	-	-	(507)	-	-
Transfers from Primary Government	204,141	19,731	-	-	6,379	230,251
Other Deductions	(10,116)	(4,024)	301	105	13,734	-
Total Transfers	192,936	15,433	321	(763)	22,324	230,251
Net Increase (Decrease) for the Year	12,329	2,009	819	7,124	5,773	28,054
Fund Balance June 30, 1999 (as restated)	41,580	24,814	39,471	106,489	324,559	536,913
Fund Balance June 30, 2000	$ 53,909	$ 26,823	$ 40,290	$ 113,613	$ 330,332	$ 564,967

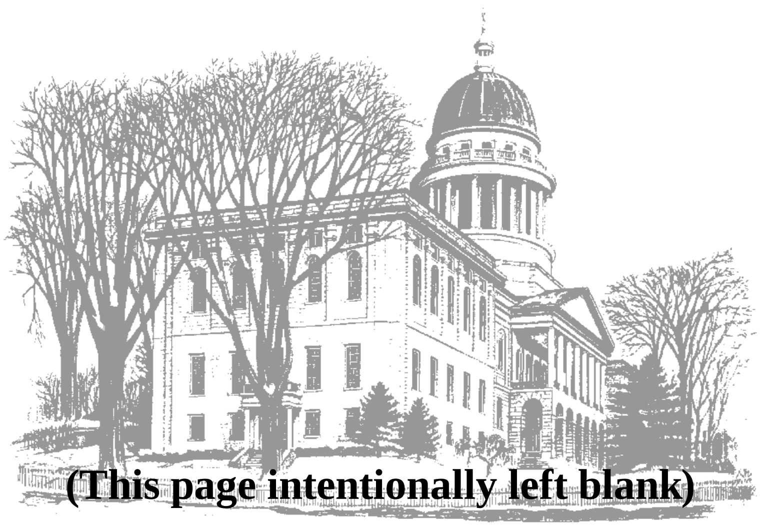
The accompanying notes are an integral part of the financial statements.

STATE OF MAINE
COMBINED STATEMENT OF CURRENT FUNDS
REVENUES, EXPENDITURES AND OTHER CHANGES
DISCRETELY PRESENTED COMPONENT UNITS
COLLEGE AND UNIVERSITY FUNDS

For the Fiscal Year Ended June 30, 2000
(Expressed in Thousands)

	Unrestricted	Restricted	Total
Revenues:			
Tuition and Fees	$ 123,672	$ 190	$ 123,862
Federal Appropriations	1,237	15,852	17,089
State Appropriations and Grants	-	5,293	5,293
Federal Grants and Contracts	58	51,577	51,635
Private Gifts, Grants and Contracts	3,261	23,176	26,437
Endowment Income	473	4,480	4,953
Sales and Services of Auxiliary Enterprise	60,288	-	60,288
Other Income	38,814	1,381	40,195
Total Current Fund Revenues	227,803	101,949	329,752
Expenditures and Mandatory Transfers:			
Educational and General:			
Instruction	140,017	12,401	152,418
Research	16,427	30,544	46,971
Public Service	17,536	20,084	37,620
Academic Support	49,048	4,729	53,777
Student Services	37,055	2,548	39,603
Institutional Support	47,202	372	47,574
Operational and Maintenance of Plant	34,703	178	34,881
Scholarships and Fellowships	10 321	45 453	55 774
Total Expenditures	352,309	116,309	468,618
Mandatory Transfers:			
Principal and Interest	786	-	786
Loan Fund	20	-	20
Total Mandatory Transfers	806	-	806
Total Educational and General	353,115	116,309	469,424
Auxiliary Enterprises:			
Expenditures	56,098	6	56,104
Total Auxiliary Enterprises	56,098	6	56,104
Total Expenditures and Mandatory Transfers	409 213	116 315	525 528
Other Transfers and Additions (Deductions):			
Excess of Restricted Receipts over Transfers to Revenues	-	995	995
Net Allocation of Resources (to) from Other Funds	(9,551)	(4,689)	(14,240)
Transfer from Primary Government	204,141	19,731	223,872
Other Deductions	(813)	294	(519)
Total Transfers and Additions	193,777	16,331	210,108
Net Increase (Decrease) in Fund Balance	$ 12 367	$ 1 965	$ 14 332

The accompanying notes are an integral part of the financial statements.



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NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

INDEX TO THE NOTES TO THE FINANCIAL STATEMENTS

Notes to the General Purpose Financial Statements
For The Fiscal Year Ended June 30, 2000

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine have been prepared under guidelines established by generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB), with two exceptions. The financial statements do not include the General Fixed Assets Account Group or the complete presentation of capital leases and related capital and operating lease disclosures.

Preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements.

A. REPORTING ENTITY

For financial reporting purposes, the State includes all funds, account groups, organizations, agencies, boards, commissions and authorities that make up the State's legal entity. It includes as component units those legally separate organizations for which the State is financially accountable or for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete.

GASB Statement No. 14, *The Financial Reporting Entity*, defines financial accountability. The State is financially accountable for those entities for which the State appoints a voting majority of the governing board, and either is able to impose its will on that entity or the entity may provide specific financial benefits to, or impose specific financial burdens on, the primary government. Entities for which the State does not appoint a voting majority of the governing board may be included if the organization is fiscally dependent on the primary government, or the nature and significance of its relationship with the primary government is such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The State has included twelve entities as component units in the reporting entity due to the significance of their operational and/or financial relationships with the State. Those agencies that meet the criteria for component units and have been included are: the Maine State Retirement System (MSRS), the Maine Technical College System (MTCS), the University of Maine System (UM), the Maine Maritime Academy (MMA), the Finance Authority of Maine (FAME), the Maine State Housing Authority (MSHA), the Maine Educational Loan Authority (MELA), the Loring Development Authority (LDA), the Maine Governmental Facilities Authority (MGFA), the Maine Health and Higher Education Facilities Authority (MHHEFA), the Maine Municipal Bond Bank (MMBB), and the Northern New England Passenger Rail Authority (NNEPRA). The financial information for these entities is either blended within the State's financial statements, or discretely presented in a separate column or in separate statements.

Blended Component Units - Blended component units are entities that are legally separate organizations that provide services entirely, or almost entirely, to the State or otherwise exclusively, or almost exclusively, benefit the State. Therefore, the State reports these organizations' balances and transactions as though they were part of the primary government. The Maine Governmental Facilities Authority (MGFA) has been blended within the financial statements of the primary government.

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. The MGFA is included in the Special Revenue Fund type.

Discrete Component Units - Discrete component units are entities that are legally separate from the State but are either accountable to the State or related so closely to the State that exclusion would cause the State's financial statements to be misleading or incomplete. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government. It includes the financial data of the following entities:

Governmental Type

The Maine Health and Higher Education Facilities Authority assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction, and equipping of health care and educational facilities and the refinancing of existing indebtedness. The Authority consists of 12 members, one of whom must be the Superintendent of Banking, ex officio; one of whom must be the Commissioner of Human Services, ex officio; one of whom must be the Commissioner of Education, ex officio; one of whom must be the Treasurer of State, ex officio; and eight of whom must be residents of the State appointed by the Governor. The Authority, pursuant to the Student Loan Corporations Act of 1983, also has the power to finance student loan programs of institutions of higher education.

The Northern New England Passenger Rail Authority, established on June 29, 1995 by the State of Maine Legislature, initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine. The Governor appoints the five voting members of the Authority.

Proprietary Types

The Finance Authority of Maine, created in 1983, provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. The Authority also provides financial and other services for the Adaptive Equipment Loan Program Fund Board, the Fund Insurance Review Board, the Agricultural Marketing Loan Fund Board, the Occupational Safety Program Fund Board, and the Small Business Enterprise Growth Fund Board. Additionally, the Authority administers the Maine College Savings Program Fund. The NextGen College Investing Plan is the primary program of the Maine College Savings Program Fund. The Governor appoints the 15 voting members of the Authority.

The Maine State Housing Authority is authorized to issue bonds for the purchase of notes and mortgages on single-family and multifamily residential units for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as agent for the State in administering federal weatherization, energy conservation, fuel assistance and homeless grant programs, and collecting and disbursing federal rent subsidies for low income housing. The Governor appoints five of the Authority's seven commissioners. The Authority's fiscal year ends on December 31.

The Maine Educational Loan Authority was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. There are seven voting members of the Authority, five of whom are appointed by the Governor. The Authority's fiscal year ends on December 31.

The Loring Development Authority, created in 1993 after the President of the United States accepted the recommendation of the Base Closure and Realignment Commission to close Loring Air Force Base, is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the old Loring Air Force Base. The Governor nominates the 13 members of the Board of Trustees of which the Maine Senate confirms 12.

The Maine Municipal Bond Bank is authorized to issue bonds providing funds to counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations within the State. The Governor appoints three residents of the State to the five-member Board of Commissioners.

The Maine State Retirement System is the administrator of an agent multiple-employer public employee retirement system. It provides pension, death, and disability benefits to its members, including State employees, some public school employees, and employees of approximately 250 local municipalities and other public entities in Maine. The Governor appoints four of the Board's seven voting members.

Colleges and Universities

The Maine Technical College System is Maine's primary provider of post-secondary technical education leading to a certificate, diploma, or associate degree. The combined financial statements of the system include the activity of seven colleges, the central administrative office, and the Maine Career Advantage.

The University of Maine System is the State University. In 1968 all existing units of the State college system (Orono, Portland, Augusta, and the Law School) were merged by the 103rd Legislature. The result was the creation of the consolidated University of Maine System with a single Board of Trustees. The System now consists of seven campuses, the Maine Public Broadcasting Network, and a central administrative office.

Maine Maritime Academy is a college specializing in ocean and marine programs at the undergraduate and graduate levels. The operation of the Academy is subject to review by the federal government. State appropriations, student fees, and a subsidy from the Maritime Administration support the Academy.

The State of Maine provides significant financial resources to these educational institutions.

The component unit financial information included in the reporting entity has been reformatted to conform to the accounting classifications used by the State. Condensed financial statement information for each component unit included in the component units column in the general purpose financial statements is presented in Note 13, Segment Information.

Complete financial statements of the individual component units can be obtained directly from their respective administrative offices by writing to the following addresses:

Loring Development Authority of Maine
154 Development Drive Suite F
Limestone, ME 04750

Maine Health and Higher Education Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Finance Authority of Maine
5 Community Dr., PO Box 949
Augusta, ME 04332-0949

Maine Governmental Facilities Authority
PO Box 2268
Augusta, ME 04338-2268

Maine Educational Loan Authority
One City Center 11th Floor
Portland, ME 04101

Maine Maritime Academy
Castine, ME 04420

Maine State Retirement System
46 State House Station
Augusta, ME 04333-0046

Maine State Housing Authority
89 State House Station, 353 Water Street
Augusta, ME 04330-4633

Maine Municipal Bond Bank
PO Box 2268
Augusta, ME 04338-2268

Maine Technical College System
131 State House Station, 323 State Street
Augusta, ME 04333-0131

University of Maine System
107 Maine Avenue
Bangor, ME 04401

Northern New England Passenger Rail Authority
5 Industry Road
South Portland, ME 04106-6154

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Turnpike Authority, the Maine Science and Technology Foundation, the Maine School of Science and Mathematics, the Maine Port Authority, the Maine Veterans' Home, the Maine Sludge and Residuals Utilization Research Foundation, and the Maine Public Utilities Financing Bank. However, the primary government has no material accountability for these organizations beyond making the board appointments.

B. FUND ACCOUNTING

The State reports its financial position and results of operations in funds and account groups. A fund is a separate accounting entity with a self-balancing set of accounts. Cash and other financial resources, all related liabilities and residual equities or balances, and changes therein, are recorded and segregated. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. Transactions between funds, if any, have not been eliminated.

The presentation of component units is not meant to be a consolidation, since transactions within the State entity have not been eliminated. However, appropriations and most grants to the component units are recorded as operating transfers to component units out of the applicable fund and as operating transfers from primary government into the component unit organization.

An account group is used to provide accounting control and accountability for the State's general long-term obligations. It is not considered a fund because it does not report expendable, available financial resources and related liabilities.

The financial activities of the State of Maine are classified in three fund categories, one account group, and component units, as described below. The fund categories include Governmental Funds, Proprietary Funds, and Fiduciary Funds. The account group is the General Long-Term Obligations Account Group. The General Fixed Assets Account Group is not reported as required by generally accepted accounting principles.

Fund Types

Governmental Funds are used to account for the State's general activities.

The General Fund is the primary operating fund of the State. It is used to account for all governmental transactions that are not accounted for in other funds.

Special Revenue Funds account for specific revenue sources and the related current liabilities, other than Expendable Trusts, and include major capital projects that are legally restricted to expenditures for specified purposes.

Capital Projects Funds account for financial resources used to acquire or construct major capital assets other than those financed by Proprietary Funds or Special Revenue Funds. These resources are derived primarily from proceeds of general obligation bonds. The State also includes in this fund type proceeds from bond issues for uses other than construction of major capital facilities.

Proprietary Funds account for the State's ongoing activities that are similar to those found in the private sector.

Enterprise Funds account for transactions related to resources received and used to finance self-supporting activities of the State. These activities offer products and services on a user-charge basis to the general public.

Internal Service Funds account for transactions related to the financing and sale of goods or services between State agencies. The costs associated with these goods or services are billed to the recipient agency as user charges.

Fiduciary Funds account for assets held by the State, acting as either a trustee or an agent for individuals, organizations, or other funds.

Expendable Trust Funds account for those assets held in a trustee capacity where the principal and income may be expended in the course of the funds' designated operations.

Nonexpendable Trust Funds account for those assets held in a trustee capacity by the State for which only income derived from the trust principal may be expended for designated operations. The principal must be preserved intact.

Agency Funds account for assets the State holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

Account Group

General Long-Term Obligations Account Group is used to establish control and accountability for long-term obligations of the State not accounted for in Proprietary Funds or Nonexpendable Trust Funds. This includes outstanding, long-term obligations related to general obligation bonds, Certificates of Participation and other financing arrangements, compensated employee absences, net pension obligation and other long-term obligations.

Component Units

Component units include College and University Funds and other organizations that are legally separate from the State but are considered part of the reporting entity. There are three College and University Funds.

Current Funds account for unrestricted funds, over which the governing Boards retain full control in achieving the Institutions' purposes, and for restricted funds, which may be used only in accordance with externally restricted purposes. The funds do not show the results of operations or the net income or loss for the period.

Loan Funds, Endowment and Similar Funds account for assets for which the Institutions act in a fiduciary capacity.

Plant Funds account for institutional property acquisition, renewal, replacement, and debt service.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Governmental Funds and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means earned and collected or expected to be collected within the current period or soon enough thereafter (within 12 months for individual income taxes, or within 60 days for all other revenues) to be used to pay liabilities of the current period. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

The State Tax Assessor levies taxes on properties located in the Unorganized Territories of Maine and on telecommunications personal properties statewide by April 1 of each year. Property taxes levied during the current fiscal year for the subsequent period are recorded as deferred revenue during the current year. Telecommunications taxes are due on August 15 and all other property taxes are due on October 1. Formal collection procedures begin on November 1. Unpaid property taxes become a lien on March 15 of the fiscal year for which they are levied.

Significant revenues susceptible to accrual include: income, sales and use, unemployment compensation, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred. Principal and interest on long-term obligations are recorded as fund liabilities when due.

Proprietary Fund Types and Nonexpendable Trust Funds are accounted for on a flow of economic resources measurement focus and the accrual basis of accounting. With this measurement focus, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For Proprietary Funds, the State follows all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

The component unit College and University Funds are an aggregate of the Institutions' separate financial statements and are accounted for on the accrual basis of accounting, with the following exception: the Maine Maritime Academy does not record depreciation expense on physical plant and equipment, which is allowed by governmental accounting standards.

The Maine State Retirement System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investment purchases and sales are recorded as of their trade date.

D. CASH AND CASH EQUIVALENTS, AND INVESTMENTS

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. The balances pooled are reported at cost, which approximates fair value. Interest earned on pooled cash is allocated to the various funds, generally based on their average equity balances. Cash with Fiscal Agent in Governmental Funds represents cash that will be used for debt service on bonds. Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Short-term investments reported as Cash and Cash Equivalents on the balance sheet are comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations with maturities of three months or less when purchased. Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

Certain component units participate in the cash pool and record the transactions as cash and investments. Component units' funds have been removed from cash and investments of the primary government and shown as component unit cash and investments for purposes of note disclosure. Component units' investments are shown at fair value.

E. UNEMPLOYMENT DEPOSITS WITH UNITED STATES TREASURY

These deposits represent unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits.

F. RESTRICTED DEPOSITS AND INVESTMENTS

Restricted deposits and investments represent funds that have been invested in Certificates of Deposit and other investments at various financial institutions within the State. The financial institutions lend these deposits and investments to local commercial and agricultural enterprises to foster economic growth in Maine.

G. INVESTMENTS OF DEFERRED COMPENSATION PLAN

These investments represent annuity contracts, guaranteed investment contracts, and open-end mutual funds of the Deferred Compensation Plan, accounted for in an Expendable Trust Fund in accordance with GASB Statement 32.

H. RECEIVABLES

Receivables consist primarily of amounts due to the State from taxpayers and service providers. Also included in receivables are amounts due but not yet remitted to the State from lottery sales by agents. Loans receivable for the primary government represent low interest financing arrangements for the construction and modernization of agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. The receivables in the component units column are amounts that have arisen in the normal course of business. Receivables are stated net of estimated allowances for uncollectible amounts that are determined based upon past collection experience and aging of the accounts.

I. INTERFUND TRANSACTIONS

Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that certain transactions between funds were not completed as of June 30, 2000, interfund receivables or payables have been recorded. Receivables and payables resulting from transactions between funds are classified as "Due from Other Funds" or "Due to Other Funds" on the balance sheet.

The Bureau of Alcoholic Beverages and Lottery Operations is statutorily required to transfer all net earnings to the General Fund. For fiscal year 2000, these transfers totaled $60.6 million.

Advances to and from other funds are long-term loans made by one fund to another. Receivables and payables resulting from these transactions between funds are classified as "Working Capital Advances Receivable" or "Working Capital Advances Payable" on the balance sheet. The advances are offset by reservations of fund balance indicating that the reserves do not constitute expendable financial resources.

Receivables and payables between the component units and the primary government are classified as "Due to/from Primary Government" or "Due to/from Component Units."

J. INVENTORIES

The costs of materials and supplies of the Governmental Funds are reported as expenditures when purchased. Unexpended balances of food stamps (stated at coupon value) and vaccines at fiscal year end are reported as inventory and deferred revenue in the Special Revenue Fund. Revenues and corresponding expenditures are recognized when the food stamps and vaccines are issued.

Inventories of materials and supplies in the Proprietary Funds are determined by physical counts and by perpetual inventory systems. Proprietary Fund inventories are stated at cost or average cost, except for those of the Bureau of Alcoholic Beverages, which are maintained on a current replacement cost basis. Although this basis is not in conformity with GAAP, it does not result in a material misstatement.

Inventories included in the component unit column are stated at the lower of cost (using the first-in, first-out method) or market.

K. FIXED ASSETS

For Governmental Funds, fixed asset acquisitions are recorded as expenditures in the acquiring fund. Infrastructure assets such as highway curbs, bridges, and lighting systems are not capitalized. Fixed asset acquisitions of Proprietary Funds are accounted for in the acquiring fund and stated net of accumulated depreciation. Depreciation is recorded on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for buildings and improvements, including the Portland dry-dock and 2-25 years for equipment. No interest has been capitalized on self-constructed assets, as non-capitalization of interest does not have a material effect on the financial statements.

Fixed assets of component units are capitalized upon purchase and depreciated over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are 5–60 years for structures and improvements, and 3–15 years for equipment, furniture, fixtures and vehicles. The Maine Maritime Academy does not record depreciation, which is allowed by governmental accounting standards.

L. TAX REFUNDS PAYABLE

Tax refunds payable primarily represent amounts owed to taxpayers because of overpayments of their 1999 calendar year tax liabilities. Tax refunds are accrued based on payments and estimates.

M. CLAIMS PAYABLE

Claims payable represent workers' compensation and other claims payable at June 30, 2000. These include actual claims submitted, as well as actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

N. DEFERRED REVENUE

Amounts recorded as receivable that do not meet the "availability" criterion for recognition as revenue in the current period are classified as deferred revenue. Resources received by the government before it has a legal claim to them are also included as deferred revenue. In subsequent periods, when the revenue recognition criterion is met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the balance sheet, and revenue is recognized. Deferred revenue reported in the General Fund is comprised of sales and income taxes. Deferred revenue in the Special Revenue Fund is primarily for food stamps and vaccines not yet issued.

O. DUE FROM/TO OTHER GOVERNMENTS

At June 30, 2000, amounts Due from/to Other Governments represent amounts receivable from or payable to municipalities or the federal government. Due to Other Governments are primarily amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers. Municipal Revenue Sharing and Medicaid cost recoveries are recorded in the Special Revenue Fund. Due from Other Governments represents primarily federal grants receivable for Medicaid claims, other Human Services Programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units column represents money due from other governments for grants, bond repayment and retirement benefits.

P. COMPENSATED EMPLOYEE ABSENCES

Under the terms of collective bargaining agreements and personnel administrative policies, employees are granted limited amounts of vacation, sick, and personal days, as well as compensatory time. Upon separation from State service, employees are eligible for compensation for accrued vacation, personal days, compensatory time, and (in some cases) sick leave. For Governmental Funds, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. Other leave is reported in the General Long-Term Obligations Account Group. Compensated employee absence benefits in the Proprietary Funds are recorded as expenses and liabilities as they accrue.

In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Q. OTHER ACCRUED LIABILITIES

Other liabilities of the Governmental Funds consist primarily of $15.7 million of reimbursements for exemptions granted under the provisions of the Business Equipment Tax Reimbursement Program and $7.8 million in credit balances carried in the General Fund's taxes receivable subsidiary ledger.

Other liabilities in the Enterprise Fund consist primarily of lottery prizes payable.

R. LONG-TERM OBLIGATIONS

Primary Government
The State records Governmental Fund long-term obligations in the General Long-Term Obligations Account Group. This includes the State's general obligation bonds, Certificates of Participation and other financing arrangements, long-term liabilities for compensated employee absences, and the net pension obligation. Also included in the General Long-Term Obligations Account Group are bonds and notes issued by the Maine Governmental Facilities Authority, a blended component unit.

Long-term debt and other obligations of the Proprietary Funds, as well as the related interest payments, are recorded as liabilities in the appropriate funds.

Component Units
Loans, notes, and bonds payable for component units are for commercial financing, educational loans, and loans to counties, cities, towns, school administrative districts, other quasi-municipal corporations, multifamily low income residential units, and for the construction or capital improvement of school facilities and health care facilities.

S. FUND BALANCES

The State reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved. The State has the following reservations:

Reserved for Continuing Appropriations - identifies appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year if unexpended. The State's use of encumbrance accounting is more fully described in Note 2 – Budgetary Process.

Reserved for Unemployment Benefits - identifies amounts reserved for payment of unemployment compensation.

Reserved for Nonexpendable Trusts - identifies the nonexpendable amount of the trust principal.

Reserved for Rainy Day Fund – identifies amounts reserved for potential operating deficits or other emergencies. The maximum amount this fund may carry, by law, is six percent of the total General Fund revenues received in the immediately preceding year.

Reserved for Pension Benefits – identifies amounts reserved by the Maine State Retirement System for the payment of pension benefits.

Reserved for Debt Service - identifies amounts held by fiscal agents to fund future debt service obligations.

Reserved for Capital Projects - identifies a legally segregated portion of funds available to finance the construction of major capital facilities.

Other Reservations - identifies fund balance reserved for other specified purposes including amounts for working capital needs, long term loans to other funds, transfers to other funds, and contingency funds from which the Governor may allocate sums for various purposes.

Contributed Capital - identifies equity acquired through contributions from other funds.

T. TOTAL COLUMN - MEMORANDUM ONLY

Total columns included in certain statements are captioned "Memorandum Only" because they do not represent consolidated financial information and are presented for information only.

U. FUTURE ADOPTION OF ACCOUNTING PRONOUNCEMENTS

In December 1998, GASB issued Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*. This statement establishes accounting and financial reporting standards for nonexchange transactions involving financial or capital resources such as most taxes, grants and private donations. In a nonexchange transaction, a government gives or receives value without directly receiving or giving equal value in return. This is different from an exchange transaction, in which each party receives and gives up essentially equal values. The principal issue addressed in this Statement is the timing of recognition of nonexchange transactions. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2000. The State will implement this Statement for the year ending June 30, 2001.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. This statement establishes new financial reporting requirements for State and local governments. It establishes that the basic financial statements and required supplementary information (RSI) for general purpose financial statements should consist of Management's Discussion and Analysis, Basic Financial Statements and Required Supplementary Information. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2001. The State will implement this Statement for the year ending June 30, 2002.

In November 1999, GASB issued Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*. An amendment to GASB Statement No. 34, this statement establishes new financial reporting requirements for public colleges and universities that are consistent with the requirements of GASB Statement No. 34. Because the University of Maine System is a component unit of the State of Maine, the provisions of this statement are effective no later than the year in which the State implements GASB Statement No. 34.

NOTE 2 - BUDGETARY PROCESS

In accordance with statute, the Governor presents a biennial budget for the General Fund and the Special Revenue Funds to the Legislature for enactment or revision. Effective November 27, 1995, a State Constitutional Amendment provided the Governor a "line item" veto of dollar amounts, allowing a dollar substitution for those amounts disapproved, as long as an appropriation or allocation is not increased (or a deappropriation or deallotment decreased) either in the specified line or in any other line in the legislative document. Another Constitutional Amendment requires the State to fund at least 90 percent of the annual cost of future mandates imposed on local governments; any exception requires a two-thirds vote of the elected members of the House and Senate.

Once passed and signed, the budget becomes the financial plan for the next biennium. It includes proposed expenditures for all departments and agencies, interest and debt redemption charges, and expenditures for capital projects to be undertaken and executed during each fiscal year. The budget also includes anticipated revenues and any other means of financing expenditures. In 1995, the Revenue Forecasting Committee was established.

In fiscal year 1998, a law was passed that requires the State Budget Officer to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

Budgetary control is maintained at the program and line category level at which appropriations and allocations are approved by the Legislature, principally through a quarterly allotment system. The State Budget Officer and the Governor must approve budget revisions during the year, reflecting program changes or intradepartmental administrative transfers. Except in specific instances, only the Legislature may transfer appropriations between departments. Increases in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. In order to provide sufficient funding for several programs during the year ended June 30, 2000 supplemental appropriations of $156.7 million were required for the General Fund.

Encumbrance accounting, which requires that purchase orders, contracts, and other commitments be recorded to reserve a portion of an appropriation or allocation for expenditure, is employed as an extension of formal budgetary control. Appropriated and allocated balances are available for subsequent expenditure to the extent that encumbrances have been approved by the end of a fiscal year. Encumbrances outstanding at year end are reported as reservations of fund balances representing those portions of fund balances that are not available for allocation or expenditure, or that are legally segregated for specific future uses. Unencumbered appropriations in the General Fund and in the Highway Fund lapse at year end unless,by law, they are carried forward to a subsequent year.

The State's budget is prepared primarily on a cash basis. Significant exceptions include sales, income, corporate and fuel taxes for which 60-day accruals are recorded at year end. A reconciliation of the General Fund and the Special Revenue Fund to the GAAP basis is presented in the following table.

Budget to GAAP Reconciliation
June 30, 2000
(Dollars in Thousands)

	General Fund	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 558,597	$ 425,186
Basis Differences		
Revenue Accruals/Adjustments:		
Taxes Receivable	178,650	19,453
Intergovernmental Receivables	-	15,204
Other Receivables	18,450	396
Due from Other Funds	9,183	28,865
Other Assets	6,256	(25,364)
Deferred Revenues	(35,999)	(1,794)
Total Revenue Accruals/Adjustments	176,540	36,760
Expenditure Accruals/Adjustments:		
Accounts Payable	(72,862)	(52,611)
Due to Other Governments	-	-
Accrued Liabilities	(102,218)	(17,649)
Due to Other Funds	(6,170)	(3,698)
Tax Refunds Payable	(30,974)	-
Total Expenditure Accruals/Adjustments	(212,224)	(73,958)
Entity Differences		
Blended Component Unit included in the Special Revenue Fund on the GAAP basis but not on the budgetary basis	-	44,449
Fund Balances - GAAP Basis	$ 522,913	$ 432,437

NOTE 3 - FUND BALANCE AND RETAINED EARNINGS RESTATEMENTS

Fund balances/retained earnings as of June 30, 1999 have been restated as follows:

Restatement of Fund Balances/Retained Earnings
(Dollars in Thousands)

Fund	Fund Balance/Retained Earnings as Previously Reported, June 30, 1999	Increase (Decrease) for Restatement	Fund Balance/Retained Earnings as Restated, July 1, 1999
General Fund	$344,020	($3,488)	$340,532
Special Revenue Fund	302,296	(1,844)	300,452
Capital Projects Fund	57,680	(777)	56,903
Expendable Trust Funds	480,700	5,492	486,192
Component Unit – Gov'tal	177,799	5,272	183,071
Enterprise Funds	8,203	132	8,335
Internal Service Funds	(33,350)	(2,673)	(36,023)

The General Fund has been restated primarily to recognize prior period changes in fair value of pooled investments. The Special Revenue Fund has been restated to recognize prior period changes in fair value of pooled investments, ($4,278); to adjust prior period interfund receivables $622; and, to adjust prior period accrued receivables $1,812. The Capital Projects Fund has been restated primarily to adjust prior period interfund payables. The Component Unit (governmental type) fund balance has been restated to include the Northern New England Passenger Rail Authority as a discretely presented component unit. The Expendable Trust Funds have been restated to correct prior period adjustments. The Enterprise Funds have been restated to correct prior period accrued lottery ticket sales. The Internal Service Funds have been restated primarily to correct prior period capital lease activity ($2,174) and to recognize prior period changes in fair value of investments ($567). Contributed Capital for the Internal Service Funds has been reduced by $69 thousand to record prior year depreciation on contributed assets.

NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS

Two Internal Service Funds had deficit Retained Earnings for the fiscal year ended June 30, 2000. The Workers' Compensation Fund had a deficit of $75.9 million, which reflects accruals for actuarially determined claims payable. The Property Lease Fund had a deficit of $2.3 million, which reflects the recording of capital lease depreciation.

The Marine Ports Fund, an Enterprise Fund, had a deficit balance of $12.3 million for the fiscal year ended June 30, 2000. The deficit balance resulted from the recording of additional depreciation to reflect a correction of the estimated useful life of the Portland dry dock.

NOTE 5 - DEPOSITS AND INVESTMENTS

The deposit and investment policies of the State of Maine Office of the Treasurer are governed by Title 5 of the Maine Revised Statutes Annotated (M.R.S.A.). Per 5 M.R.S.A. § 135, the Treasurer of State may deposit State funds, including trust funds of the State, in any of the banking institutions (including trust companies, State or federal savings and loan associations, and mutual savings banks) organized under the laws of this State, and any national bank or federal savings and loan association located in the State.

The Treasurer of State may invest funds that exceed current obligations, with the concurrence of the State Controller or the Commissioner of Administrative and Financial Services, and the consent of the Governor. Approved investments include bonds, notes, other obligations of the United States that mature not more than 24 months from the date of investment, repurchase agreements secured by obligations of the United States that mature within the succeeding 24 months, prime commercial paper, tax-exempt obligations, banker's acceptances, and shares of an investment company registered under the Federal Investment Company Act of 1940 if the investments of the company are limited to obligations of the United States or repurchase agreements secured by obligations of the United States. The State's investment types are more fully described in Notes 1D, E, F and G.

Investment policies of the permanent trust funds are governed by 5 M.R.S.A. § 138. The Treasurer of State, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Banking and the Attorney General shall invest the funds in securities that are legal investments in accordance with Title 9-B, M.R.S.A. The investments need not be segregated to the separate trust funds but the identity of each separate trust fund must be maintained. The State may enter into custodial contracts or agreements negotiated in accordance with the laws of this State for the handling of funds held in trust.

With assistance from the Finance Authority of Maine, the State Treasurer participates in a restricted deposit program to encourage banks to provide loans at two percent below market rates. The Treasurer may invest up to eight million dollars in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. Four million dollars of this program are earmarked for loans to agricultural enterprises and the other four million dollars are designated for commercial entities.

No amounts exceeding 25% of the capital, surplus, and undivided profits of any trust company or national bank, or 25% of the reserve fund and undivided profits of a mutual savings bank or State or federal savings and loan association, shall be on deposit in any one institution at any one time. This restriction does not apply to deposits subject to immediate withdrawal to meet the payment of any bonded debt or interest, or to pay current bills or expenses of the State. Also exempt are deposits secured by the pledge of certain securities as collateral or fully covered by insurance.

DEPOSITS

Deposits with financial institutions are classified as to collateral risk into three categories. Category 1 is the amount of State deposits that are fully insured or collateralized with securities held by the State or its agent in the State's name. Category 2 is the amount of deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. Category 3 is the amount of deposits that are not collateralized or insured. Deposits of the Reporting Entity at June 30, 2000 are as follows:

Primary Government - Deposits
June 30, 2000
(Dollars in Thousands)

	Category 1	**Category 2**	**Category 3**	**Bank Balance**	**Carrying Amount**
Cash and Cash Equivalents	$ 8,385	$ 3,047	$ 17,704	$ 29,136	$(17,569)
Cash with Fiscal Agent	-	-	22,166	22,166	22,166
Restricted Deposits	628	-	3,938	4,566	4,566
Total	$ 9,013	$ 3,047	$ 43,808	$ 55,868	$ 9,163

Deposits of the discretely presented component units are as follows:

Component Unit - Deposits
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$133,356	$2,809	$21,348	$157,513	$148,992
Cash with Fiscal Agent	–	–	12,151	12,151	12,151
Restricted Deposits	5,222	-	-	5,222	5,222
Total	$138,578	$2,809	$33,499	$174,886	$ 166,365

INVESTMENTS
Investments are classified to indicate the level of risk assumed by the State. Category 1 consists of investments that are insured or registered or for which the securities are held by the State or its agent in the State's name. Category 2 are those investments that are uninsured and unregistered, with securities held by thecounterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by thecounterparty, or by its trust department or agent, but not in the State's name.

Investments of the Primary Government at June 30, 2000 are as follows:

Primary Government - Investments
June 30, 2000
(Dollars in Thousands)

	Category 1	Category 2	Category 3	Fair Value
U.S. Government and Agency Obligations	$ 513,683	$ 2,803	$ 9,956	$ 526,442
Repurchase Agreements	73,552	-	-	73,552
Commercial Paper	337,366	-	-	337,366
Corporate Bonds and Notes	-	3,680	5,972	9,652
Equity Securities	-	13,713	39,590	53,303
Other Restricted Investments	-	722	48,002	48,724
Totals	$ 924,601	$ 20,918	$ 103,520	1,049,039
Deposits with U.S. Treasury				286,199
Deferred Compensation Plan Assets				207,316
Assets Held in Trust				318,506
Total Investments – Primary Government				$ 1,861,060

COMPONENT UNITS
Generally, component unit investment policies authorize investments in obligations of U.S. Treasury and Agency Securities, repurchase agreements, corporate bonds, certificates of deposit and money market funds. Some component units may invest in stocks, bonds, fixed income securities, mutual funds, commingled mutual funds and index funds, guaranteed investment contracts, real estate and other investment securities.

Maine State Retirement System (The System) makes investments in a combination of stocks, bonds, fixed income securities, mutual funds, commingled mutual and index funds,collateralized mortgage obligations, derivative financial instruments, and other investment securities established by the Trustee's investment policy. The System prohibits its investment managers from using leverage in its derivative financial instruments or from investing in speculative positions. The System has also entered into agreements for securities lending transactions, which are collateralized in an amount at least equal to 102 percent (105 percent for international securities) of the market value of the securities loaned.

Investments of the discretely presented component units are as follows:

Component Units - Investments
(Dollars in thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash and Cash Equivalents	$ 1,403	$ 134,243	$ -	$ 135,646
U.S. Government and Agency Obligations	653,257	192,211	-	845,468
Repurchase Agreements	206,198	20,554	5,584	232,336
Commercial Paper	38,974	-	-	38,974
Corporate Bonds and Notes	394,865	-	21,799	416,664
Equity Securities	1,590,852	-	75,172	1,666,024
Common and Collective Trusts	5,131,529	-	-	5,131,529
Other	7,783	178,863	4,338	190,984
Totals	$ 8,024,861	$ 525,871	$ 106,893	$8,657,625

The State's internal investment pool consists primarily of commercial paper with maturities of up to 90 days and U.S. Government and Agency obligations with maturities of up to two years. Certain component units also invest in the pool; their participation comprises approximately ten percent of pool assets. The component units reported their participation as Cash and Cash Equivalents on their financial statements. The State has reclassified $58 million of the component units' participation as investments on the State's financials.

In fiscal year 2000, the primary government experienced aggregate unrealized losses of $3.4 million on pool investments.

NOTE 6 - RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows:

Primary Government - Receivables
June 30, 2000
(Dollars in Thousands)

	Taxes	Due from Other Governments	Loans	Other Receivables	Allowance for Uncollectibles	Net Receivables
General Fund	$ 467,470	$ -	$ 1	$ 40,308	$ (123,004)	$ 384,775
Special Revenue Funds	43,003	175,206	2,979	44,623	(9,133)	256,678
Trust and Agency Funds	50,024	-	-	-	(8,390)	41,634
Internal Service Funds	-	-	-	205	-	205
Enterprise Funds	-	-	8,679	10,783	(1,309)	18,153
Subtotal	560,497	175,206	11,659	95,919	(141,836)	701,445
Less: Allowance for uncollectibles	(133,810)	-	(1,200)	(6,826)	(141,836)	
Net Receivables	$ 426,687	$ 175,206	$ 10,459	$ 89,093		$ 701,445

Component Units - Receivables
(Dollars in Thousands)

	Other Governments	Loans and Notes	Other Types	Allowance for Uncollectibles	Net Receivables
No. NE Passenger Rail Authority	$ 1,305	$ -	$ 8	$ -	$ 1,313
Maine Health & Higher Education Facilities Authority	-	902,355	9,879	(1,373)	910,861
Maine Municipal Bond Bank	966,859	-	1,829	-	968,688
Maine State Housing Authority	922	1,243,376	20,932	(11,743)	1,253,487
Maine Education Loan Authority	-	45,646	468	(524)	45,590
Loring Development Authority	363	-	393	(15)	741
University of Maine System	-	36,032	24,311	(5,141)	55,202
Maine State Retirement System	9,954	-	230,391	-	240,345
Finance Authority of Maine	-	36,823	1,994	(49)	38,768
Maine Maritime Academy	-	3,167	291	(194)	3,264
Maine Technical College System	-	-	2,033	(299)	1,734
Subtotal	979,403	2,267,399	292,529	(19,338)	3,519,993
Less: Allowance for Uncollectibles	-	(16,397)	(2,941)	-	-
Net Receivables	$ 979,403	$ 2,251,002	$ 289,588	$ (19,338)	$ 3,519,993

NOTE 7 - INTERFUND TRANSACTIONS

Due from/Due to Other Funds and Component Units

Due from Other Funds are amounts owed to one State fund by another for goods sold or services received. Similarly, Due from Component Units are amounts owed to the State by a component unit

The following is a summary of amounts due from and due to other funds and component units:

Primary Government - Due to/Due from Other Funds
June 30, 2000
(Dollars in Thousands)

Fund Type	Due From	Due To	Working Capital Receivable	Working Capital Payable
General Fund	$ 14,054	$ 5,840	$ 1,336	$ -
Special Revenue Fund	5,006	22,434	69	225
Capital Projects Fund	-	267	-	-
Enterprise Fund	17	1,478	-	1,000
Internal Service Fund	10,780	233	-	180
Trust and Agency Funds	395	-	-	-
Total	$ 30,252	$ 30,252	$ 1,405	$ 1,405

Component Units - Due From/Due To
June 30, 2000
(Dollars in Thousands)

	Due From Primary Government	Due To Component Units
Primary Government		
General Fund:		
University of Maine System	$ -	$ 1,714
Maine State Retirement System	-	4,626
Maine Technical College System	-	319
Special Revenue Funds:		
University of Maine System	-	4,804
Maine Technical College System	-	24
Maine Municipal Bond Bank	-	53
Capital Project Funds:		
University of Maine System	-	6,552
Maine Municipal Bond Bank	-	2,000
Enterprise Funds:		
Finance Authority of Maine	-	645
Component Units		
Maine Municipal Bond Bank		
Capital Projects Fund	2,000	-
Special Revenue Fund	53	-
Finance Authority of Maine:		
Enterprise Funds	645	-
Maine Technical College System:		
General Fund	319	-
Special Revenue Funds	24	-
University of Maine System:		
General Fund	1,714	-
Special Revenue Funds	4,804	-
Capital Projects Funds	6,552	-
Maine State Retirement System:		
General Fund	4,626	-
Total	$20,737	$20,737

NOTE 8 - FIXED ASSETS

The following schedules detail fixed assets that are recorded in the Proprietary Funds and discretely presented component units:

Proprietary Funds - Fixed Assets
June 30, 2000
(Dollars in Thousands)

	Enterprise Funds	Internal Service Funds
Land	$ 5,532	$ 243
Buildings	34,195	52,273
Equipment	41,098	127,633
Improvement other than buildings	-	13
Construction in progress	3,794	-
Less: Accumulated depreciation	(43,497)	(95,379)
Total fixed assets	$ 41,122	$ 84,783

Component Units - Fixed Assets
(Dollars in Thousands)

	Totals
Land and Buildings	$ 421,031
Equipment	151,626
Improvements Other Than Buildings	39,433
Assets Under Capital Leases	196
Library Books	3,880
Construction in Process	13,016
Less: Accumulated Depreciation	(242,214)
Total Fixed Assets	$ 386,968

NOTE 9 - MAINE STATE RETIREMENT SYSTEM

PLAN DESCRIPTION

The Maine State Retirement System is the administrator of an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Maine State Retirement System Laws, Title 5 M.R.S.A., C. 421, 423, and 425. The System is a component unit of the State. Financial information for the System is included in the discretely presented component unit column on the Combined Balance Sheet and in the Statement of Changes in Net Assets Available for Pension Benefits. Condensed financial statement information is presented in Note 13 Segment Information for Enterprise Funds and Component Units. The Maine State Retirement System issues a stand-alone financial report.

The System provides pension, death, and disability benefits to its members, which include employees of the State, public school employees who are defined by Maine law as teachers for whom the State is the employer for retirement contribution purposes, and employees of approximately 250 local municipalities and other public entities in Maine, each of which contracts for participation in the System under provisions of relevant statutes.

At June 30, 2000, the membership consisted of:

Active vested and nonvested members	51,003
Terminated vested participants	2,019
Retirees and benefit recipients	29,033
Total	82,055

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of ten years of service credit or the earning of one year of service credit immediately preceding retirement at or after normal retirement age. Normal retirement age is age 60 or 62, determined by whether the member had at least 10 years of creditable service on June 30, 1993 (effective October 1, 1999, the ten-year requirement was reduced to five years by legislative action), and the monthly benefit is reduced by a statutorily prescribed factor for each year of age that a member is below her/his normal retirement age at retirement. The system also provides death and disability benefits, which are established by statute for State and public school employees, and by contract with other participating employers under applicable statutory provisions.

Upon termination of membership, members' accumulated employee contributions are refundable with interest, credited in accordance with statute. Withdrawal of accumulated contributions results in forfeiture of all benefits. The annual rate of interest credited to terminated members' accounts is set by the System's Board of Trustees and is currently 6.0 percent.

In the event that a participating entity withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The participating entity remains liable for contributions sufficient to fund benefits for its already retired former employee-members, for its terminated vested members, and for those active employees, whether or not vested, who remain contributing System members.

Contributions from members and employers and earnings from investments fund retirement benefits. Employer contributions and investment earnings fund disability and death benefits. Member and employer contributions are a percentage of applicable member compensation. Member contribution rates are defined by law and depend on the terms of the plan under which a member is covered. Employer contribution rates are determined by annual actuarial valuations.

The total funds managed by the System are constitutionally restricted as held in trust for the payment of pension and related benefits to its members. The System's Board of Trustees, in its fiduciary capacity, establishes the System's investment policies and their overall implementation. The System maintains separate reserves and accounts for each participating entity and performs separate actuarial valuations for each participating entity's respective plan. The Maine State Retirement System management's interpretation of the State of Maine statutes is that all assets accumulated for the payment of benefits may legally be used to pay benefits, including refunds of member contributions, to any plan members or beneficiaries, and that the System is therefore regarded as administering a single plan for reporting purposes. The State's legal counsel does not concur with the accumulated assets representation. Additional disclosures would be necessary to report this as more than one plan in conformity with generally accepted accounting principles.

The System also provides group life insurance under a plan that is administered by a third party insurance company. Premiums paid by or on behalf of those covered are set and collected by the System. The insurance company makes benefit payments. The System remits payments to the insurance company in the amount of benefits paid out and additional payments representing administrative fees.

FUNDING POLICY

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age normal actuarial funding method. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a closed 25-year period from June 30, 1998. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 2 years to 28 years.

The State of Maine is required to remit 25% of its budgetary surplus at the end of its fiscal year to the System, in order to reduce any unfunded pension liability for State employees and teachers. Accordingly, for the year ended June 30, 2000 the System recorded $4.0 million in additional contributions from the State of Maine as due from primary government at June 30, 2000.

Significant actuarial assumptions used to compute the contribution requirements are the same as those used to compute the standardized measure of the pension obligation.

The actuarially determined contribution rates in effect for 2000 for participating entities are as follows:

State:	
Employees[1]	7.65-8.65%
Employer	14.47-42.89%
Teachers:	
Employees	7.65%
Employer	18.34%
Participating Local Entities:	
Employees	6.5-8.0%
Employer[1]	1.8-7.7%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees or benefit plan options selected by a particularparticipating local entity. Withdrawn entities' contributions are set in dollar amounts, not as rates.

ANNUAL PENSION COST AND NET PENSION OBLIGATION

The employer's annual pension cost and net pension obligation to the System for the current year were as follows:

Net Pension Obligation
(Dollars in thousands)

Annual required contribution	$239,241
Interest on net pension obligation	6,104
Adjustment to annual required contribution	(4,156)
Annual pension cost	241,189
Contributions made	243,241
Increase (decrease) in net pension obligation	(2,052)
Net pension obligation beginning of year	76,295
Net pension obligation end of year	$ 74,243

Analysis of Funding Progress
(Dollars in thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2000	$ 241,189	100.85%	$ 74,243
1999	255,451	107.54%	76,295
1998	241,008	101.96%	95,546

The annual required contribution for the current year was determined as part of the June 30, 2000 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8% return on investments and (b) projected salary increases of 5.5% to 9.5% per year, including inflation of 5.5%. The assumptions include post retirement benefit increases of 4% per annum. The System also uses the level percentage of payroll method to amortize theunfunded liability of the State and teacher plan over a closed 25-year period from June 30, 1998. For participating local districts, either the level percentage of payroll method or the level dollar method is used, depending on plan structure, status of the participating local district, nature of the unfunded liability (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 2 years to 28 years.

COMPONENT UNIT PENSION DESCRIPTION

The Maine Municipal Bond Bank, Maine Maritime Academy, Maine State Retirement System, University of Maine, and Northern New England Passenger Rail Authority have defined benefit pension plans. All except the University of Maine System are participants in plans administered by the Maine State Retirement System. Employees of the Maine Technical College System are considered to be State employees for retirement benefit purposes and are included in the pension disclosures of the State.

Employer contributions met actuarially determined contribution requirements.

OTHER PLANS

MTCS also has an optional program with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), which is a defined contribution plan, to which the MTCS contributes 12.88 percent of total salaries for participating employees or 6.04 percent for MEA employees.

UM also has a defined contribution program with TIAA-CREF. The University contributes approximately 10 percent of base salary of participants. All full time employees are eligible, and part-time employees are eligible once they have achieved the equivalent of five years of continuous, full-time service. All eligible employees are required to participate in this Plan when they reach thirty years of age.

LDA and FAME have Simplified Employee Pension Plans. MSHA has a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(a). MHHEFA has a discretionary contributory profit sharing plan and a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(k).

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST RETIREMENT HEALTH CARE BENEFITS

The State of Maine funds postretirement health care benefits for most retired State employees and legislators, as authorized by 5 M.R.S.A. § 285, and for a portion of the premiums for teachers, as authorized by 20-A M.R.S.A. § 13451. Pursuant to 5 M.R.S.A., § 285, most retired employees of the Maine Turnpike Authority, the Maine Technical College System, the Maine Maritime Academy, and the Maine State Retirement System are eligible to participate in the health plan, but are not funded by the State. Specifically excluded (5 M.R.S.A., § 285 1-B) are members of the Maine Municipal Association and the Maine Teachers Association, and employees of counties and municipalities and theirinstrumentalities.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than 5 years participation to 100 percent for retirees with 10 or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees eligible for Medicare are covered under supplemental insurance policies. The retiree must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees who are not eligible for Medicare includes basic hospitalization, supplemental major medical and prescription drugs, and costs for treatment of mental health, alcoholism, and substance abuse.

Retiree health care benefits have been funded on a pay-as-you go basis. Forretired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount is generated using a contribution rate (4.76 percent for July 1, 1999 through March 31, 2000 and 5.47 percent for April 1, 2000 through June 30, 2000), authorized by 5 MRSA § 286-A, multiplied by the value of the current employee payroll. The amounts contributed were reported as expenditures/expense in each of the various funds. For retired teachers, the State estimates the total annual amount necessary to pay its 30 percent share of health insurance premiums. This amount, less any accumulated funds remaining from prior years' estimates, is appropriated and reported as expenditures in the General Fund. Contributions resulting from both sources are accumulated in and reported as revenue of the Retiree Health Insurance Internal Service Fund. The State's share of the premium expense is paid from that fund when retiree payrolls are processed. The State's management proposed funding retiree healthcare benefits using rates, which have been developed actuarially, beginning in fiscal year 2001.

As of July 1, 2000, there were 6,723 retired eligible State employees and 5,662 retired Teachers. In the 2000 fiscal year, the State paid into the Retiree Health Insurance Fund $21.6 million for retired employees and $3.8 million for retired teachers. Premium charges paid were $17.2 million and $4.2 million, respectively. Overall fund equity increased by $5.9 million, to $24.5 million at June 30, 2000. In fiscal year 2000, a State sponsored actuarial study estimated the amount of the liability for current and future retirees, as of July 1, 2000, was $725.3 million. This includes benefits for 13,424 current retirees as well as 41,601 currently active employees expected to retire in the future. It does not consider employees not yet hired as of July 1, 2000.

POST RETIREMENT LIFE INSURANCE BENEFITS

The Maine State Retirement System (MSRS) provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of 10 years. Payments of claims are made by the MSRS from a fund containing the life insurance premiums of active State employees and teachers, plus earnings on the investments of the fund. In addition to the cost of claims, the State pays a monthly retention fee to a life insurance company. For the fiscal year ended June 30, 2000, claims totaled $2 million for retired State employees and $1.2 million for retired teachers. The number of participants eligible to receive benefits at fiscal year end was 5,132 retired State employees and 3,982 retired teachers.

NOTE 11 - LONG-TERM OBLIGATIONS

Primary Government

The State records its liability for bonds in the General Long-Term Obligations Account Group (GLTOAG). The State has also included in the GLTOAG $103.5 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by the Authority is not debt of the State or any political subdivision within the State and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. Other general long-term obligations recognized by the State are its compensated employee absences and its obligations under Certificates of Participation and other financing arrangements. Payments for these liabilities will be made from the Governmental Funds.

GENERAL OBLIGATION BONDS

Programs for which the State issues general obligation bonds include: adaptive equipment loan programs, environmental cleanup and protection, highway and transportation related projects, agricultural and small business job creation, and acquisition, construction, and renovation of major capital facilities including State parks and historic sites. General obligation bonds are secured by the full faith and credit of the State. Debt service requirements are provided by legislative appropriation from the State's general tax revenues and are repaid in annual installments beginning not more than one year after issuance.

Changes in general obligation bonds during the fiscal year are as follows:

Primary Government - Changes in General Obligation Bonds
June 30, 2000
(Dollars in Thousands)

	Balance July 1, 1999	Additions	Retirements	Balance June 30, 2000
General Obligation Debt:				
General Fund	$ 334,725	$ 66,991	$ 60,561	$ 341,155
Special Revenue Fund	133,700	-	22,470	111,230
Self Liquidating	630	-	40	590
Total	$ 469,055	$ 66,991	$ 83,071	$ 452,975

The future debt service requirements for the bonds are as follows:

Future Debt Service on General Obligation Bonds
June 30, 2000
(Dollars in Thousands)

Fiscal Year	Principal	Interest	Total
2001	$ 87,760	$23,740	$ 111,500
2002	83,375	18,870	102,245
2003	78,170	14,258	92,428
2004	55,615	10,525	66,140
2005	42,860	7,626	50,486
Thereafter	105,195	11,788	116,983
Total	$ 452,975	$ 86,807	$ 539,782

AUTHORIZED UNISSUED BONDS

Any bonds not issued within five years of the date of ratification may not be issued after that date. Within two years after expiration of the five-year period, the Legislature may extend, by a majority vote, the five-year period for an additional five years or may deauthorize the bonds. If the Legislature fails to take action within those two years, the bond issue shall be considered to be deauthorized and no further bonds may be issued. At June 30, 2000, general obligations bonds authorized and unissued totaled $134.6 million. The Maine Governmental Facilities Authority, a blended component unit, may not issue securities in excess of $168 million outstanding at any one time except for the issuance of certain revenue refunding securities. The Legislature may increase this limit as necessary to meet the Authority's needs.

CERTIFICATES OF PARTICIPATION AND OTHER FINANCING ARRANGEMENTS

The State uses financing companies, Certificates of Participation (COP's) and lease/purchase agreements to finance the construction of certain State buildings, and to purchase equipment and vehicles. Certificates of Participation are issued through a trustee and the State is responsible for payments to the trustee that approximate the interest and principal payments made to the certificate holders. The State maintains custody and use of the assets; however, the trustee holds a lien as security until such time as the certificates are fully paid. Neither Certificates of Participation nor the other financing arrangements constitute a legal debt or liability, or a contractual obligation in excess of amounts appropriated. The State's obligation to make minimum payments or any other obligation under agreements is subject to, and dependent upon, appropriations being made by the Legislature. The Legislature has no obligation to appropriate the money for future minimum payments or other obligations under any agreement.

Changes in liabilities reported in the General Long-Term Obligations Account Group are as follows:

Changes in General Long-Term Obligations
June 30, 2000
(Dollars in Thousands)

	Bonds	COP's and other Financing Arrangements	GFA Revenue Bonds	Compensated Absences	Net Pension Obligation	Total
Balance, July 1, 1999	$469,055*	$4,281	$27,915*	$28,987	$76,295	$ 606,533
Issuances	66,991	-	76,595	-	-	143,586
Payments	(83,071)	(1,873)	(947)	-	-	(85,891)
Other Increase (Decrease)	-	-	-	(387)	(2,052)	(2,439)
Balance, June 30, 2000	$452,975	$ 2,408	$103,563	$28,600	$ 74,243	$661,789

* These amounts have been restated to reclassify the debt of the Maine Government Facilities Authority, a blended component unit.

Changes in COP's and Other Financing Arrangements reported in Proprietary Fund Types are as follows:

Certificates of Participation and Other Financing Arrangements
June 30, 2000
(Dollars in Thousands)

Outstanding July 1, 1999	Additions	Retirements	Outstanding June 30, 2000
$19,281	$8,384	$8,368	$19,297

Debt service on COP's and other financing arrangements are presented in the following table:

Debt Service on Certificates of Participation and Other Financing Arrangements
June 30, 2000
(Dollars in Thousands)

	Minimum Payments		
Fiscal Year Ending June 30,	Governmental Funds	Government Facilities Authority	Internal Service Funds
2001	$ 1,940	$ 8,665	$ 6,898
2002	216	8,533	5,581
2003	182	8,461	3,904
2004	181	10,969	2,114
2005	22	10,731	1,336
Thereafter	-	114,772	1,696
Total Minimum Payments	2,541	162,131	21,529
Less: Amount Representing Interest	133	58,568	2,232
Present Value of Future Minimum Payments	$ 2,408	$ 103,563	$19,297

OBLIGATIONS UNDER CAPITAL LEASES

At June 30, 2000, the State was not able to identify, classify and report capital leases in conformity with generally accepted accounting principles. As a result, the required financial statement reporting and the related disclosures applicable to capital and operating leases are not presented.

Component Units - Bonds outstanding for the component units are as follows:

Component Unit Bonds Outstanding
(Dollars in Thousands)

	Purpose	Interest Rates	Amount	Maturity Dates
Maine Municipal Bond Bank	General Tax-Exempt Fund Group	3.00 - 9.75%	$ 877,538	1990- 2028
	Sewer and Water Fund Group	2.75 - 7.20%	71,232	1991 - 2028
	Special Obligation Taxable Fund Group	6.10 - 10.25%	2,535	1991 - 2009
Subtotal			951,305	
University of Maine System	1993 Series A Revenue Bonds	2.30 - 5.20%	9,430	1994 - 2008
	1993 Series B Refunding Bonds	3.15 - 5.50%	13,530	1995 – 2020
	1998 Series A Revenue Bonds	3.95 - 5.00%	27,923	2000 - 2024
Subtotal			50,883	
Maine State Housing Authority	Mortgage Purchase Program	2.75 - 9.25%	1,302,888	2000 - 2038
	Mortgage Acquisition Program	6.30 – 6.90%	1,249	2000 - 2007
	Housing Finance Revenue Program	4.25 - 6.30%	40,945	2000 - 2030
Subtotal			1,345,082	
Maine Health and Higher Education Facilities Authority	General Bond Resolution	3.90 – 9.95%	85,037	1986 - 2029
	Reserve Fund Resolution	2.5 - 6.50%	798,900	1992 – 2030
	Medium Term Financing Reserve Fund Resolution	4.0 - 8.25%	4,535	1993 – 2003
	Taxable Reserve Fund Resolution	7.03 - 9.35%	97,420	1993 – 2016
Subtotal			985,892	
Finance Authority of Maine	Construction bonds	1.0 %	1,174	1999 - 2025
Maine Educational Loan Authority	Educational Loan Revenue Bonds	3.60 - 7.75%	59,329	1997 - 2029
Other	Revenue and Building Construction Bonds	2.60 – 10.00%	3,323	2000 - 2023
Total			$3,396,988	

Maturities of principal for component units are as follows.

Component Units Principal Maturities
(Dollars in Thousands)

Fiscal Year Ending	FAME	MELA	MMA	MTCS	MMBB	UM	MSHA	MHHEFA	Totals
2000	$ -	$ 1,895	$ -	$ -	$ 76,456	$ -	$ 16,740	$ 12	$ 95,103
2001	52	1,745	81	85	83,241	2,135	18,545	30,830	136,714
2002	52	1,920	80	85	75,901	2,210	23,070	33,190	136,508
2003	53	1,855	79	85	72,471	2,200	29,715	35,215	141,673
2004	54	2,030	84	85	70,051	2,205	34,130	34,735	143,374
2005	54	-	85	60	67,565	2,195	-	35,140	105,099
Thereafter	909	50,310	2,659	-	526,791	40,895	1,222,882	816,770	2,661,216
Less amounts deferred or unamortized	-	(426)	(145)	-	(21,171)	(957)	-	-	(22,699)
Total Principal Payments	$1,174	$59,329	$2,923	$400	$951,305	$50,883	$1,345,082	$985,892	$3,396,988

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

The State maintains several types of insurance plans and accounts for them in two funds. The Self-Insurance Internal Service Fund provides insurance advice and services to State governmental agencies, and the State-Administered Fund offers similar services to quasi-governmental entities. Statute requires the Self-Insurance Fund to be replenished by appropriation if the fund balance drops below $1 million. The State-Administered Fund balance has no similar provision, however, statutes prevent it from being used for any purpose other than providing insurance services.

Insurance plans offered include property, vehicle, boat and aircraft, tort, civil rights, employee bonds, police professional, and a variety of other insurance products. Not all departments elect to insure through the Risk Management Division. Specifically, the Department of Human Services and the Department of Transportation have elected not to purchase general liability insurance.

In many cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $2.5 billion per occurrence. The State retains $1 million of this risk per occurrence, with the remainder being covered by a private insurance carrier (excess insurance). Coverage, risk retention, and excess insurance amounts for major types of insurance are listed below:

Type of Insurance	Coverage Per Occurrence	Risk Retention Per Occurrence	Excess Insurance Per Occurrence
Property	$2.5 billion	$1 million	$2.5 billion
Employee Bond - Food Stamps	16.5 million	.5 million	16 million
Ocean Marine Boat Liability	10 million	10,000	10 million
Loss of Software and Data	8 million	25,000	8 million
Boiler and Machinery	2 million	5,000	2 million
General Liability including Employment Practices	400,000	400,000	none
Police Professionals	400,000	400,000	none

The plan funds the cost of providing claims servicing and claims payment by charging a premium to each agency based on a review of past losses and estimated losses for the current period.

All risk-financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Claims liabilities are actuarially determined and represent the estimated cost of claims as of June 30, 2000. This cost of claims includes case reserves, the development of known claims and incurred-but-not-reported claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount.

At June 30, 2000, $3.2 million was reported as the present value of the estimated claims payable for the State's self-insurance plan. This was calculated based on a 5.5 percent yield on investments. The non-discounted amount was $3.6 million.

Risk Management Fund Changes in Claims Payable
June 30, 2000
(Dollars in Thousands)

	2000	1999
Liability at beginning of year	$3,519	$3,135
Current year claims and changes in estimate	1,019	2,673
Claims payments	1,319	2,289
Liability at end of year	$3,219	$3,519

As of June 30, 2000, fund assets of $14.4 million exceeded fund liabilities of $3.8 million by $10.6 million. The portion of this amount that may be reserved for catastrophic losses has not determined.

In the past, general liability insurance coverage excluded lawsuits brought by employees. Therefore, the loss history used by the actuary to project claims did not include the effects of any such lawsuits. Effective July 1, 1999, the State added $50,000 coverage per occurrence for the cost of defending the State in any such lawsuits. Effective July 1, 2000, the State increased coverage to include both defense and indemnification costs up to $400,000. An estimated effect of this change has not been incorporated into the actuarial study used to determine claims payable as of June 30, 2000.

For the first time, the State, through the Risk Management Division, purchased insurance for four State Correctional facilities in an Owner Controlled Insurance Program (OCIP). The State, as owner, gets favorable premium rates compared with the contractors who typically purchase the coverage and include associated costs in their contract prices. Workers' compensation, tort, and property coverage for the projects will cost approximately $1.6 million, which represents $600,000 in savings over the lives of the projects. The entire premiums billed by OCIP insurers are paid by the State Risk Management Fund and billed to Maine's Department of Corrections.

B. UNEMPLOYMENT INSURANCE

The State is self-insured for unemployment compensation. As a direct reimbursement employer, the State recognizes all costs for unemployment compensation as claims are paid. These costs totaled $608,000 for the fiscal year ended June 30, 2000.

C. WORKERS' COMPENSATION

Workers' compensation is accounted for in an Internal Service Fund. Interfund premiums are treated as quasi-external transactions. Each State agency is charged a premium based on the number of employees to be covered plus an added amount to reduce the unfunded liability. The Legislature, Legislative Council, and Law Library employees are self-insured for workers' compensation purposes. The State assumes the full risk of all claims filed for workers' compensation. Claims liabilities are actuarially determined based on estimates of the ultimate cost of claims, including future claim adjustment expenses that have been incurred but not reported and claims reported but not settled. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Changes in the balance of claims and judgments liabilities during fiscal 2000 were as follows:

Workers' Compensation Fund Changes in Claims Payable
June 30, 2000
(Dollars in Thousands)

	2000	1999
Liability at Beginning of Year	$ 82,668	$ 89,445
Current Year Claims and Changes in Estimates	10,252	5,357
Claims Payments	12,549	12,134
Liability at End of Year	$ 80,371	$ 82,668

Based on actuarial calculations as of June 30, 2000, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $93.4 million. The discounted amount is $80.4 million and was calculated based on a 4.25 percent yield on investments.

D. DISABILITY

State law allows confidential employees who become temporarily disabled to receive 66.67 percent of their salary for up to 335 calendar days. There were a total of 1,019 confidential employees at June 30, 2000. The expenditure amount for this benefit cannot be determined.

NOTE 13 - SEGMENT INFORMATION - ENTERPRISE FUNDS AND COMPONENT UNITS

PRIMARY GOVERNMENT

The State has nine enterprise funds that have been created to provide various services to the general public. The purpose of each enterprise fund is described below:

The *Alcoholic Beverages Fund* was established to license and regulate the sale of alcoholic beverages. The net profit from the fund is transferred to the State's General Fund and is used for general government purposes.

The *Lottery Fund* was established to account for all operations of the Maine State Lottery. This includes the Tri-State Lotto Commission, which was established in 1985, and is a joint venture between the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including the price or prices of tickets, the number and size of prizes for winning tickets, and the licensing of agents.

The *Potato Marketing Improvement Fund* provides low interest loans to potato growers for the modernization of storage facilities and improvements in the handling of the product.

The *Seed Potato Board Fund* accounts for the growing of nuclear seed for sale to potato growers, for research in disease control, and the development of new product varieties.

The *State Ferry Service Fund* accounts for the operation of ferry services between the mainland and various islands for the purpose of transporting vehicles, freight, and passengers to and from those islands.

The *State Airport Fund* accounts for all operations and maintenance of the Maine State Airport. The State, through the Department of Transportation, entered into a lease/purchase agreement with the City of Augusta to operate and eventually own the airport.

The *Marine Ports Fund* is used to account for the operation and maintenance of port facilities within the jurisdiction of the Department of Transportation.

The *Prison Industries Fund* accounts for a self-supporting program of job training through the employment of inmates in manufacturing and selling products.

The *Community Industrial Building Fund* is used to assist a local development corporation to construct a community industrial building by lending money when the project can reasonably be expected to create new employment. Preference is given to projects in economically deprived areas.

Segment Information
June 30, 2000
(Dollars in Thousands)

	State Lottery Bureau	Bureau of Alcoholic Beverages	Transportation Related	Agriculture Related	Other Enterprise Funds	Total Enterprise Funds
Operating Revenues	$149,915	$76,837	$2,676	$225	$1,136	$230,789
Depreciation Expense	7	496	15,818	27	9	16,357
Operating Income (Loss)	36,893	23,151	(19,011)	(439)	117	40,711
Net Nonoperating Revenues	455	-	154	483	17	1,109
Net Income (Loss)	(134)	4	(16,395)	286	134	(16,105)
Operating Transfers in (out)	(37,482)	(23,147)	2,462	242	-	(57,925)
Additions (Deletions) to Property, Plant and Equipment	(46)	(146)	2,910	(89)	43	2,672
Total Assets	8,739	6,262	41,742	10,197	564	67,504
Total Long-Term Liabilities	-	1,000	-	-	-	1,000
Total Liabilities	8,755	6,251	198	735	67	16,006
Total Equity	(16)	11	41,543	9,460	500	51,498
Net Working Capital	(16)	532	818	(541)	479	1,272
Current Capital Contributions	-	-	2,682	-	-	2,682

COMPONENT UNITS

The following tables present condensed financial statements for each of the discretely presented component units. Complete financial statements of the individual component units can be obtained from their respective administrative officesas described in Note 1.

Component Units Condensed Balance Sheet
(Dollars in Thousands)

	LDA	MELA	FAME	MHHEFA	NEPRA	MSHA	MMBB	MSRS	MM
Assets:									
Cash	$ 2,399	$ 2,425	$ 21,973	$ 76,956	$ 2,809	$ 15,323	$ -	$ 127,141	$
Investments	-	14,268	58,973	174,314	9,481	334,327	254,047	7,503,405	16
Due from primary government	-	-	645	-	-	-	2,053	4,626	
Due from other governments	363	-	-	-	1,305	922	966,859	9,954	
Loans and notes receivable	-	45,122	36,774	902,355	-	1,231,633	-	-	2
Other receivables	378	468	1,994	8,506	8	20,932	1,829	230,391	
Fixed assets	67	-	2,275	4,866	-	548	1,054	365	39
Other assets	-	366	1,043	834	1,096	4,357	38,628	-	4
Total assets	$ 3,207	$ 62,649	$ 123,677	$ 1,167,831	$ 14,699	$ 1,608,042	$ 1,264,470	$ 7,875,882	$ 64
Liabilities:									
Accounts payable	$ 145	$ 87	$ 2,283	$ 426	$ 2,489	$ 21,092	$ 778	$ 5,755	$
Due to other governments	1,485	-	6,340	-	-	8,546	3,390	-	
Deferred revenues	188	-	-	517	-	31,935	-	-	
Amounts held under state loan programs	-	-	68,802	-	-	-	-	-	
Bonds and notes payable	-	59,329	1,174	985,892	-	1,345,082	951,305	-	2
Other accrued liabilities	189	2,358	24,486	34,154	-	16,246	30,431	251,647	1
Total Liabilities	2,007	61,774	103,085	1,020,989	2,489	1,422,901	985,904	257,402	5
Equity:									
Retained Earnings:									
Reserved	-	-	-	-	-	-	242,250	-	
Unreserved	1,200	875	20,592	-	12,210	185,141	36,316	-	
Reserved for debt service	-	-	-	48,188	-	-	-	-	
Net investment in plant	-	-	-	-	-	-	-	-	36
Reserved for pension benefits	-	-	-	-	-	-	-	7,618,480	
Other reservations	-	-	-	90,681	-	-	-	-	14
Unrestricted/unreserved	-	-	-	7,973	-	-	-	-	7
Total Equity	1,200	875	20,592	146,842	12,210	185,141	278,566	7,618,480	58
Total Liabilities and Equity	$ 3,207	$ 62,649	$ 123,677	$ 1,167,831	$ 14,699	$ 1,608,042	$ 1,264,470	$ 7,875,882	$ 64

Component Unit Condensed Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances
(Dollars in Thousands)

	LDA	MELA	FAME	MSHA	MMBB	Total
Operating revenues	$ 5,129	$ 4,699	$ 12,543	$ 176,405	$ 78,940	$ 277,716
Operating expenses	5,622	4,428	24,237	174,747	59,654	268,688
Operating income (loss)	(493)	271	(11,694)	1,658	19,286	9,028
Non-operating revenues (expenses)	-	-	(121)	-	-	(121)
Extraordinary Loss		(27)		(1,137)		(1,164)
Transfers from primary government	467	-	14,751	7,515	27,628	50,361
Transfers to primary government	-		(1,000)	-	-	(1,000)
Net income (loss)	(26)	244	1,936	8,036	46,914	57,104
Retained Earnings, July 1, 1999 (as restated)	1,226	631	18,657	177,105	231,650	429,269
Retained Earnings, June 30, 2000	$ 1,200	$ 875	$ 20,593	$ 185,141	$ 278,564	$ 486,373

Component Unit Condensed Statement of Revenues, Expenditures and Changes in Fund Balances
(Dollars in Thousands)

	MHHEFA	NNEPRA	Total
Revenues	$ 102,557	$ 30,784	$ 133,341
Current Expenditures	25,734	30,852	56,586
Capital Outlay Expenditures	133,720	-	133,720
Debt Service Expenditures	82,995	-	82,995
Transfers from primary government	-	7,005	7,005
Excess (Deficiency) of Revenues over (under) Expenditures	(139,892)	(68)	(139,960)

NOTE 14 - JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The only material joint venture in which the State participates is the Tri-State Lotto Commission (Commission).

The Commission was established in 1985 pursuant to passage into law of the Tri-State Lotto Compact by the States of Maine, New Hampshire, and Vermont. The Commission is authorized and empowered to promulgate rules and regulations regarding the conduct of lottery games, including ticket prices, prizes, and the licensing of agents.

The Commission is composed of one member from each of the participating states. Each member State's commission appoints one of its members to serve on the Commission. Each member holds office at the pleasure of his or her appointing authority. The Commission annually elects a chairman from among its members.

The Commission has designated that 50 percent of its operating revenue be aggregated in a common prize pool. A prize award liability is established when the winning ticket number is selected. If no winning ticket is selected, the available jackpot is carried over to the following drawing. The Tri-State Lotto Compact requires that prizes not claimed within one year from the date of the drawing be forfeited. All expired unclaimed prizes are credited to future prize pools. The Commission funds its jackpots through annuity contracts purchased from insurance companies and zero-coupon U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on the amount of ticket sales made by each State. Exceptions are the facility's management fee, which is based on a contracted percentage of operating revenue that varies from State to State, Daily Number expenses that are allocated to each State based on Daily Number ticket sales, and certain other miscellaneous costs that are based on actual charges generated by each State.

The financial statements of the Tri-State Lotto Commission may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008.

As of and for the fiscal year ended June 30, 2000, the following selected financial information was reported in the audited financial statements of the Tri-State Lotto Commission:

Tri-State Lotto Commission
June 30, 2000
(Dollars in Thousands)

Current Assets	$ 41,101
Noncurrent Assets	206,637
Total Assets	$247,738
Current Liabilities	$ 35,081
Long-term Liabilities	196,830
Total Liabilities	231,911
Designated Prize Reserves	4,996
Unrealized Gain on Investments Held for Installment Prize Obligations	10,831
Total Retained Earnings	15,827
Total Liabilities and Retained Earnings	$247,738
Total Revenue	$ 82,690
Total Expenses	$ 54,100
Allocation of Funds to Member States	$ 29,268
Increase in Retained Earnings	$ (4,457)

NOTE 15 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20 M.R.S.A. §11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code. By statute, the program assets and liabilities are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen College Investing Plan had approximately $264 million in net assets at June 30, 2000, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include $540,000 of self-liquidating bonds of the Maine Veterans' Home. The State issues the bonds and the Maine Veterans' Home remits to the State the debt service as it comes due.

The State of Maine has entered into memoranda of understanding with the Wells National Estuarine Research Reserve Management Authority, a jointly governed organization, through the Bureau of Public Lands and the Bureau of Parks and Recreation. These agreements outline each entity's responsibilities in relation to the operation of the Reserve and the management of the property included within the boundaries of the reserve. The Authority's responsibilities are generally to manage the Reserve consistent with the Wells National Estuarine Research Reserve Management Plan dated May, 1991.

RELATED ORGANIZATIONS

The State provided appropriations to two related organizations. The Maine Science and Technology Foundation received an appropriation of $1.6 million, and the Maine School of Science and Mathematics received an appropriation of $1.8 million.

The State receives transfers in the amount of the annual operating surplus from the Maine Turnpike Authority under the Sensible Transportation Act of 1991. The Legislature has defined operating surplus within the Maine Turnpike Authority statute to be the total operating revenues of the Authority after money has been set aside to pay reasonable operating expenses and to meet the requirements of any resolution authorizing bonds. The Authority, with the concurrence of the Maine Department of Transportation, has established the operating surplus at $4.7 million annually. The payment of debt service costs in connection with the issuance of the Series 1996 Special Obligation Bonds is considered to constitute payment of the operating surplus for the year 2000.

COMPONENT UNITS

The University of Maine Foundation (Foundation) is an independent non-profit organization and, accordingly, its financial statements are not consolidated with those of the University. Total gifts and income received by the University from the Foundation during fiscal years ending June 30, 2000 and 1999 were approximately $4.2 million and $3.1 million, respectively. The reported fair market value of the Foundation's assets at June 30, 2000 and 1999 were approximately $117.1 million and $106.6 million, respectively.

The Maine Educational Loan Authority (Authority) acts as an originating lender for a federal loan program for loans ultimately sold to the Maine Educational Loan Marketing Corporation (MELMAC), a related party. The funds necessary to originate the loans are made available to the Authority by Maine Educational Services (a party related to MELA due to common management and one board member), through advances under a revolving credit agreement. The funds are advanced normally for a one-day period. The educational loans are sold at face value plus a fifty basis point premium. In 1999 and 1998, approximately $8.8 million and $53.7 million, respectively, of educational loans were originated by the Authority and purchased by MELMAC as described above. The Authority received approximately $44 thousand and $269 thousand in loan premiums from MELMAC in 1999 and 1998, respectively. This agreement ended on April 15, 1999.

The advances provided to the Authority by Maine Educational Services are subject to a revolving credit agreement between these two parties. The maximum amount that the Authority can borrow from Maine Educational Services at any given time is $2 million.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

FEDERAL GRANTS

The State receives significant financial assistance from the federal government. The receipt of grants is generally dependent upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Grants are subject to the Federal Single Audit Act. Disallowances by federal officials as a result of these audits may become liabilities of the State. The amount of expenditures that may be disallowed by the grantor agencies cannot be determined at this time.

MUNICIPAL SOLID WASTE LANDFILLS

Title 38 M.R.S.A., §1310-F, establishes within the Department of Environmental Protection (DEP) a cost-sharing program for the closure and remediation of municipal solid waste landfills that pose an actual or potential hazard to the environment and public health. The State's obligation to provide cost sharing to municipalities is subject to the availability of funds approved for that purpose. During the 2000 fiscal year, $3 million of general obligation bond funds were expended for solid waste landfill closure projects.

After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills, except, the Commissioner may make grants or payments up to 30% if they are incurred pursuant to an alternative closure schedule approved by DEP prior to January 1, 2000, and if specifically identified in a department order or license, schedule of compliance or consent agreement. No reimbursement applications for past closure costs are on file. No additional cost share eligible closures have been approved by DEP.

Remediation funding, subject to the availability of funds, will continue for 90% of the cost of remediation for threats posed by a municipal landfill to wells or other structures constructed on or before December 31, 1999. The maximum reimbursement for remediation funding is 50% for structures constructed after that date. The DEP recognizes that, in the future, some post closure investigation and remediation activities may be necessary at some landfills that will require State funds. The DEP has estimated the amount of these potential costs to be approximately $1.6 million, based on current site knowledge.

SAND AND SALT STORAGE PROGRAM

The State estimates the potential aggregate cost to comply with the environmental requirements associated with the sand and salt storage program to be $16-18 million through the year 2005. This consists of approximately $9-11 million for State-owned facilities and approximately $7 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 M.R.S.A. §411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2000 fiscal year, $5.4 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2000 amounts encumbered for pollution abatement projects totaled $2.3 million, and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $13.9 million. At June 30, 2000, DEP estimated the total cost (federal, State, and local) of future projects to be $280 million, which increased to $317.3 million by November 2000.

DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY

The State has been identified as a potentially responsible party at two hazardous waste clean-up sites in Maine. These sites are located in Plymouth and Gray. The amount or range of potential liability has not been determined.

GROUND WATER OIL CLEAN-UP FUND

The Ground Water Oil Clean-up Fund is established in Title 38 MRSA §569-A. Fund activities include, but are not limited to, providing insurance to public and private entities for clean up of oil spills. The program is funded by a per barrel assessment on petroleum products imported into the State. Coverage is up to $1 million per occurrence for both aboveground and underground storage tanks. Third party injury coverage may not exceed $200,000 per claimant.

A report to the legislature dated December 15, 2000, submitted by the Maine Department of Environmental Protection (DEP), identified 356 long-term remediation sites as of August 2000 that are covered by the insurance program. Since it is not possible for the DEP to estimate the cost of remediation, the State has not accrued a liability in the financial statements.

NURSING HOME LOANS

The Maine Health and Higher Education Facilities Authority (MHHEFA) has advanced approximately $3 million from the operating fund as of June 30, 2000 to certain financially troubled institutions with outstanding loans owed to the Authority of approximately $43.5 million. These advances were made to assist these institutions in meeting debt service requirements. At June 30, 2000 the Authority has established a $1 million reserve in the operating fund related to amounts that have been advanced or are expected to be advanced to troubled institutions.

TREATMENT OF WASTEWATER FROM THE STATE'S CORRECTIONAL FACILITIES

At June 30, 2000, the Department of Corrections (DOC) had a contractual commitment with the Warren Sanitary District to provide treatment of wastewater from the State's correctional facilities located in Warren, Maine. Under the terms of the agreement, the DOC is required to make annual payments to the District for the DOC's prorated share of capital costs, debt service, and operation and maintenance costs. Fiscal year 2000 expenditures totaled $397 thousand. The agreement with the District shall be in effect for as long as the DOC uses the wastewater treatment facility. If the DOC ceases its use, the agreement is in effect until (a) the DOC has paid off its share of the local capital costs of the project and (b) another user acceptable to the Warren Sanitary District assumes the DOC's share of the operations and maintenance costs.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. This portion represents the subsidy for debt service resulting from local outstanding indebtedness for school construction and renovation projects. As of June 30, 2000, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $728.5million.

At June 30, 2000, the Department of Transportation had contractual commitments of approximately $105.7 million for construction of various highway projects. The State's share of that amount is expected to be approximately $19.5 million. Of these amounts, $18.6 million has already been reported as accruals, with the State's share at $5.4 million. Funding for these future expenditures is expected to be provided from federal funds, State funds, and bond proceeds.

At June 30, 2000, the State of Maine had the following contractual commitments for construction projects:

Maine Criminal Justice Academy	$6.9 million
Maine State Prisons	$104.6 million
Burton Cross State Office Building	$6.9 million

The State has no contractual obligation for the cost of completing the State Capitol and Connector projects under construction at June 30, 2000. Each of the projects is being done in phases; as it did in the first phase, the State will be entering into "guaranteed maximum price" agreements with the 2000 and 2001 phases of work. The State has designated $10.7 million from the Maine Government Facilities Authority and appropriated $7 million from the General Fund in fiscal year 2001, for use in completing those projects.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and five jurisdictions agreed to an out of court settlement with certain Participating Tobacco Manufacturers (PM's) to recover smoking related Medicaid costs. The PM's agreed to pay $206 billion to the states and jurisdictions. In return, the states have agreed to relinquish claims to further damages resulting from Medicaid costs. Maine's percentage of the total settlement payment is 0.7693505%, which equals $1.58 billion. Annual payments (2000 and thereafter) will fluctuate subject to various adjustments and litigation offsets and are contingent on the passage and enforcement of a State statute imposing economic conditions on the PM's. This settlement will result in an ongoing revenue stream to the State, which will continue into perpetuity.

As compensation, the PM's have also agreed to pay $8.6 billion to certain states and jurisdictions for their contribution to the overall settlement. These payments are subject to the adjustments referred to above. Maine's share equals approximately $114 million and will be received in ten annual payments beginning in 2008.

The State received $64.8 million dollars from PM's during fiscal year 2000.

CONSTITUTIONAL OBLIGATIONS

Article 9, § 14-A, C, and D of the Maine State Constitution provides that the State may insure the payment of mortgage loans for industrial, manufacturing, fishing, agricultural and recreational enterprises; mortgage loans for the acquisition, construction, repair and remodeling of houses owned or to be owned by members of two tribes on several Indian reservations; and mortgage loans to resident Maine veterans of the Armed Forces of the United States, including loans to a business organization owned in whole or in part by a resident Maine veteran. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2000, loans outstanding pursuant to these authorizations are $30 million, less than $1 million, and $1.5 million, respectively. The State has not paid, nor does it expect to pay, any amounts as a result of these authorizations as of June 30, 2000.

Article 8, § 2, of the Maine State Constitution provides that the State may secure funds, through the issuance of bonds authorized by the Governor, for loans to Maine students attending institutions of higher education. The amount of bonds issued and outstanding shall not at any one time exceed $4 million in the aggregate. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2000.

MORAL OBLIGATIONS

The State of Maine, through statute, enables certain Authorities to establish capital reserve funds. These funds may be used to secure a variety of financial undertakings including the issuance of bonds. The minimum amount of the capital reserve fund may be determined by statute or set by the Authority. The statutes may also limit the amount of debt that may be secured by the capital reserve funds, and allow the Authority to issue debt that is not secured by these funds. On or before December first of each year, the Authority is required to certify to the Governor the amount, if any, necessary to restore any capital reserve fund to its required minimum. If there is a shortfall, the Governor is required to pay first from the "Contingent Account" the amounts necessary for restoration. The Governor shall certify any remaining unpaid amounts to the Legislature, which is then required to appropriate and pay the remaining amounts to the Authority during the then current State fiscal year. These moral obligations are not considered to be "full faith and credit" obligations of the State, and voter approval of the underlying bonds is not required. No capital reserve fund restorations have been made in the current or previous years.

The following summarizes information regarding outstanding Moral Obligations.

Moral Obligation Bonds
(Dollars in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Finance Authority of Maine	$231,017	$ 36,441	$777,000	10 MRSA § 1032, 1053
Maine Educational Loan Authority	47,685	2,350	50,000	20-A MRSA § 11424
Maine Municipal Bond Bank	972,476	113,850	No Limit	30-A MRSA § 6006
Maine Health and Higher Education Facilities Authority	900,855	82,207	No Limit	22 MRSA § 2075
Loring Development Authority	-	-	100,000	5 MRSA § 13080-N
Maine State Housing Authority	1,358,635	110,233	1,650,000	30-A MRSA § 4906
Total	$3,510,668	$345,081		

COMPONENT UNITS

The Maine Educational Loan Authority (the Authority) had entered into an interest rate exchange agreement to manage its interest rate exposure on its variable rate education loans. The agreement calls for the Authority to receive fixed rate interest payments in exchange for variable market-indexed interest payments. The amounts potentially subject to credit risk are the streams of payments under the agreement and not the notional amount of the contracts. This agreement involves not only the risk of default by the other party, but also theinterest rate risk if positions are not matched. The Authority does not obtain collateral from thecounterparty to secure the amounts subject to credit risks. The notional principal amount of the interest rate swap agreement outstanding at December 31, 1999 was $5.5 million. The termination date of the agreement is December 1, 2006.

NOTE 17 - LITIGATION

The State of Maine, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. In the opinion of the Attorney General and other legal counsel representing the State, in all of the cases listed, the State or its agencies or employees have valid defenses. The Attorney General is unaware of any case in which it is both probable that the State will incur liability and that the amount of such liability can be reasonably estimated to exceed $1 million. Although the Attorney General cannot predict in which of the cases there is a higher or lower probability of paying out the full amounts sought, even if liability is found, the State should not expect to pay out the full amounts being sought against it in all of the cases. In any given case, however, it is possible that the State could incur a large judgment against it.

Central Maine Medical Center v. DHS. Central Maine Medical Center has appealed its audit decisions for FY 1993 through 1998. Exposure is as much as $4 million.

*New Hampshire v. Main*e. The State of New Hampshire filed suit in the United States Supreme Court contending that the Kittery Shipyard is actually located in New Hampshire. If New Hampshire prevails, Maine may be subject to $5.7 million of income tax abatements to New Hampshire residents working at the shipyard. Maine's motion to dismiss New Hampshire's complaint was argued on April 16, 2001.

Kvorjak v. State of Maine Department of Labor. This is a suit brought under the Americans with Disabilities Act by a former employee who sought the accommodation of being allowed to work at home. The Plaintiff seeks damages of almost $2 million, which includes economic damages, punitive damages, and compensatory damages. The State's motion for summary judgment was granted, and the matter is on appeal to the First Circuit.

Jacubouis v. Department of Corrections. The Plaintiff, who is legally blind, has brought suit in state court under the Maine Human Rights Act and the Americans with Disabilities Act, claiming the Department wrongfully refused to allow him to work as a classroom teacher at the Maine Youth Center. The Plaintiff seeks over $200,000 in economic damages, as well as attorney's fees and unspecified non-economic compensatory damages. An administrative arbitrator recently ordered the Plaintiff to be reinstated as a teacher. A motion for summary judgment is pending.

System Automation v. State of Maine is a potential breach of contract action involving the preparation of a database system to keep track of licensing data for boards. The Plaintiff seeks over $2 million in damages. A motion for summary judgment is pending.

Nancy Blanchard v. State of Maine Department of Transportation and John Melrose. In this case, the Plaintiff seeks to have the court declare unconstitutional the Department's taking of her property by eminent domain. The Department awarded $600 thousand to the Plaintiff at the time of the taking. If the court upholds the taking, the Plaintiff has indicated that she will contest this award and seek at least an additional $600 thousand as just compensation. There is a medium probability that the Plaintiff will prevail and damages may total up to $1.5 million.

There are various lawsuits in which plaintiffs seek damages in excess of $1 million against the State or against State officials, and there are various notices of claim, which also specify damages in excess of $1 million where no lawsuit has been filed. In none of these lawsuits, in the view of the Attorney General, is there any reasonable possibility that the State's liability could reach or exceed $1 million.

There are also numerous workers' compensation claims now pending against various State agencies. Since most claims involve the possibility for significant long-term damages, and since the test for demonstrating a causal relationship between the employment and the illness or injury is not as rigorous as in ordinary civil cases, these cases involve the possibility of significant liability for the State. Since possible damages include future medical costs and wage replacements for the employee (and in some cases spouse), it is difficult to estimate the total potential liability to the State.

In addition to the foregoing, there are various other suits pending against the State, State agencies and State officials involving damages or other potential costs. Since the amounts sought are less than $1 million, these suits have not been individually identified.

All other legal proceedings are not, in the opinion of management after consultation with the Attorney General, likely to have a material adverse effect on the financial position of the State.

NOTE 18 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On July 12, 2000, the State, through its blended component unit, Maine Governmental Facilities Authority, issued $51.8 million Bonds for the purpose of improvements to State facilities. The bonds mature from 2000 – 2019, and carry interest rates ranging from 4.50% to 5.50%.

On December 26, 2000, the State issued $5 million of Bond Anticipation Notes, with an interest rate of 4.5 percent. The BAN's will mature on June 26, 2001.

Effective August 11, 2000, Chapter 731, Public Laws 1999 requires that the unfunded liability for State employees and teachers be retired in no more than 19 years from June 30, 2000.

On February 8, 2001, the State issued $4 million of Certificates of Participation to purchase vehicles through its Central Fleet Management Internal Service Fund.

The fair market value of investments of the State of Maine Deferred Compensation Plan was $184.6 million as of February 28, 2001. This represents a decline in value of $22.6 million since fiscal year end.

COMPONENT UNITS

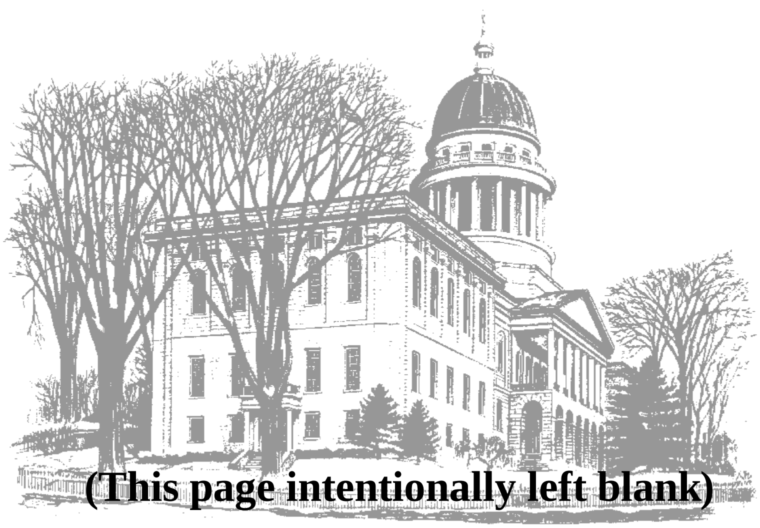
In August 2000, the University of Maine System sold $41.7 million of tax-exempt SeriesA Bonds, proceeds of which will be used for additions and improvements to University Plant for projects totaling $38.6 million.

In July of 2000, the Loring Development Authority (LDA) was awarded a $1.87 million grant from the Economic Development Administration (EDA) of which $525,000 is a LDA cash match.

On July 15, 2000, the Maine Health and Higher Education Facilities Authority (MHHEFA) issued $51.5 million of 2000C Series Revenue Bonds. The bonds mature in 2002 – 2031 and carry interest rates ranging from 4.375% to 5.75%.

On February 16, 2000, the Maine State Housing Authority issued $35 million in bonds, with interest rates ranging between 4.85% and 6.40%, maturing from 2012 - 2032. On January 18, 2000, they redeemed, at a premium, $17.4 million of bonds with interest rates between 7.30% and 7.80%, maturing between 2000 and 2022.

As a result of legislation, MELA members are conducting a study and will make recommendations to the issue of whether MELA should be moved under the auspices of FAME or whether other changes to the structure and governance of MELA should be made.



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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
June 30, 2000	5,528,795,711	7,491,075,545	1,962,279,834	73.8%	1,271,009,158	154.4%
June 30, 1999	4,881,389,092	7,053,934,465	2,172,545,373	69.2%	1,209,804,594	179.6%
June 30, 1998	4,325,864,097	6,706,620,152	2,380,756,055	64.5%	1,165,614,285	204.2%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2000	239,240,887	243,240,887	101.7%
1999	252,856,506	274,702,404	108.6%
1998	237,246,612	245,734,184	103.6%

Required Supplementary Information – Participating Local District Plan

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 2000	1,498,729,722	1,351,640,782	(147,088,940)	110.9%	244,163,272	-60.2%
June 30, 1999	1,354,840,239	1,278,819,201	(76,021,038)	105.9%	233,507,942	-32.6%
June 30, 1998	1,066,810,947	1,147,652,930	80,841,983	93.0%	223,525,533	36.2%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Annual Contribution	Percentage Contributed
2000	15,020,203	15,020,203	100.0%
1999	24,991,863	24,991,863	100.0%
1998	29,053,376	29,053,376	100.0%

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

Basis of Presentation

For financial statement reporting purposes, the information provided on the required supplementary information schedules includes amounts for employees of participating local districts as well as combined amounts for state employees, teachers, judicial and legislative employees.

Actuarial Assumptions and Methods:

The information in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation date, June 30, 2000, is as follows:

Funding Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll). Under this method the accrued liability and the present value of future normal costs are determined by summing the individual entry age results for each participant. The normal cost is then determined in aggregate by spreading the present value of future normal costs as a level percentage of expected future covered payroll. Entry age is defined as the first day service is credited under the plan.

Experience gains and losses, i.e., decreases or increases in liabilities when actual experience differs from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

Asset Valuation Method

For actuarial purposes, assets are valued by determining the total yield on the investments of the System using the full investment return (including capital gains), which is measured by the difference in the actuarial value of the assets at the beginning of the fiscal year and the market value of the assets at the end of the fiscal year. Prior year's unrecognized gains and losses are added to this amount to develop expected actuarial value. One third of the excess of the yield (using the full investment return) is added to the expected actuarial value to determine the actuarial valuation of assets.

Amortization

The unfunded actuarial liability is amortized on a level percentage of payroll over a legislatively-enacted 25 year closed period from June 30, 1998. In 2000, the amortization period was further reduced to 19 years.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2000 are as follows:

Investment Return – 8% per annum, compounded annually

Salary Increases – 5.5% to 9.5% per year (included inflation of 5.5%)

Mortality Rates – Active State employee members and active participating local entity members – UP 1994 Tables; Active teacher members – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local entity retirees – GAM 1971 Tables; Non-disabled teacher retirees – GAM 1971 Tables set back two years; All current recipients of disability benefits – 1964 Commissioners Disability Table; All disability benefit recipients who begin to receive benefits in 2000 and thereafter – RPA 1994 Table for pre-1995 Disabilities.

Post Retirement Benefit Increases – 4% per annum

Group Life Plan:

The Group Life Insurance Program administered by the System provides for a life insurance benefit for active members equal to a member's annual base compensation as defined by statute. Upon retirement, life insurance coverage in the amount of the member's average final compensation is provided with a reduction of 15% per year until the greater of 40% of the average final compensation or $2,500 is reached. To be covered in retirement, retirees must have participated in the Group Life Program for a minimum of ten years. Premiums are remitted to the System by the employer. The State pays a premium rate of $0.30 per $1,000 of coverage per month for state employees. Teachers and employees of participating local districts pay a premium rate of $0.22 and $0.46 per $1,000 of coverage per month, respectively, some or all of which may be deducted from employees' compensation as per individual agreements with employees. Assumptions used to determine the actuarial liability are the same as for the pension plan. At June 30, 2000 and 1999, the plan had the following actuarially determined liabilities:

	(In Millions)	
	2000	**1999**
Actuarial Liabilities:		
Active Members	$ 52.7	$ 47.4
Retired Members	30.5	33.5
Total	$ 83.2	$ 80.9

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the State of Maine, asof and for the year ended June 30, 2000, and have issued our qualified report thereon dated February 28, 2001. The report was qualified because of the following departures from generally accepted accounting principles: the financial statements did not include the General Fixed Assets Account Group; systems were not adequate to support amounts recorded in the Internal Service Fund for capital leases; and additional pension information disclosure was needed. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, and the Maine Health and Higher Education Facilities Authority were not audited in accordance with *Government Auditing Standards*.

Compliance

As part of obtaining reasonable assurance about whether the State of Maine's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to management of the State of Maine in a separate letter dated June 29, 2001.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Maine's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of Maine's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs as items 00-01 through 00-07.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 00-01, 00-02 and 00-04 to be material weaknesses. We also noted other matters involving the internal control over financial reporting which we have reported to management of the State of Maine in a separate letter dated June 29, 2001.

This report is intended solely for the information and use of management, the Legislature and federal awarding agencies and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

Gail M. Chase, CIA
State Auditor

February 28, 2001

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of the State of Maine with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2000. The State of Maine's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the State of Maine's management. Our responsibility is to express an opinion on the State of Maine's compliance based on our audit.

The State of Maine's general-purpose financial statements include the operations of the following component units: the Maine State Retirement System, the Maine Technical College System, the University of Maine System, the Maine Maritime Academy, the Finance Authority of Maine, the Maine State Housing Authority, the Maine Educational Loan Authority, the Loring Development Authority, the Maine Governmental Facilities Authority, the Maine Health and Higher Education Facilities Authority, the Maine Municipal Bond Bank and the Northern New England Passenger Rail Authority. The federal awards that these component units received are not included in the supplementary Schedule of Expenditures of Federal Awards for the year ended June 30, 2000. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State of Maine's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State of Maine's compliance with those requirements.

In our opinion, the State of Maine complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2000. However, the results of our auditing procedures also disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs as items 00-16, 00-17, 00-23, 00-24, 00-27, 00-33, 00-34, 00-37, 00-46, 00-55, 00-59, 00-60, 00-61, and 00-62.

Internal Control Over Compliance

The management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State of Maine's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

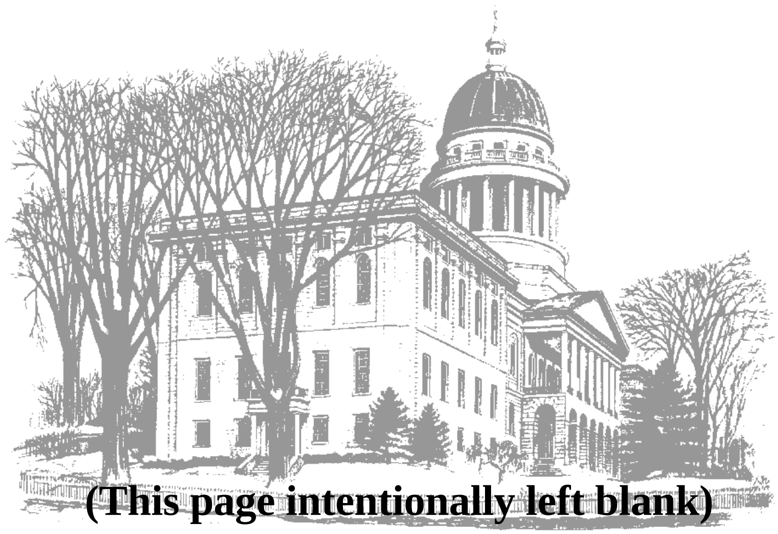
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the State of Maine's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 00-8 through 00-22, 00-25, 00-26, 00-28 through 00-33, 00-35 through 00-61, and 00-63.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider item 00-46 to be a material weakness.

This report is intended solely for the information and use of management, the Legislature and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gail M. Chase, CIA
State Auditor

June 29, 2001



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STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2000

Federal Department / Major Sub Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2000
U.S. Department of Agriculture				
Direct Federal Programs				
Animal & Plant Health Inspection Service	10.025	Plant & Animal Disease, Pest Control & Animal Care	Agricu ture	15,139
Animal & Plant Health Inspection Service	10.025	Plant & Animal Disease, Pest Control & Animal Care	Conservation	7,223
Agricultural Marketing Service	10.162	Inspection Grading & Standardization	Agricu ture	596,513
Food & Nutrition Service	10.550	Food Distribution Program (Commodities)	Education	2,517,275
Food & Nutrition Service	**10.557**	**Special Supplemental Nutrition Program for W.I.C.**	**Human Services**	**11,114,817**
Food & Nutrition Service	**10.558**	**Child Care & Adult Care Food Program**	**Human Services**	**9,512,811**
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Human Services	258,897
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Education	313,150
Food & Nutrition Service	10.564	Nutrition & Education Training Programs	Education	1,125
Food & Nutrition Service	10.570	Nutrition Program for the Elderly (Commod ties)	Human Services	600,690
Food & Nutrition Service	10.572	WIC Farmer's Market Nutrition Program (FMNP)	Human Services	163,472
Food & Nutrition Service	10.574	Team Nutrition Grants	Education	11,614
Forest Service	10.652	Forestry Research	Conservation	50,499
Forest Service	**10.664**	**Cooperative Forestry Assistance**	**Conservation**	**10,425,659**
Agriculture, Food Stamp Cluster				
Food & Nutrition Service	**10.551**	**Food Stamps**	**Human Services**	**83,047,850**
Food & Nutrition Service	**10.561**	**State Administrative Matching Grants for Food Stamp Program**	**Human Services**	**5,722,120**
Agriculture, Child Nutrition Cluster				
Food & Nutrition Service	**10.553**	**School Breakfast Program**	**Education**	**3,923,795**
Food & Nutrition Service	**10.555**	**National School Lunch Program**	**Education**	**19,030,278**
Food & Nutrition Service	**10.556**	**Special Milk Program for Children**	**Education**	**60,881**
Food & Nutrition Service	**10.559**	**Summer Food Service Program for Children**	**Education**	**904,095**
Agriculture, Emergency Food Assistance Cluster				
Food & Nutrition Service	10.568	Emergency Food Assistance Program (Administrative Costs)	Agricu ture	174,438
Food & Nutrition Services	10.569	Temp Emergency Food Asst Program (Commod ties)	Agricu ture	1,333,066
Non Cash Federal Programs				
Pass Through Federal Programs				
Food & Nutrition Service (through the State Dept. of Education)	**10.555**	**National School Lunch Program (NSLP)**	**Education**	**31,527**
Total U.S. Department of Agriculture Federal Programs				149,816,933
U.S. Department of Commerce				
Direct Federal Programs				
Economic Development Administration	11.302	Economic Development - Support for Planning Organizations	Economic Dev	86,028
National Oceanic & Atmospheric Administration	11.405	Anadromous Fish Conservation Act Program	Marine Resource	32,842
U.S. Fish & Wildlife Service	11.405	Anadromous Fish Conservation	Salmon Comm	191,469
National Oceanic & Atmospheric Administration	11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	142,900
National Oceanic & Atmospheric Administration	**11.419**	**Coastal Zone Management Administration Awards**	**State Planning**	**1,504,440**
National Oceanic & Atmospheric Administration	11.420	Coastal Zone Management Estuarine Research Reserves	Conservation	19,357
National Oceanic & Atmospheric Administration	11.427	Fisheries Dev & Utiliz R & D Grants & Coop Agreements	Marine Resource	14,241
National Oceanic & Atmospheric Administration	11.452	Unallied Industry Projects	Marine Resource	16,249
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Environment	1,545
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Salmon Comm	270,611
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Marine Resource	56,572
National Oceanic & Atmospheric Administration	11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	129,875
Public Works and Economic Development				
Economic Development Administration	11.307	Economic Adjustment Assistance	Marine Resource	896,502
Pass Through Federal Programs				
National Oceanic & Atmospheric Administration (through the State Planning Office)	**11.419**	**Coastal Zone Management Administration Awards**	**Marine Resources**	**182,694**
National Oceanic & Atmospheric Administration	**11.419**	**Implementation of Maine**	**Environment**	**567,103**
Total U.S. Department of Commerce Federal Programs				4,112,427
U.S. Department of Defense				
Direct Federal Programs				
Office of the Chief Engineers	12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment	539,278
Office of the Chief of Naval Research	12.300	Basic & Applied Scientific Research	Conservation	11,084
National Guard Bureau	12.400	Military Construction - National Guard	Defense	14,857
National Guard Bureau	**12.401**	**National Guard Military Operations & Maintenance Projects**	**Defense**	**6,470,664**
National Guard Bureau	12.999	National Guard Military Operations & Maintenance Projects	Defense	243,976
National Guard Bureau	12.999	Loring Rebuild Fac lity	Defense	9,920,288
Total U.S. Department of Defense Federal Programs				17,200,147

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2000

Federal Department / Major Sub Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2000
U.S. Department of Housing & Urban Development				
Direct Federal Programs				
Community Planning & Development	**14.228**	**Community Development Block Grants / State's Program**	**Economic Dev**	**37,848,050**
Community Planning & Development	14.235	Supportive Housing Program	Mental Health	462,401
Community Planning & Development	14.238	Shelter Plus Care	Mental Health	1,184,105
Total U.S. Department of Housing & Urban Development Federal Programs				39,494,556
U.S. Department of the Interior				
Direct Federal Programs				
U.S. Fish & Wildlife Service	15.612	Rare & Endangered Species Conservation	Inland Fisheries	52,410
U.S. Fish & Wildlife Service	15.615	Cooperative Endangered Species Conservation Fund	Conservation	7,713
U.S. Fish & Wildlife Service	15.623	North American Wetlands Conservation Act	Inland Fisheries	500,817
Geological Survey	15.808	Geological Survey - Research & Data Acquisition	Conservation	43,057
Geological Survey	15.808	Geological Survey - Research & Data Acquisition	Marine Resource	60
National Park Service	15.904	Historic Preservation Fund - Grants in Aid	Historic Preserve	390,807
National Park Service	15.916	Outdoor Recreation Acquisition, Development, & Planning	Conservation	156
National Park Service	15.925	National Maritime Heritage Grants	Historic Preserve	81,100
U.S. Fish & Wildlife Service	15.999	Study of American Woodcock	Inland Fisheries	503
U.S. Fish & Wildlife Service	15.999		Salmon Comm	518,203
U.S. Fish & Wildlife Service	15.999	Wood Turtle Grant	Inland Fisheries	51,497
Fish and Wildlife Cluster				
U.S. Fish & Wildlife Service	**15.605**	**Sportfish Restoration**	**Marine Resource**	**359,306**
U.S. Fish & Wildlife Service	**15.605**	**Sportfish Restoration**	**Inland Fisheries**	**1,796,256**
U.S. Fish & Wildlife Service	**15.611**	**Wildlife Restoration**	**Inland Fisheries**	**2,233,541**
Pass Through Federal Programs				
U.S. Fish & Wildlife Service (through the State Planning Office)	15.616	Clean Vessel Act	Environment	49,142
Total U.S. Department of the Interior Federal Programs				6 084 568
U.S. Department of Justice				
Direct Federal Programs				
Drug Enforcement Administration	16.005	Public Education on Drug Abuse - Information	Public Safety	90,238
Office of Justice Programs	16.007	State Domestic Preparedness Equipment Support Program	Public Safety	2,426
Office of Justice Programs	16.510	Bureau of Justice Statistics, Maine Statistical Analysis Center	Corrections	106,949
Office of Juvenile Justice & Delinquency Prevention	**16.523**	**Juvenile Accountability Incentive Block Grants**	**Corrections**	**1,203,609**
Office of Juvenile Justice & Delinquency Prevention	16.541	Juvenile Justice & Delinquency Prevention Special Emphasis	Corrections	912,367
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Corrections	28,965
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Public Safety	71,873
National Institute of Justice	16.560	Justice Research, Dev. & Eval. Project Grants	Public Safety	53,599
Bureau of Justice Assistance	16.575	Crime Victim Assistance	Human Services	2,284,799
Bureau of Justice Assistance	16.576	Crime Victim Compensation	Attorney General	25,897
Bureau of Justice Assistance	**16.579**	**Byrne Formula Grant Program**	**Public Safety**	**1,721,126**
Bureau of Justice Assistance	**16.579**	**Byrne Formula Grant Program**	**Judicial**	**29,453**
Corrections Program Office	**16.586**	**Violent Offender Incarc & Truth in Sentencing Incentive Grants**	**Corrections**	**6,843,598**
Bureau of Justice Assistance	16.588	Violence Against Women - Formula Grants	Public Safety	587,560
Office of Justice Programs	16.589	Rural Domestic Violence & Ch ld Victim Enf. Grant Program	Human Services	156,149
Bureau of Justice Assistance	16.592	Local Law Enforcement Block Grants Program	Public Safety	236,680
Office of Justice Programs	16.598	State Identification Systems Grant Program	Public Safety	41,956
Bureau of Justice assistance	16.606	State Criminal Alien Assistance Program	Corrections	93,956
Office of Juvenile Justice & Delinquency Prevention	16.727	Enforcing Underage Drinking Laws Program	Mental Health	257,153
US Customs	16.999	Solid Waste Disposal Act	Public Safety	10,960
New England State Police	16.999	Non-Point Source	Public Safety	500
Pass Through Federal Programs				
Office of Juvenile Justice & Delinquency Prevention (through the State Dept. of Conservation)	**16.523**	**Juvenile Accountability Incentive Block Grants**	**Judicial**	**345,576**
Office of Juvenile Justice & Delinquency Prevention (through the State Planning Office)	16.541	Juvenile Justice & Delinquency Prevention Special Emphasis	Corrections	16,721
Office of Justice Programs (through the State Dept. of Public Safety)	16.554	National Criminal History Improvement Program (NCHIP)	Judicial	63,447
Office of Justice Programs (through the State Dept. of Public Safety)	**16.579**	**Byrne Formula Grant Program**	**Attorney General**	**615,605**
Office of Justice Programs (through the State Dept. of Public Safety)	**16.579**	**Byrne Formula Grant Program**	**Corrections**	**531,090**
Office of Justice Programs (through the State Dept. of Corrections)	**16.579**	**Byrne Formula Grant Program**	**Mental Health**	**8,790**
Office of Justice Programs (through the State Dept. of Public Safety)	**16.579**	**Byrne Formula Grant Program**	**Judicial**	**137**
Office of Justice Programs (through Cumberland County, Maine)	**16.585**	**Drug Court Discretionary Program**	**Attorney General**	**7,459**
Office of Justice Programs (through the State Dept. of Public Safety)	**16.588**	**Violence Against Women Formula Grant**	**Attorney General**	**312,799**
Office of Justice Programs (through the State Dept. of Corrections)	**16.593**	**Residential Substance Abuse Treatment for State Prisoners**	**Corrections**	**310,652**
Total U.S. Department of Justice Federal Programs				16,972,088

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2000

Federal Department Major Sub Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2000
U.S. Department of Labor				
Direct Federal Programs				
Bureau of Labor Statistics	17.002	Labor Force Statistics	Labor	948,692
Bureau of Labor Statistics	17.005	Compensation & Working Conditions Data	Labor	40,786
Employment & Training Administration	17.202	Cert of Foreign Workers for Temp Agri Employment	Labor	412,876
Employment & Training Administration	**17.225**	**Unemployment Insurance**	**Labor**	**90,962,453**
Employment & Training Administration	17.235	Senior Community Service Employment Program	Human Services	518,153
Employment & Training Administration	17.245	Trade Adjustment Assistance Workers	Labor	4,491,261
Employment & Training Administration	17.249	Employment Services & Job Training - Pilot Programs	Education	255,000
Employment & Training Administration	**17.253**	**Welfare to Work Grants to States & Localities**	**Labor**	**1,814,916**
Occupational Safety & Health Administration	17.504	Consultation Agreements	Labor	373,653
Mine Health & Safety Administration	17.600	Mine Hea th & Safety Grants	Labor	17,468
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.802	Veterans Employment Program	Labor	624,980
Office of the Asst Sec for Veterans' Emplmnt & Trng	17.999	Nat'l Occupational Information Coorinator Committee	Labor	93,515
Employment Services Cluster				
Employment & Training Administration	**17.207**	**Employment Services**	**Labor**	**7,211,689**
Office of the Asst Sec for Veterans' Emplmnt & Trng	**17.801**	**Disabled Veterans Outreach Program**	**Labor**	**464,092**
Office of the Asst Sec for Veterans' Emplmnt & Trng	**17.804**	**Local Veterans Employment Representative Programs**	**Labor**	**493,001**
JTPA Cluster				
Employment & Training Administration	17.246	Employment & Training Assistance Dislocated Workers	Labor	6,031,161
Employment & Training Administration	17.250	Job Training Partnership Act	Labor	7,976,630
Pass Through Federal Programs				
Employment & Training Administration (through the State Dept. of Education)	17.249	Employment Services & Job Training Pilots Demonstrations & Research	Corrections	125,622
Employment & Training Administration (through the State Dept. of Education)	17.249	Employment Services & Job Training Pilots Demonstrations & Research	Labor	81,726
Total U.S. Department of Labor Federal Programs				122,937,674
U.S. Department of Transportation				
Direct Federal Programs				
United States Coast Guard	20.005	Boating Safety Financial Assistance	Inland Fisheries	435,871
Federal Aviation Administration	20.106	Airport Improvement Program	Transportation	9,947
Federal Highway Administration	20.218	National Motor Carrier Safety	Public Safety	224,712
Federal Highway Administration	20.219	Recreational Tra ls Program	Conservation	333,899
Federal Trans t Administration	20.505	Federal Transit - Metropo itan Planning Grants	Transportation	182,287
Federal Transit Administration	**20.509**	**Formula Grants for Other Than Urbanized Areas**	**Transportation**	**1,789,353**
Federal Trans t Administration	20.513	CAP Assistance Program for Elderly Persons & Disabled Persons	Transportation	421,121
Federal Trans t Administration	20.514	Transit Planning & Research	Transportation	111,401
National Highway Traffic Safety Administration	20.999		Transportation	1,106
Highway Planning and Construction Cluster				
Federal Highway Administration	**20.205**	**Highway Planning & Construction**	**Transportation**	**137,289,420**
Federal Transit Cluster				
Federal Trans t Administration	20.500	Federal Transit - Capital Investment Grants	Transportation	418,483
Federal Trans t Administration	20.507	Federal Transit - Formula Grants	Transportation	1,121,572
Highway Safety Cluster				
National Highway Traffic Safety Administration	20.600	State & Commun ty Highway Safety	Public Safety	1,177,279
National Highway Traffic Safety Administration	20.600	State & Commun ty Highway Safety	Human Services	13,730
Pass Through Federal Programs				
(through the State Dept. of Transportation) Federal Motor Carrier Safety Administration	20.218	National Motor Carrier Safety	Financial Serv	76,919
(through the State Dept. of Transportation) National Highway Traffic Safety Administration (thru Pub ic Safety)	20.600	State & Commun ty Highway Safety	Human Services	88,474
Total U.S. Department of Transportation Federal Programs				143,695,573
Equal Employment Opportunity Commissior				
Direct Federal Programs				
Equal Employment Opportunity Commission	30.002	Empl Discr - St & Loc - Fair Empl Pract Agcy Contracts	Human Rights	222,627
Total Equal Employment Opportunity Commission Federal Programs				222,627
General Service Administration				
Direct Federal Programs				
Office of the Secretary	39.003	Donation of Federal Surplus Property	Financial Serv	1,472,322
Total General Service Administration Federal Programs				1,472,322

See accompanying notes to the Schedule of Expenditures of Federal Awards

Federal Department / Major Sub Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2000
National Foundation on the Arts & the Humanities				
Direct Federal Programs				
National Endowment for the Arts	45.025	Promotion of the Arts - Partnership Agreements	Arts Commission	629,677
National Endowment for the Arts	45.026	Promotion of the Arts - Leadership Initiatives	Arts Commission	19,000
National Endowment for the Humanities	45.149	Promotion of the Humanities Division of Preservation & Access	State Museum	41,775
National Endowment for the Humanities	45.149	Promotion of the Humanities Division of Preservation & Access	State L brary	59,682
National Endowment for the Humanities	45.164	Promotion of the Humanities Public Programs	State Museum	37,732
Inst tute of Museum & Library Services	45.301	Institute of Museum & Library Services	State Museum	43,235
Total National Foundation on the Arts & the Humanities Federal Programs				831 102
U.S. Department of Veterans Affairs				
Direct Federal Programs				
Veterans Benefit Administration	64.101	Burial Expenses A lowance for Veterans	Defense	454,902
Total U.S. Department of Veterans Affairs Federal Programs				454 902
U.S. Environmental Protection Agency				
Direct Federal Programs				
Office of Air & Radiation	66.032	State Indoor Radon Grants	Human Services	117,073
Office of Water	66.419	Water Pollution Control State/Interstate Program Support	Human Services	391
Office of Water	66.420	Water Pollution Control-State & Local Manpower Development	Environment	34,527
Office of Water	66.432	State Public Water System Supervision	Human Services	632,526
Office of Water	66.433	State Underground Water Source Protection	Environment	969
Office of Water	66.454	Water Qual ty Management Planning	Environment	97,908
Office of Water	66.460	Nonpoint Source Implementation Grants	Environment	107,135
Office of Water	66.461	Wetlands Grants	Agricu ture	4,495
Office of Water	66.461	Wetlands Grants	Environment	5,894
Office of Water	66.461	Wetlands Grants	State Planning	118,768
Office of Water	66.463	Water Qua ity Cooperative Agreements	Environment	107,718
Office of Ground Water & Drinking	66.468	Capitalization Grants For Drinking Water State Revolving Fund	Conservation	13,475
Office of Research & Development	66.501	Air Pollution Control Research	State Planning	18,275
Office of Administration	66.605	Performance Partnership Grants	Environment	4,784,913
Office of Administration	66.605	Performance Partnership Grants	Agricu ture	309,169
Office of Administration	66.606	Surveys, Studies, Investigations & Special Purpose Grants	Environment	460,374
Office of Prevention, Pesticides, Toxic Substances	66.707	TSCA Title IV State Lead Grants Cert of Lead Based Paint Professionals	Environment	11,224
Office of Enforcement & Compliance Assurance	66.708	Po lution Prevention Grants Program	Environment	692
Office of Solid Waste & Emergency Response	66.802	Superfund State S te-Specific Cooperative Agreements	Environment	283,336
Office of Solid Waste & Emergency Response	66.804	State and Tribal Underground Storage Tanks Program	Environment	2,152
Office of Solid Waste & Emergency Response	66.805	Leaking Underground Storage Tank Trust Fund Program	Environment	690,870
Office of Solid Waste & Emergency Response	66.809	Superfund State Core Program Cooperative Agreements	Environment	285,449
Office of Solid Waste & Emergency Response	66.811	Brownfield P lots Cooperative Agreements	State Planning	1,701
Office of Administration	66.999	EPA Home Town Grant	State Planning	224
Office of Administration	66.999	EPA	Environment	7,308
Office of Administration	66.999	EPA	Environment	545,560
Pass Through Federal Programs				
Office of Administration (through the State Dept. of Environmental Protection)	66.606	Surveys, Studies, Investigations & Special Purpose Grants	State Planning	84,487
Office of Administration (through the State Dept. of Environmental Protection)	66.999	Non-Point Source	Agricu ture	27,802
Total U.S. Environmental Protection Agency Federal Programs				8,754,415
Nuclear Regulatory Commission				
Direct Federal Programs				
Nuclear Regulatory Commission	77.001	Radiation Control-Training Assistance & Advis Counseling	Human Services	11,874
Total Nuclear Regulatory Commission Federal Programs				11,874
U.S. Department of Energy				
Direct Federal Programs				
Energy Information Administration	81.039	National Energy Information Center	State Planning	2,804
Office of Energy Efficiency & Renewable Energy	81.041	State Energy Program	State Planning	11
Office of Energy Efficiency & Renewable Energy	81.041	State Energy Program	Economic Dev	531,795
Total U.S. Department of Energy Federal Programs				534 610

Federal Department Major Sub Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2000
Federal Emergency Management Agency				
Direct Federal Programs				
Emergency Management Institute, Preparedness, Training & Exercises Directorate	83.011	Hazardous Materials Training Program for Implem of SARA (1986)	Defense	13,593
M tigation Directorate	83.105	Community Assistance Program State Support Services Element (CAP-SSSE)	State Planning	156,642
Federal Emergency Management Agency	83.505	State Disaster Preparedness Grants	Defense	20,161
Federal Emergency Management Agency	83.534	Emergency Management - State & Local Assistance	Defense	551,982
Federal Emergency Management Agency	83.535	Mitigation assistance	Defense	106,398
M tigation Directorate	83.536	Flood Mitigation Assistance	Defense	102,595
Response & Recovery Directorate	**83.544**	**Public Assistance Grants**	**Defense**	**5,227,602**
M tigation Directorate	83.548	Hazard Mitigation Grant	Defense	2,660,664
M tigation Directorate	83.550	National Dam Safety Program	Defense	28,767
M tigation Directorate	83.551	Project Impact Building Disaster Resistant Communities	Defense	38,813
Office of Financial Management	83.552	Emergency Management Performance Grants	Defense	593,822
Federal Emergency Management Agency	83.999	Maine Emergency Management	Inland Fisheries	39,935
Federal Emergency Management Agency	83.999	FEMA - Ice Storm Account	State Planning	61,901
Pass Through Federal Programs				
Response & Recovery Directorate (through the State Dept. of Def. Vets & Emerg. Mgmt)	83.535	Mitigation assistance	Financal Serv	46,327
Federal Emergency Management Agency (through the State Dept. of Def. Vets & Emerg. Mgmt)	**83.544**	**Public Assistance Grants**	**Financial Serv**	**51,199**
Response & Recovery Directorate (through the State Dept. of Def. Vets & Emerg. Mgmt)	**83.544**	**Public Assistance Grants**	**Transportation**	**58,989**
Response & Recovery Directorate (through the State Dept. of Def. Vets & Emerg. Mgmt)	**83.544**	**Public Assistance Grants**	**Public Safety**	**41,534**
Federal Emergency Management Agency (through the State Dept. of Def. Vets & Emerg. Mgmt)	83.999		Corrections	1,915
Total Federal Emergency Management Agency Federal Programs				9,802,839
U.S. Department of Education				
Direct Federal Programs				
Office of Vocational & Adult Education	84.002	Adult Education - State Grant Program	Education	1,640,537
Office of Elementary & Secondary Education	84.010	Title I Grants to Local Educational Agencies	Education	31,109,905
Office of Elementary & Secondary Education	84.011	Migrant Education - Basic State Grant Program	Education	4,191,972
U.S. Department of Education	84.029	Special Education - Personnel Development & Parent Trng	Education	59
U.S. Department of Education	84.034	Public Library Services	State L brary	989,587
Office of Assistant Secretary for Vocational & Adult Education	**84.048**	**Vocational Education Basic Grants to States**	**Education**	**5,115,816**
Office of Vocational & Adult Education	84.051	National Vocational Education Research	State L brary	62,443
Office of Special Education & Rehabilitative Services	84.126	Rehabilitation Services Vocational Rehab litation Grants to States	Labor	14,641,617
Office of Special Education & Rehabilitative Services	84.161	Rehabilitation Services Client Assistance Program	Labor	111,025
Office of B lingual Education & Minority Languages Affairs	84.162	Immigrant Education	Education	96,062
Office of Asst. Sec. for Educational Research & Improvement	84.168	Eisenhower Professional Development Federal Activ ties	Education	637
Office of Special Education & Rehabilitative Services	84.169	Independent Living - State Grants	Labor	206,165
Office of Special Education & Rehabilitative Services	84.177	Independent Living Services for Older Individuals Who are Blind	Labor	163,230
Office of Special Education & Rehabilitative Services	84.181	Spec Educ Grants for Infants & Families w th Disabi ities	Education	1,833,374
Office of the Assistant Secretary for Postsecondary Education	84.185	Byrd Honors Scholarships	Education	172,500
Office of Elementary & Secondary Education	84.186	Safe & Drug Free Schools & Community - State Grants	Education	54,514
Office of Elementary & Secondary Education	84.186	Safe & Drug Free Schools & Community - State Grants	Substance Abuse	423,516
Office of Special Education & Rehabilitative Services	84.187	Supported Employment Services for Indiv. With Severe Disab	Labor	(31,075)
Office of B lingual Education & Minority Languages Affairs	84.194	B lingual Education Support Services	Education	91,062
Office of Elementary & Secondary Education	84.196	Education for Homeless Children & Youth	Education	163,863
Office of Elementary & Secondary Education	84.213	Even Start - State Educational Agencies	Education	620,547
Office of Special Education & Rehabilitative Services	84.224	Assistive Technology	Education	181,114
Office of Vocational & Adult Education	84.243	Tech-Prep Education	Education	486,501
Office of Special Education & Rehabilitative Services	84.263	Rehab Training - Experimental & Innovative Training	Labor	40,611
Office of Special Education & Rehabilitative Services	84.264	Rehab. Training-Continuing Education	Labor	44,045
Office of Elementary & Secondary Education	84.276	Goals 2000 - St & Loc Education Systemic Impr Grants	Education	1,906,597
U.S. Department of Education	84.278	Vocational Education - Cooperative Demonstration	Education	105,000
Office of Elementary & Secondary Education	84.281	Eisenhower Professional Development State Grants	Education	1,733,261
Office of Elementary & Secondary Education	84.298	Innovative Education Program Strategies	Education	1,838,095
Office of Elementary & Secondary Education	84.314	Even Start - Statewide Family Literacy Program	Education	107,033
Office of Elementary & Secondary Education	**84.318**	**Technology Literacy Challenge Fund Grants**	**Education**	**3,342,903**
Office of Elementary & Secondary Education	84.330	Advanced Placement Incentive Program	Education	7,500
Office of Vocational & Adult Education	84.331	Grants to States for Incarcerated Youth Offenders	Corrections	25,338
Office of Elementary & Secondary Education	84.332	Comprehensive School Reform Demonstration	Education	575,792
Office of the Asst Sec for Postsecondary Education, Higher Education Programs	84.334	Gaining Early Awareness & Readiness for Undergraduate Programs	Education	556,992
Office of Elementary & Secondary Education	84.338	Reading Excellence	Education	5,791
Office of Elementary & Secondary Education	**84.340**	**Class Size Reduction**	**Education**	**5,365,234**
U.S. Department of Education	84.999	Deed Grant	Environment	22,020
Special Education Cluster				
Office of Special Education & Rehabilitative Services	**84.027**	**Special Education Grants to States**	**Education**	**22,683,085**
Office of Special Education & Rehabilitative Services	**84.173**	**Special Education Preschool Grants**	**Education**	**2,136,894**
Pass Through Federal Programs				
Office of Vocational & Adult Education (through the State Dept. of Education)	84.002	Adult Education - State Grant Program	Corrections	38,292
Office of Vocational & Adult Education (through the State Dept. of Education)	84.002	Adult Education - State Grant Program	Mental Health	12,563
Office of Elementary & Secondary Education (through the State Dept. of Education)	84.010	Title I Grants to Local Educational Agencies	Education	173,159
Office of Elementary & Secondary Education (through the State Dept. of Education)	84.011	Migrant Education - Basic State Grant Program	Corrections	17,290
Office of Elementary & Secondary Education (through the State Dept. of Education)	84.013	Title I Program for Neglected & Delinquent Children	Corrections	142,935

Federal Department / Major Sub Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2000
U.S. Department of Education (Continued)				
Office of Special Education & Rehabilitative Services (through the State Dept. of Education)	**84.027**	**Special Education Grants to States**	**Corrections**	**45,672**
Office of Special Education & Rehabilitative Services (through the State Dept. of Education)	**84.027**	**Special Education Grants to States**	**Education**	**14,112**
Office of Assistant Secretary for Vocational & Adult Education (through the State Dept. of Education)	**84.048**	**Vocational Education Basic Grants to States**	**Corrections**	**33,831**
Office of Elementary & Secondary Education (through the State Dept. of Mental Health)	84.186	Safe & Drug Free Schools & Community - State Grants	Corrections	8,239
Office of Elementary & Secondary Education (through the State Dept. of Education)	84.186	Safe & Drug Free Schools & Community - State Grants	Substance Abuse	1,567,435
Office of Elementary & Secondary Education (through the State Dept. of Education)	84.276	Goals 2000 - St & Loc Education Systemic Impr Grants	Corrections	3,834
U.S. Department of Education (through the State Dept. of Education)	84.278	Career Opport 2000 - St wide School to Work Opportunities	Labor	41,527
Office of Elementary & Secondary Education (through the State Dept. of Education)	84.281	Eisenhower Professional Development State Grants	Corrections	2,422
Office of Elementary & Secondary Education (through the State Dept. of Education)	84.298	Innovative Education Program Strategies	Corrections	1,828
Office of Elementary & Secondary Education (through the State Dept. of Education)	84.298	Innovative Education Program Strategies	Education	2,694
Office of Elementary & Secondary Education (through the State Dept. of Education)	**84.318**	**Technology Literacy Challenge Fund Grants**	**Corrections**	**15,930**
Office of Elementary & Secondary Education (through the State Dept. of Education)	**84.318**	**Technology Literacy Challenge Fund Grants**	**Education**	**14,578**
Office of Elementary & Secondary Education (through the State Dept. of Education)	**84.340**	**Class Size Reduction**	**Corrections**	**22,205**
Office of Elementary & Secondary Education (through the State Dept. of Education)	**84.340**	**Class Size Reduction**	**Education**	**55,831**
Total U.S. Department of Education Federal Programs				105,035,538
National Archives & Records Administration				
National Archives & Records Administration				
National Archives & Records Administration	89.001	National Archives Reference Service Historical Research	Historical Records	27,869
Total National Archives & Records Administration				27,869
U.S. Department of Health & Human Services				
Direct Federal Programs				
Administration on Aging	93.041	Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services	19,154
Administration on Aging	93.042	Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman	Human Services	47,259
Administration on Aging	93.043	Spc Prg/Agng-Ttl III, Part F-Disease Prev & Hlth Prom Ser	Human Services	80,609
Administration on Aging	93.046	Spc Prg/Agng-Ttl III, Part D-In-Home Service for Frail Oldr Ind	Human Services	31,346
Administration on Aging	93.048	Spc Prg /Agng-Ttl IV,Trng, Res & Discreet Proj & Prog	Human Services	15,184
Substance Abuse & Mental Health Service Adm	93.104	Comp Comm. M. H. Svcs for Child w/Ser Emot Disturb	Mental Health	797,719
Hea th Resources & Services Adm	93.110	Maternal & Ch ld Hea th Federal Consolidated Programs	Human Services	599,261
Centers for Disease Control & Prevention	93.116	Proj Grants & Coop Agreements for Tuberculosis Cont Prog	Human Services	135,066
Substance Abuse & Mental Health Service Adm	93.125	Mental Health Planning & Demonstration Projects	Mental Health	219,240
Hea th Resources & Services Adm	93.130	Primary Care Serv-Res Coor & Dev Primary Care Off	Human Services	137,987
Centers for Disease Control & Prevention	93.136	Injury Prevention & Control Research-St & Com Based Progs	Human Services	129,329
Substance Abuse & Mental Health Service Adm	93.150	Projects for Assistance in Transition from Homelessness	Mental Health	381,515
Hea th Resources & Services Adm	93.165	Grants for State Loan Repayment	Human Services	183,930
Centers for Disease Control & Prevention	93.184	Disabi ities Prevention	Human Services	60,279
Substance Abuse & Mental Health Service Adm	93.194	Community Prevention Coalitions (Partnership) Demonstration Grant	Substance Abuse	4,811
Centers for Disease Control & Prevention	93.197	Childhood Lead Poisoning Prevention Projects	Human Services	313,313
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Dev. & Application Program	Mental Health	167,044
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Dev. & Application Program	Substance Abuse	288,364
Hea th Resources & Services Administration	93.235	Abstinence Education	Human Services	111,367
Substance Abuse & Mental Health Service Adm	93.238	Coop. Agreements for State Treatment Outcomes & Perf. Pilot Studies Enhance	Human Services	21,086
Office of the Secretary	93.239	Po icy Research & Evaluation Grants	Human Services	34,046
Office of the Administrator	93.241	State Rural Hospital Flex b lity Program	Human Services	124,379
Centers for Disease Control & Prevention	**93.268**	**Immunization Grants**	**Human Services**	**1,446,470**
National Institutes of Health	93.279	Drug Abuse Research Programs	Substance Abuse	122,901
Centers for Disease Control & Prevention	93.283	Centers for Disease Control & Prev-Inv & Tech Asst	Human Services	1,855,262
National Institutes of Health	93.393	Cancer Cause & Prevention Research	Human Services	283,275
National Institutes of Health	93.399	Cancer Control	Human Services	375
Administration for Children & Families	93.556	Promoting Safe & Stable Families	Human Services	170,399
Administration for Children & Families	93.558	Temporary Assistance for Needy Families	Human Services	59,490,381
Administration for Children & Families	93.563	Child Support Enforcement (CSE)	Human Services	12,941,140
Administration for Children & Families	93.566	Refugee & Entrant Asst - State Administered Prog	Human Services	532,777
Administration for Children & Families	93.569	Community Services Block Grant	Human Services	2,634,877
Administration for Children & Families	93.576	Refugee & Entrant Assistance - Discretionary Grants	Education	56,360
Administration for Children & Families	93.576	Refugee & Entrant Assistance - Discretionary Grants	Human Services	118,870
Administration for Children & Families	93.586	State Court Improvement Program	Off of the Courts	102,251
Administration for Children & Families	93.597	Grants to State for Access & Vis tation Programs	Human Services	95,502
Administration for Children & Families	93.600	Head Start	Human Services	233,417
Administration for Children & Families	93.601	Child Support Enforcement Demonstrations & Special Projects	Human Services	78,798
Administration for Children & Families	93.603	Adoption Incentive Payments	Human Services	88,004
Administration for Children & Families	93.630	Development Disabi ities Basic Supp & Advocacy Grants	Mental Health	411,793
Administration for Children & Families	93.643	Children's Justice Grants to States	Human Services	88,787
Administration for Children & Families	93.645	Child Welfare Services State Grants	Human Services	1,354,666
Administration for Children & Families	93.658	Foster Care-Title IV-E	Human Services	31,553,531
Administration for Children & Families	93.659	Adoption Assistance	Human Services	5,882,874
Administration for Children & Families	**93.667**	**Social Services Block Grant**	**Human Services**	**10,878,933**
Administration for Children & Families	93.669	Child Abuse & Neglect State Grants	Human Services	89,304

See accompanying notes to the Schedule of Expenditures of Federal Awards

Federal Department Major Sub Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2000
U.S. Department of Health & Human Services (Continued)				
Administration for Children & Families	93.671	Family Violence Prev & Service Grants to St & Indian Tribes	Human Services	350,198
Administration for Children & Families	93.674	Independent Living	Human Services	593,076
Health Care Financing Administration	**93.767**	**State Children's Insurance Program**	**Human Services**	**3,262,538**
Hea th Care Financing Administration	93.779	Health Care Financing Resch, Demo & Evaluations	Human Services	153,567
Hea th Resources & Services Adm	93.913	Grants to States for Operation of Offices of Rural Health	Human Services	193,784
Hea th Resources & Services Adm	93.917	HIV Care Formula Grants	Human Services	1,726,009
Centers for Disease Control & Prevention	93.919	Coop Agrmt/St-Based Comp Brst & Cerv Cancer Cont Prog	Human Services	1,741,759
Centers for Disease Control & Prevention	93.938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp H th Prb	Education	758,594
Centers for Disease Control & Prevention	93.940	HIV Prevention Activities - Hea th Department Based	Human Services	1,147,750
Centers for Disease Control & Prevention	93.944	HIV/AIDS Surveillance	Human Services	114,606
Hea th Resources & Services Adm	93.951	Demo Grts to St with Respect to Alzheimer's Disease	Human Services	322,510
Substance Abuse & Mental Health Service Adm	93.958	Block Grants for Commun ty Mental Health Services	Mental Health	1,326,372
Substance Abuse & Mental Health Service Adm	**93.959**	**Block Grants for Prevention & Treatment of Substance Abuse**	**Substance Abuse**	**6,153,398**
Hea th Resources & Services Adm	93.969	Grants for Geriatric Education Centers	Human Services	483,165
Centers for Disease Control & Prevention	93.977	Preve Health Sexually-Sexually Transmitted Diseases Cont Grt	Human Services	300,308
Centers for Disease Control & Prevention	93.988	Coop Agrmnt for St Based Diabetes Control Programs	Human Services	285,395
Centers for Disease Control & Prevention	93.990	National Health Promotion	Human Services	167,040
Centers for Disease Control & Prevention	93.991	Preventive Health & Health Services Block Grant	Human Services	1,436,910
Centers for Disease Control & Prevention	93.991	Preventive Health & Health Services Block Grant	Education	30,000
Hea th Resources & Services Adm	93.994	Maternal & Child Health Services Block Grant to States	Human Services	3,212,570
Hea th Resources & Services Adm	93.994	Maternal & Child Health Services Block Grant to States	Education	121,010
Hea th & Human Services	93.999	MIS Implementation of Uniform Alcohol & Drug Abuse Data Collection System	Substance Abuse	24,477
Hea th & Human Services	93.999	State Demands & Needs Assessment Studies Alcohol & Other Drugs	Substance Abuse	234,942
Hea th & Human Services	93.999		Environment	14,143
Aging Cluster				
Administration on Aging	**93.044**	**Spc Prg/Agng Ttl III, Part B Grnt for Supt Service & Sen Ctrs**	**Human Services**	**1,750,057**
Administration on Aging	**93.045**	**Spc Prg/Agng Ttl III, Part C Nutrition Services**	**Human Services**	**2,318,867**
Child Care Cluster				
Administration for Children & Families	**93.575**	**Child Care & Development Block Grant**	**Human Services**	**12,654,328**
Administration for Children & Families	**93.596**	**Child Care Mandatory & Matching Funds of Child Care/Dev**	**Human Services**	**6,755,564**
Medicaid Cluster				
Health Care Financing Administration (HCFA)	**93.777**	**St Survey & Cert of Health Care Providers & Suppliers**	**Human Services**	**2,508,010**
Health Care Financing Administration (HCFA)	**93.778**	**Medical Assistance Program (Medicaid)**	**Human Services**	**833,261,626**
Pass Through Federal Programs				
Centers for Disease Control (through the State Dept. of Human Services)	**93.268**	**Immunization Grants**	**Human Services**	**3,451,815**
Administration on Aging (through the State Dept. of Human Services)	**93.045**	**Special Programs for the Aging: Title III, Part C: Nutrition Service**	**Attorney General**	**53,062**
Administration for Children & Families (through the State Dept. of Human Services)	93.560	Family Support Payments to States Assistance Payments (AFDC)	Attorney General	141,291
Administration for Children & Families (through the State Dept. of Human Services)	93.563	Child Support Enforcement (CSE)	Attorney General	1,173,207
Administration for Children & Families (through the State Dept. of Human Services)	93.563	Child Support Enforcement (CSE)	Judicial	840,129
Administration for Children & Families (through the State Dept. of Human Services)	93.597	Grants to States for Access & Vis tation Programs	Judicial	56,722
Administration for Children & Families (through the State Dept. of Mental Health)	**93.959**	**Block Grants for Prevention & Treatment of Substance Abuse**	**Human Services**	**59,720**
Administration for Children & Families (through the State Dept. of Human Services)	**93.667**	**Social Services Block Grant (SSBG)**	**Mental Health**	**1,138,893**
Administration for Children & Families (through the State Dept. of Human Services)	**93.667**	**Social Services Block Grant (SSBG)**	**Attorney General**	**520,493**
Administration for Children & Families (through the State Dept. of Human Services)	93.669	Child Abuse & Neglect State Grants	Mental Health	47,233
Office of the Secretary (through the State Dept. of Public Safety)	**93.775**	**State Medicaid Fraud Control Units**	**Attorney General**	**240,995**
Health Care Financing Administration (HCFA) (through the State Dept. of Human Services)	**93.778**	**Medical Assistance Program (Medicaid)**	**Mental Health**	**462,695**
Centers for Disease Control & Prevention (through the State Dept. of Public Safety)	93.991	Preventive Health & Health Services Block Grant	Public Safety	167,394
Unknown (through the State Dept. of Corrections)	93.999	Tax & Match	Substance Abuse	(15,258)
Total U.S. Department of Health & Human Services Federal Programs				1,026,154,198
Corporation for National & Community Service				
Direct Federal Programs				
Corporation for National & Community Service	94.003	State Commissions	State Planning	183,015
Corporation for National & Community Service	94.004	Learn & Serve America School & Community Based Programs	Education	83,745
Corporation for National & Community Service	94.006	AmeriCorps	State Planning	818,588
Corporation for National & Community Service	94.007	Planning & Program Development Grants	State Planning	7,721
Corporation for National & Community Service	94.009	Training & Technical Assistance	State Planning	215,491
Corporation for National & Community Service	94.013	Volunteers in Service to America (VISTA)	State Planning	66,188
Corporation for National & Community Service	94.999	ADA	State Planning	17,202
Pass Through Federal Programs				
Corporation for National & Community Service (through the State Planning Office)	94.006	AmeriCorps	Labor	505,950
Corporation for National & Community Service (through the State Planning Office)	94.007	Planning & Program Development Grants	Human Services	101,574
Corporation for National & Community Service (through the State Planning Office)	94.013	Volunteers in Service to America (VISTA)	Corrections	23,009
Corporation for National & Community Service (through the State Planning Office)	94.013	Volunteers in Service to America (VISTA)	Human Services	110,184
Total Corporation for National & Community Service Federal Programs				2,132,667

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2000

Federal Department / **Major Sub Division**	**Federal Catalog Number**	**Program Title**	**State Agency**	**Expenditures 2000**
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security	96.001	Disabil ty Insurance	Human Services	5,919,055
Total Social Security Administration Federal Programs				5,919,055
Total				1,661,667,984

See accompanying notes to the Schedule of Expenditures of Federal Awards

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2000

1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's general-purpose financial statements (GPFS) and is presented for purposes of additional analysis. Total expenditures for each Federal financial assistance program as identified in the Catalog of Federal Domestic Assistance (CFDA) are shown. Federal financial assistance programs, which have not been assigned a CFDA number, have been identified using the two-digit federal agency number and the suffix *999*. Federal award amounts are aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards.

Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the State's general purpose financial statements (GPFS). The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2000, with the exception of the component units identified in Note 1 to the GPFS. The component units engaged other auditors.

B. *Basis of Presentation* – The information in the accompanying Schedule of Expenditures of Federal Awards is presented in accordance with OMB Circular A-133.

1) Federal Awards – Pursuant to the Single Audit Act Amendments of 1996 (Public Law 104-156) and OMB Circular A-133, federal award is defined as federal financial assistance and federal cost-reimbursement contracts that non-federal agencies receive directly or indirectly from federal agencies or pass-through entities. Federal financial assistance is defined as assistance that non-federal entities receive or administer in the form of grants, loans, loan guarantees, property, cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations and other assistance. Accordingly, non-monetary federal assistance, including food stamps and food commodities, is included in federal financial assistance and, therefore, is reported on the Schedule of Expenditures of Federal Awards. Federal financial assistance does not include direct federal cash assistance to individuals.

2) Type A and Type B Programs – The Single Audit Act Amendments of 1996 and OMB Circular A-133 established the levels of expenditures to be used in defining Type A and Type B federal financial assistance programs. Type A programs for the State of Maine are those programs that equal or exceed $4.9 million in expenditures, distributions, or issuances for the year ended June 30, 2000. Programs audited as major programs are in bold print in the accompanying schedule.

C. *Basis of Accounting* - The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the cash basis of accounting, which is consistent with the other Federal grant reports. The General Purpose Financial Statements are reported on the modified accrual basis of accounting. Consequently, the schedule's data may not be directly traceable to the financial statements.

3. Program Information

A. Department of Education - Food Distribution Program (CFDA 10.550): The reported total of federal financial assistance represents the value of food commodities distributed to various schools, institutions, and other qualifying entities. The value of inventory as of June 30, 2000 was $56,852.

B. Department of Human Services - Food Stamps (CFDA 10.551): The reported total of federal financial assistance represents the value of food coupons issued. The value of inventory as of June 30, 2000 was $19,892,358.

C. Department of Human Services - Nutrition Program for the Elderly (CFDA 10.570): The amount reported of $600,690 represents cash in lieu of commodities expended in the Elderly Feeding Program.

D. Department of Human Services – Childhood Immunization Grant (CFDA 93.268): The reported total of federal financial assistance represents $1,446,470 for administrative costs and $3,451,815 for the value of vaccines disbursed. The value of inventory as of June 30, 2000 was $1,006,705.

E. Department of Agriculture - Temporary Emergency Food Assistance - Food Commodities (CFDA 10.569): The value of inventory at June 30, 2000 was $589,214.

F. Department of Conservation - Federal Excess Personal Property (no CFDA number): During fiscal year 2000 the state received property with an original acquisition cost of $5.4 million from the U.S. Department of Agriculture. The title has not transferred to the state and the amount is not recorded on the Schedule of Expenditures of Federal Awards.

G. Department of Defense, Veterans and Emergency Management - National Guard Military Operations & Maintenance Projects (CFDA 12.401): The amount recorded as expenditures includes $5,869,085 of in-kind expenditures.

4. Unemployment Insurance Program

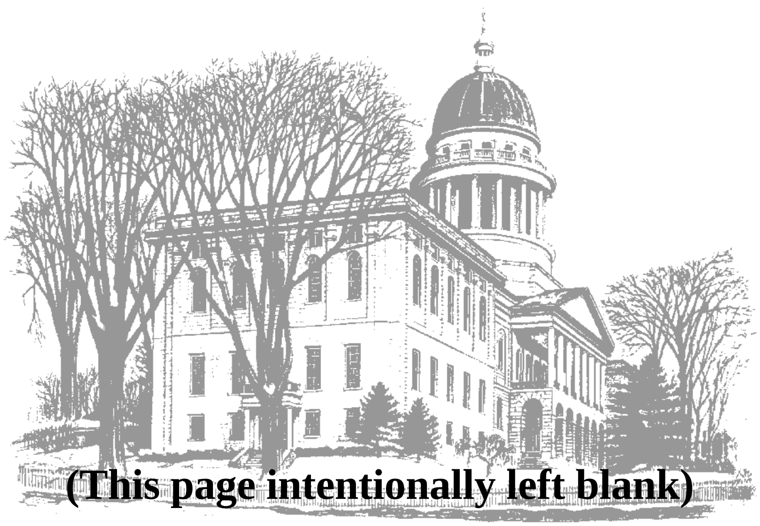
The expenditures reported on the Schedule for Unemployment Insurance, CFDA Program No. 17.225, include:

State Funds	$72,685,939
Federal Funds	18,276,514
Total	$90,962,453

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2000

Legend of State Agency Abbreviations

Abbreviation	State Agency Name
Agriculture	Department of Agriculture
Arts Commission	Maine Arts Commission
Attorney General	Department of the Attorney General
Conservation	Department of Conservation
Corrections	Department of Correction
Defense	Department of Defense, Veterans and Emergency Management
Economic Dev	Department of Economic and Community Development
Education	Department of Education
Environment	Department of Environmental Protection
Financial Serv	Department of Administrative and Financial Services
Health Data	Maine Health Data Organization
Historic Preserve	Maine Historic Preservation Commission
Historical Records	Maine Historical Records Advisory Council
Human Rights	Maine Human Rights Commission
Human Services	Department of Human Services
Inland Fisheries	Department of Inland Fisheries and Wildlife
Judicial Branch	Judicial Department
Labor	Department of Labor
Marine Resource	Department of Marine Resources
Mental Health	Department of Mental Health, Mental Retardation and Substance Abuse Services
Off of the Courts	Administrative Office of the Courts
Public Safety	Department of Public Safety
Salmon Comm	Atlantic Sea Run Salmon Commission
State	Department of the Secretary of State
State Library	Maine State Library
State Museum	Maine State Museum
State Planning	Executive Department - State Planning Office
Substance Abuse	Office of Substance Abuse
Transportation	Department of Transportation



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STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Qualified	
Internal control over financial reporting:		
✍ Material weaknesses identified?	YES ✍	NO ✍
✍ Reportable conditions identified that were not considered to be material weaknesses?	YES ✍	NO ✍
✍ Noncompliance material to financial statements noted?	YES ✍	NO ✍

Federal Awards:

Internal control over major programs:		
✍ Material weaknesses identified?	YES ✍	NO ✍
✍ Reportable conditions identified that were not considered to be material weaknesses?	YES ✍	NO ✍
Type of auditor's report issued on compliance for major programs:	Unqualified	
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	YES ✍	NO ✍

Identification of Major Programs:

CFDA #	**Name of Federal Program or Cluster**
Food Stamp Cluster	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children

Identification of Major Programs (continued):

Fish and Wildlife Cluster

15.605	Sport Fish Restoration
15.611	Wildlife Restoration

Employment Services Cluster

17.207	Employment Service
17.801	Disabled Veterans' Outreach Program
17.804	Local Veterans' Employment Representative Program

Special Education Cluster

84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants

Aging Cluster

93.044	Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services

Child Care Cluster

93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund

Medicaid Cluster

93.775	State Medicaid Fraud Control Units
93.777	State Survey and Certification of Health Care Providers and Suppliers
93.778	Medical Assistance Program (Medicaid, Title XIX)

Other Programs

10.557	Special Supplemental Nutrition Program for Women Infants and Children
10.558	Child and Adult Care Food Program
10.664	Cooperative Forestry Assistance
11.419	Coastal Zone Management Administration Awards
12.401	National Guard Military Operations Maintenance (O&M) Projects
14.228	Community Development Block Grants/State's Program
16.523	Juvenile Accountability Incentive Block Grants
16.579	Byrne Formula Grant Program
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants
17.225	Unemployment Insurance
17.253	Welfare-To-Work Grants to States and Localities
20.205	Highway Planning and Construction

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000

Identification of Major Programs (continued):

20.509	Formula Grants for Other Than Urbanized Areas
83.544	Public Assistance Grants (Disaster Assistance)
84.048	Vocational Education-Basic Grants to States
84.318	Technology Literacy Challenge Fund Grants
84.340	Class Size Reduction
93.268	Childhood Immunization Grants
93.667	Social Services Block Grant
93.767	State Children's Health Insurance Program
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between type A and type B programs **$4,985,003**

Does the auditee qualify as low risk? YES ✍ NO ✍

Summary of Questioned Costs:

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Justice				
? Department of Corrections	16.523	Juvenile Accountability Incentive Block Grant	$12,485	00-16
	16.586	Violent Offender Incarceration and Truth in Sentencing Incentive	$43,751	00-17
U.S. Department of Defense				
? Military Bureau	12.401	National Guard Military Operations and Maintenance Projects	$76,129	00-23
	12.401	National Guard Military Operations and Maintenance Projects	$56,213	00-24

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000

Summary of Questioned Costs (continued):

U.S. Department of Health and Human Services				
? Bureau of Child & Family Services	93.575 93.596	Child Care Development Block Grant	$85,783	00-33
	93.667	Social Services Block Grant	$24,455	00-34
? Bureau of Health	10.557	Special Supplemental Nutrition Program for Women, Infants, and Children	$50,855	00-37
? Department of Human Services, Division of Financial Services	Various	Various	$963,687	00-46
U.S. Department of Public Safety				
? Bureau of Highway Safety	16.579	Byrne Formula Grant Program	$34,421	00-55
U.S. Department of Transportation				
? Office of Passenger Transportation	20.509	Formula Grants for Other Than Urbanized Areas	$60,807	00-59
	20.509	Formula Grants for Other Than Urbanized Areas	$139,155	00-60
	20.509	Formula Grants for Other Than Urbanized Areas	$48,144	00-61
		Total Questioned Costs	**$1,595,885**	

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000

Section II - Financial Statement Findings

Department of Administrative and Financial Services

(00-01) Bureau of Accounts and Control

Finding: General Fixed Assets Account Group not presented (Prior Year Finding).

The financial statements of the State of Maine do not include the General Fixed Assets Account Group that is required to be presented by Generally Accepted Accounting Principles and by *Governmental Accounting and Financial Reporting Standards.* This omission results in a qualification of the audit opinion on the general purpose financial statements as of, and for the year ended, June 30, 2000.

Recommendation:

We recommend that the Bureau implement the procedures necessary to ensure that governmental funds fixed assets are properly reported on the State's financial statements.

Auditee Response/Corrective Action Plan:

The procedures are and have been available along with the automated AMS Fixed Asset module for several years. It is working well for virtually all agencies. Currently, there is just one agency with outstanding Fixed Assets. That agency has completed a review of all their parcels of land and simply must add these to the database. We expect the General Fixed Asset Group to be reported for FY01.

(00-02) Bureau of Accounts and Control
Division of Financial and Personnel Services
Bureau of General Services

Finding: Inadequate internal control over lease transactions identification, classification and reporting (Prior Year Finding)

Department of Administrative and Financial Services

The State of Maine did not identify, classify, and report lease transactions in accordance with the Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 13, *Accounting for Leases.*

The Division of Financial and Personnel Services and the Bureau of General Services are currently working on a project to evaluate the leases recorded in an Internal Service Fund. The Bureau of Accounts and Control requires each agency to report any significant leasing transactions.

Capital lease assets, the related accumulated depreciation and obligations under capital leases were recorded in the State's financial statements. We were unable to satisfy ourselves regarding these amounts. The required disclosures for capital and operating leases were not presented. The audit opinion on the general purpose financial statements as of, and for the year ended, June 30, 2000 was qualified for this reporting departure.

Recommendation:

We recommend that the State continue to refine its controls and review its procedures used to record and disclose capital and operating lease transactions.

Auditee Response/Corrective Action Plan:

During Fiscal Year 2000, the Division of Financial and Personnel Services worked with the Bureau of General Services in preparation for the implementation of Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 13, Accounting for Leases. Data was collected on all active leases. Each lease was analyzed to determine if it was capital in nature and entries were made to MFASIS to record the assets, outstanding lease obligations, and accumulated depreciation.

Through the course of the 2000 audit, it was determined that there were errors with the data collected by BGS, as well as the way it was interpreted. Based on recommendations made by the Department of Audit, the data collected was reexamined, eliminating the executory costs and cancelable portions of the leases for all computations. Adjustments were made to the accounting system to record the changes found during this analysis.

Upon further examination of the capital leases, Audit indicated that the Fair Market Values used during the analysis were incorrect. The Fair Market Values of the building and land in each lease should be as of the lease inception date. However, when the data was collected, it was not specified to ask for the Fair Market Value as of the inception date; therefore the data is as of June 2000. This error is being corrected. The Bureau of General Services is reexamining the leases and the Values are being researched and recorded as of the inception date.

Department of Administrative and Financial Services

As the data is collected, the Division of Financial and Personnel Services is analyzing the leases and calculating the necessary adjustments.

The work was completed on June 30, 2001, and the adjusting entries were completed during Period 13. The Department will be in compliance for FiscalYear2001.

(00-03) Bureau of Accounts and Control
Bureau of the Budget

Finding: Internal controls inadequate to ensure accurate budgetary reporting

Budgetary information presented and compiled by the Bureau of Accounts and Control and the Bureau of the Budget was significantly inaccurate due to data entry errors. On the Budget Management System (BMS), there was a $3,000,000 overstatement of General Fund allotment. On the financial warehouse, which is part of the State's accounting system, MFASIS, there was errors of $6,031,112 in the Federal Expenditures Fund and of $11,925,000 in the Federal Block Grant Fund in amounts reported as budgeted revenue and transfers. Because the Bureau of Accounts and Control relied on the incorrect MFASIS data, draft external budgetary financial reports were incorrect.

The allotment error on the BMS occurred because an allotment increase in the Capital Projects Fund was also recorded incorrectly in the General Fund. The Bureau of Accounts and Control corrected the double recording on the financial warehouse module of MFASIS, but the Bureau of the Budget did not correct the BMS. For financial reporting queries, budgeted expenditure information comes through the BMS module. Because this was not corrected, the draft financial statements were misstated by $3 million. Because the control to ensure that expenditures do not exceed budgeted allotment is incorporated into MFASIS, that control was in effect. However, the two systems were not in agreement.

The errors in budgeted revenues and transfers reported on MFASIS occurred because four separate financial orders were incorrectly entered into the Budget Management System by the Bureau of the Budget and by the Departments of Corrections and Human Services. The agencies entered incorrect accounts, entered only part of the financial order or did not input the approved and effective dates, which are required in order for interface to take place between two systems.

Recommendation:

To ensure accurate external financial reporting, we recommend that the Bureau of Accounts and Control and the Bureau of the Budget establish controls to ensure accurate and complete data entry. We further recommend that the controls include reconciliation of budgetary information between the two systems.

Department of Administrative and Financial Services

Auditee Response/Corrective Action Plan:

As the audit report clearly indicates, internal controls in the Bureau of Accounts & Control corrected the $3 million double entry. Although the MFASIS controls were unaffected, budgeted expenditures were overstated in the budget vs. actual financial statement.

The finding relating to four financial orders involving dedicated revenue would have impacted the budget amounts within individual categories in the financial statement but would not have affected the overall financial position. The Bureau of the Budget has taken steps to implement internal control procedures to minimize the likelihood of a similar occurrence. Additionally, the Bureau of Accounts and Control will reconcile the two systems prior to preparing the budget vs. actual statement in the future.

(00-04) Division of Financial and Personnel Services
Bureau of Alcoholic Beverages and Lottery Operations

Finding: Accurate financial reporting not ensured

As a result of the audit of the Alcoholic Beverage Fund and the State Lottery Fund, we found the following:

Alcoholic Beverage Fund

1. Cash-in-Transit – The balance for this account as of June 30, 2000 was overstated by $1,515,053. Controls were not in place to periodically compare the supporting account information to the balance recorded on the State's accounting system. We found that incorrect transaction account coding caused the overstatement.

2. Accounts Receivable – The balance for this account as of June 30, 2000 was understated by $1,055,639. Periodic comparison and reconciliation between the accounting system and supporting information was not performed; miscoded transactions had caused the understatement. A subsidiary report to show aged receivables indicated that the balance at year-end was inaccurate. Additionally, account receivables due from agents increased significantly ($1,033,108) from the previous year. According to 28A M.R.S.A § 352, an agency liquor store must pay for liquor purchases within 3 days of receipt or notification of an amount due. A review of the agent receivable balances revealed that invoices remained unpaid beyond this 3-day limit.

3. Accounts Payable – The Division of Financial and Personnel Services did not provide accurate supporting documentation for the account balance at June 30, 2000. Three reconciliations provided by the Division contained errors.

Department of Administrative and Financial Services

The final reconciliation revealed an undetermined variance of $170,000. We also found controls over vendor payables to be inadequate. The Bureau of Alcoholic Beverages and Lottery Operations (BABLO) relies on bailment reports generated by the Fore River Warehouse (a privately owned corporation) to pay for liquor purchased by State and agent liquor stores. BABLO personnel review these reports on an exception basis; there are no procedures to ensure the completeness or accuracy of the report.

This report is also used by vendors to create invoices. There are no procedures in place to ensure that controls at the warehouse are suitably designed, in place, and operating with sufficient effectiveness to provide reasonable assurance that the control objectives are achieved. Payments to liquor vendors for the year totaled approximately $44 million.

State Lottery Fund

1. Accounts Receivable / Sales – The Division of Financial and Personnel Services had insufficient procedures for reconciling accounts receivable to the financial statements. The account was found to be understated by $496,667. Accounts receivable consists of on-line, instant, and NSF receivables. The on-line year-end receivable balance was not reconciled to the appropriate service provider report. Audit procedures revealed that one week of sales ($694,688) had not been recorded; procedures were not in place to detect this oversight in the normal course of business. The instant receivable year-end balance was also not reconciled to the appropriate report, and additional reconciliations contained errors. Sales and receivables for the final 6 days of the year ($544,725) were not recorded in the State's accounting system.

2. Prize Reserve – The prize reserve was understated by $3,160,456 at June 30, 2000. The understatement was caused by:

   - formula errors in the worksheet
   - games removed from the reserve prematurely
   - active games were not included in the calculation
   - errors in manually entering information from the previous month
   - corruption of the database used to provide sales and prize expense information

All of the above misstatements were corrected through audit adjustments to the financial statements.

Department of Administrative and Financial Services

Recommendation:

We recommend that Division personnel develop and implement improved controls and procedures to ensure that account activity and balances are properly recorded, monitored and maintained. We also recommend that appropriate levels of review procedures be implemented to ensure that reconciliation variances are resolved in a timely manner.

Auditee Response/Corrective Action Plan:

Cash – In – Transit: *It is agreed that errors occurred in the Alcoholic Beverages Cash-In-Transit account and that adjustments were required for Fiscal Year 2000. A major portion of the issue cited by the Auditor results from coding credit card transactions to a balance sheet account other than Cash –In –Transit. The Cash –In –Transit account averages a flow through of over $76.0 million per year. The errors cited amount to a little less than 2% of the total activity for that account.*

Since the audit, better controls have been put in place, to ensure the correct coding of items that belong in Cash – In – Transit and to ensure the balance in the account is in reconciliation between the Tomax System detail and the General Ledger balance.

Accounts Receivable: *We agree with the finding. The understatement of Accounts Receivable is the other side of the Cash –In –Transit adjustment. We also agree that there were several agent invoices that exceeded the 3-day payment limit as required by Title 28 – A, Subsection 352, M.R.S.A.*

Since the audit, better controls have been put in place, to ensure the correct coding of items that belong in Accounts Receivable and to ensure the balance in the account is in reconciliation between the Tomax System detail and the General Ledger balance. We are also working with the Bureau of Alcoholic Beverages and Lottery Operations to ensure better compliance with Title 28 –A, Subsection 352, M.R.S.A.

Accounts Payable: *We are in agreement that we had $170,000 variance. The ending accounts payable entry is an estimate of the year end. Occasionally, in the year end process, as items are being scheduled for accrual estimates, they may be incorrectly reflected as a payable obligation when in fact they have been scheduled for payment or paid before year end. During the course of the audit, we made three attempts to create a more accurate payables schedule, but ended up with a final variance of $170,000. When put into perspective with the total accounts payable for Liquor Operations of about $53.8 million, this variance amounts to .316%. We believe that the Divisions' control over payables is adequate. We are examining procedures to increase our accuracy and ensure that better recording procedures are put in place to prevent a reoccurrence of this finding.*

Department of Administrative and Financial Services

We disagree that controls over vendor payables are inadequate. Our payment to liquor vendors for the year are in excess of $44 million, and are controlled by Liquor Operations and the Division of Financial and Personnel Services.

With regard to the warehouse operation, representatives from Fore River met with the Bureau of Alcoholic Beverages and the Audit Department to review their internal controls and warehouse security. Each time an order is submitted to the bailment warehouse and accepted for shipment, an electronic report is generated and sent to the Central Office Merchandising Unit.

The Merchandising Unit verifies the Warehouse Shipment Notice against the online receiving reports from stores, and manual receiving reports from agents. The resulting spreadsheet is sent to the Division of Financial and Personnel Services to be matched against vendor invoices for payment. Any discrepancy noted by Accounting is discussed with BABLO. Once shipped, the order can't be changed. If the order is different than the shipped amount or goods requested, we have an exception report that is researched. However, there is always the possibility that an order may be changed before shipment (say wrong item number). When the shipment arrives at its destination it is physically checked, discrepancies noted, and Central Office and the Division of Financial and Personnel Services notified.

The necessary controls are in place as each shipment is checked for accuracy at four separate locations during the Bailment process with all exceptions researched and approved by BABLO and Fore River before payment is made. Fore River also described in detail their security procedures in the warehouse. Therefore, we believe Fore River and the bailment process have adequate and effective controls in place regarding this process.

Accounts Receivable / Sales: *It is agreed that a week of Sales (and therefore Accounts Receivables) was missed in July 2000 amounting to an error of less than 1% of sales.*

? *The accrual process has been reviewed and an adjustment made.*

? *SGI is to send Sales and Prize Expense data electronically. This would eliminate the need for data entry of these figures off paper reports, which led to the missing Sales error.*

Prize Reserve: *We appreciate the discovery regarding the mistakes in the calculation of the Lottery Prize Reserve. That calculation error did cause an understatement in the Fiscal Year 2000 reserve, and an understatement of the Fiscal Year 2001 reserve. Adjustments for both prior year and current year have been calculated and recorded. An entirely new database and spreadsheet have been constructed to ensure the proper funding of the Reserve going forward.*

The Division has examined its accounting procedures and personnel assignments related to the two funds that comprise the Bureau of Alcoholic Beverages and Lottery Operations accounting. We have assigned new staff members where appropriate and have put better control procedures in place to prevent the repeat of these findings.

Department of Administrative and Financial Services

Auditor's Concluding Remarks:

Accounts payable

The year-end accrual is a process separate from the day-to-day payment of invoices. The errors discovered in the first reconciliation provided by Division personnel amounted to over 11% of the adjusted ending payable balance of $4.4 million and the final variance represents 3.8% of that same balance.

Controls over vendor payables

The resulting spreadsheet referred to in the auditee's response is, in fact, the bailment that is compiled by the warehouse. Warehouse personnel present at the meeting indicated that they do have the ability to change (alter, override, amend) the bailment report.

While it was interesting and informative to meet with representatives from the warehouse, we don't believe that the statements made regarding controls are sufficient to conclude that controls are in place and would compensate adequately for a lack of substantive verification of the information contained in the bailment report. If the controls at the warehouse are to be relied on, we would recommend that a SAS 70 Report be obtained on an annual basis. It should also be noted that vendors are using this same report (the bailment) to prepare the invoices, which are used to bill the state for liquor purchases.

Cash-in-transit and Accounts Receivable

The incorrect coding of cash-in transit and accounts receivable transactions had been noted in a prior year audit finding.

Account Receivable/Sales

In the response, the auditee has failed to address the flawed reconciliation process for both instant and on-line receivables as well as the failure to accrue sales for the final days of the year.

Prize Reserve

In the response the auditee has not addressed implementing procedures that would, in the future, prevent the problems found in this account. The misstatement found was the result of more than spreadsheet calculation errors, and would have resulted in a material misstatement of the State of Maine's financial statements, if not detected during the audit process. Games had been deleted prematurely, games were missing, and extensive data entry errors were found.

Department of Economic & Community Development

(00-05) Office of Community Development

<u>Finding</u>: Loans receivable balances not recorded on the State's financial statements

The Department of Economic and Community Development does not record in the State's accounting records the balances of loans receivable for a revolving loan fund that it administers. The Department did not have a record of amounts due at June 30, 2000. At December 31, 2000, loans receivable totaled approximately $6 million. Department personnel estimated that approximately $1 million of this amount might be uncollectable.

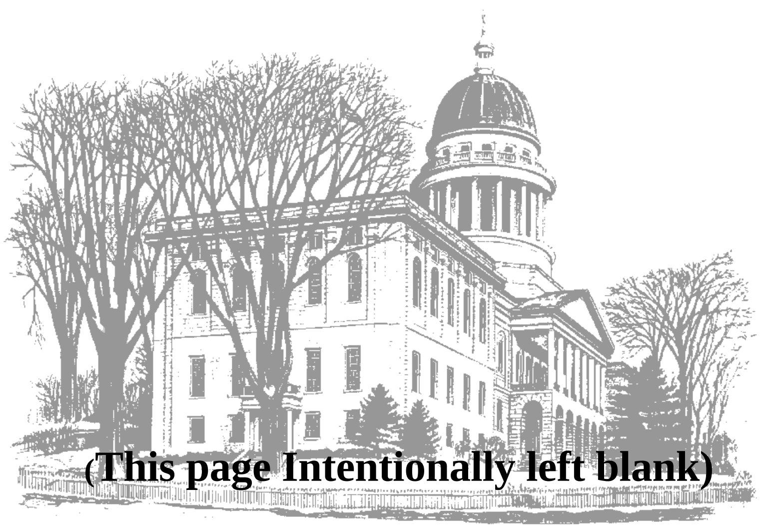
Financial records should reflect all transactions of, and amounts due to, the State. Failure to record them makes the assets more susceptible to loss or misappropriation and causes financial records to be incomplete and unreliable.

<u>Recommendation</u>:

We recommend that the Department determine the balance of loans receivable at June 30 each year, as well as an estimate for uncollectable amounts, and submit this information to the State Controller for appropriate presentation in the State's financial statements.

<u>Auditee Response/Corrective Action Plan</u>:

On or before August 31, 2001, the DECD will provide the Office of the State Controller the loans receivable outstanding as of June 30, 2001 as well as an estimate for balances potentially uncollectable and will continue this practice each year. The information for the period ending June 30, 2002 will be provided by July 31, 2002 and by July 31st for each period ending June 30th thereafter.



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Department of Human Services

(00-06) Bureau of Elder and Adult Services

<u>Finding</u>: Reported balance of assets held in trust not supported

The Bureau of Elder and Adult Services did not maintain adequate records to support amounts that were reported as being held in trust for clients. We noted deficiencies in two areas:

? The Bureau had reporting and control responsibility for 591 bank accounts held in trust. The reported aggregate balance for these accounts were $1.03 million. We reviewed 20 of the accounts and noted unreconciled discrepancies between reported balances and bank balances in all 20 cases. Incorrect valuation dates for the reported balances contributed to the discrepancies.

? The Bureau had similar responsibility for 31 parcels of real estate. The Bureau reported an aggregate valuation of $1.09 million for this property. Of the five parcels that we reviewed, two had reported valuations that were not supported by probate records.

<u>Recommendation</u>:

We recommend that the Bureau review and revise valuations of property held in its care. We recommend that balances of bank accounts held in trust be reported as of the balance sheet date.

<u>Auditee Response/Corrective Action Plan</u>:

? *To correct the noted discrepancies between reported balances and bank balances the Regional DROMBO staff will date and initial bank statements to show the current balance on accounts that have outstanding transactions.*

The Director of Regional OMB, Robert Nadeau has addressed this issue with the appropriate regional staff. This will assure all regional offices are in compliance with the recommendation.

? *The Department has implemented a more conservative approach to the valuation of real property. The tax-assessed value of the real property is reviewed and in most cases adjusted to accurately reflect the actual market value. The condition of the property is considered along with any past use that may have adversely affected the value of the property.*

Department of Human Services

(00-07) Bureau of Medical Services
Division of Financial Services

Finding: Duplicative and incorrect accounts receivable subsidiary records

The Department of Human Services maintains two General Fund accounts receivable subsidiary records: one is kept by the Bureau of Medical Services ($30.8 million) and the other by the Division of Financial Services ($29.7 million). The two are not reconciled and did not agree with the year-end balance on the State's official accounting records of $35.7 million.

In addition, the process used to annually evaluate amounts owed, estimate the necessary allowance account for uncollectable amounts, and to write off uncollectable accounts does not provide reasonable assurance that misstatements will be detected by management within a timely period in the normal course of business. Many amounts owed were not current. In response to our inquiry, the Bureau identified $9.5 million of the receivable balance as uncollectable. An audit adjustment was made to write off the uncollectable amounts.

Recommendation:

We recommend that the Bureau of Medical Services and the Division of Financial Services produce a single accounts receivable subsidiary record that accurately reflects the balance of all accounts, and that is reconciled monthly to the State's financial statements. We further recommend this record be used to monitor account balances.

Auditee Response/Corrective Action Plan:

There is a need for two sets of records one at the Bureau of Medical Services and another at OMB's Division of Financial Services because of the different processes involved. The main issue here is because of temporary staff turnover and shortages in both units, reconciliation was not done recently and the disparity between the two records was large. A meeting was held recently between the two units involved with the State Controller and Budget Office. The result of that meeting and a meeting with the Attorney General's Office resulted in a more aggressive approach to collect old receivables and bring down the outstanding balance. Also the disparity between both sets of records has been reconciled.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2000

Section III - Federal Award Findings and Questioned Costs

Department of Conservation

(00-08) Maine Forest Service

Cooperative Forestry Assistance
CFDA#: 10.664

U.S. Department of Agriculture
Federal Award Number: NA-98-0396
NA-99-0323
00-DG-11244225-047

Finding: Controls insufficient to ensure compliance with financial reporting requirements and documentation of financial reports

The Department of Conservation did not prepare a Financial Status Report (FS-269) for one of 27 awards expended during FY 2000, as required. This resulted in program award expenditures being under reported by $3 million. Grant regulations require that FS-269s be prepared for all grant awards on an annual basis. Also, the Department reported all funds as obligated, but could not substantiate the amount reported at year-end. The Department had interpreted obligated to mean planned expenditures and not actually committed. The Department provided a computer record dated December 2000, which reflected $3.9 million in obligated funds. Because of the interpretation of obligated funds, and the fact that the computer record was not run at the end of the fiscal year, we could not determine actual obligations at the end of the reporting period. In April 2001, the Department requested an additional 18 months to expend the funds.

Recommendation:

We recommend that the Department of Conservation develop procedures to ensure that a Financial Status Report is submitted annually for each grant award. In addition, all information on each FS-269 filed should be accurately reported and adequately supported.

Department of Conservation

Auditee Response/Corrective Action Plan:

Up to now it has been the common practice to wait to file the final FS 269 financial status report after the program report has been prepared. In the case of the referenced $3 million, the final report is not complete. The final SF269 now has been submitted and the final report should be completed by the Department of Transportation in a few weeks.

In addition, future SF269s will only reflect obligations for which adequate documentation can be readily available.

Contact person: Peter Beringer, Resource Administrator

(00-09) Maine Forest Service

Cooperative Forestry Assistance
CFDA#: 10.664

U.S. Department of Agriculture
Federal Award Number: Various

Finding: Inadequate controls over cash management

The Department of Conservation did not minimize the time between drawdown and disbursement of federal funds, as required by 31 CFR Part 205. Funds that are passed through to subrecipients are not disbursed immediately following check issuance. The Department obtains the checks from the State Treasurer so that they may be sent to the subrecipient with a cover letter explaining the nature of the payment. These letters, in most cases, were found to be dated three to five days later than the check date; however, in some instances, the letters were dated several weeks after check issuance. The sample of subrecipient files that were examined included documentation of several hundred thousand dollars that were sent out later than required.

Recommendation:

We recommend that the Department of Conservation change its procedures to minimize the time between drawdown and disbursement of federal funds.

Auditee Response/Corrective Action Plan:

At the Forest Service, there has been a long-standing procedure for processing the grant payments. For several of the grant programs, the checks are returned to the Department for mailing out with a cover letter. This has allowed us to have one final check to ensure the correct person is receiving the funds. Just in the last year we have had 5 events that may have been avoided if the check had been routed back through the program manager. While there currently is no Accounts & Control policy or procedure regarding the routing of checks back through agencies for distribution, we have implemented a policy that directs all grant payments to go directly to the recipient. Additionally for FY 2002 we are included in the CMIA, which should provide us with greater flexibility in the requesting cash and processing payments.

Contact person: Peter Beringer, Resource Administrator

(00-10) Maine Forest Service

Cooperative Forestry Assistance
CFDA#: 10.664

U.S. Department of Agriculture
Federal Award Number: NA-98-0396

Finding: No procedures to ensure that budget modifications are approved

The Department of Conservation did not obtain federal approval as required for changes in program objectives or budgets. According to 7 CFR §3016.30, prior approval is required for any changes to the scope of approved projects or when budget modifications in excess of ten percent of the program award are needed. Four of the five program awards included as Phase One Ice Storm did not have prior approval for over $2 million of budgetary revisions.

Recommendation:

We recommend that the Department of Conservation, Maine Forest Service establish procedures to ensure approval for programmatic and budgetary changes to the Phase One Ice Storm Grant.

Auditee Response/Corrective Action Plan:

MFS has not used the Consolidated grant payment since the early 90's. Consolidated Payment was used for the Ice Storm Recovery because it was promoted by the USDA Forest Service as providing the state with greater latitude.

Department of Conservation

MFS was unaware that it was necessary to request a waiver on the consolidated payment grant in order to have it be considered one grant. If a waiver had been requested, the budget variances would have been within the 10%. Because we did not have a waiver, the 10% is by sub program within the consolidated grant.

Future grants will not be consolidated grants and we will continue to monitor for variances in the budgeted expenditures.

MFS will contact USDA Forest Service to determine the amendments necessary to comply. A request for the waiver mentioned in 7 CFR 3016.30 has been requested.

Contact person: Peter Beringer, Resource Administrator

(00-11) Maine Forest Service

Cooperative Forestry Assistance
CFDA#: 10.664

U.S. Department of Agriculture
Federal Award Number: NA-99-0323
00-DG-11244225-047

Finding: Federal grant not properly accounted for and controls inadequate over electronic payments

The Department of Conservation directed the U. S. Forest Service to make a $3 million direct electronic payment to a third party without the knowledge or participation of the Office of the Treasurer, without recording the entry on the State's accounting records and without budgetary authority from the Legislature. The payment was for development rights to a specific parcel of land through the Forest Legacy program. The Department had the funds drawn down using an optional payment method available since 1998 in the Department of Health and Human Services Payment Management System.

Although the federal government encouraged the Department to use the direct payment method, its use resulted in unintentional Departmental noncompliance with State finance laws. Title 5 MRSA § 131 states:

> Every department or agency of the State, whether located at the Capitol or not, collecting or receiving public money… shall pay the same immediately into the State Treasury, without any deductions on account of salaries, fees, costs, charges, expenses, refunds, claims or demand of any description whatsoever.

Department of Conservation

> Title 5 MRSA § 1543 states, "No money shall be drawn from the state Treasury, except in accordance with appropriations duly authorized by law. Every disbursement from the State Treasury shall be upon the authorization of the State Controller and the Treasurer of State, as evidenced by their facsimile signatures . . ."

Because no entry was made to record the direct payment, the Department did not comply with Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* § .300 which states that the auditee shall "identify, in its accounts, all Federal awards received and expended and the Federal programs under they were received." Fiscal control and accounting procedures should be sufficient to permit preparation of required reports and to permit tracing of funds to a level of expenditures adequate to ensure that funds were not used in violation of applicable restrictions and prohibitions. The Department did not initially record the expenditure of these funds on the Schedule of Expenditure of Federal Awards (SEFA). After notification by the auditor of the omission, the Department submitted an amended SEFA to the State Controller.

Recommendation:

We recommend that the Department of Conservation record the receipt and disbursement of all federal grant funds on State accounting records. In addition, we recommend that the Department consult with the Offices of the State Treasurer and the State Controller prior to initiating any further direct transfers of federal grant funds to third parties.

Auditee Response/Corrective Action Plan:

On April 10, 2000, the State of Maine Department of Conservation purchased a conservation easement around Nicatous Lake for $ 3,750,000. Of that sum, $3 Million came from the Federal Forest Legacy program. The federal government, in the cash management system for its grant program, provides for the transfer of funds through electronic wire transfer. As an integral part of this system, they allow wire transfer directly to third parties. The DOC has been using this system of wire transfers to draw down cash for several years and the normal procedure is that we transfer it to the State Treasury. This real estate transfer was reviewed and approved at all of the normal levels of review. After all approvals had been received, we had USDA Forest Service directly wire transfer the funds to the seller's representatives. At no time previous to that action were we aware of any State procedures, which specifically prohibited this. The transaction was made and the State received the conservation easement on 20,260 acres of land.

While it is true that by using the direct payment to a third party from the Forest Legacy Program we apparently violated Title 5 Section 131, we believed that we were operating within the appropriate federal guidelines and making an approved purchase on the State's behalf. As a Department with a modest-sized financial staff, we were relatively new to large federal grants, when we received the Ice Storm Recovery Grant in 1998.

Department of Conservation

We sent employees to training on Federal grants and their cash management system, and it was through this training that we were instructed in the use of wire transfers, including the use of third party direct wire. At no time were we given any instructions or procedural memos by any of the federal program as to this aspect of the federal grant cash management system not being available for Maine or prohibited in its use. What we were told by the Federal granting agencies was that they encouraged this use of technology to streamline the system. Given that training, we used the direct wire transfer to a third party feature of the system in this instance.

The purchase of the Nicatous easement was not the first time we had used the third party direct wire transfer feature. In 1998, we purchased a 1,315-acre easement for $250,000 through the same Forest Legacy Program and had the funds transferred directly to the seller. In that case, an audit was performed in 1999 on our 1998 transactions and nothing was said about this direct wire transfer.

We also believe that it is not accurate to state that the Department did not comply with OMB Circular 133 §300. All of the records regarding this transaction were contained in the grant file and open to ready inspection by the auditor.

We do not believe that this is the Department of Conservation's issue alone. We suggest that policies and procedures be developed and implemented at the State level both to instruct agencies such as ours, and to assure proper financial controls at the State level. For our part, we have taken all deliberate action to prevent this action from reoccurring including developing and implementing a Department policy regarding federal cash transfers. All federal funds that are drawn down by whatever means will be deposited in the State's treasury. All expenditures made will be by means of checks signed by the State Treasurer. This policy is effective immediately.

Contact Person: Will Harris

(00-12) Maine Forest Service

Cooperative Forestry Assistance
CFDA#: 10.664

U.S. Department of Agriculture
Federal Award Number: Various

Finding: Inadequate controls over subrecipient monitoring

The Department of Conservation does not maintain documentation of monitoring activities relating to subrecipient audit requirements.

Department of Conservation

The Office of Budget and Management Circular A-133, *Audits of States, Local Governments and Non Profit Organizations,* Section 400 (d)(3) requires grantees "to ensure that subrecipients expending $300,000 or more in federal awards during the subrecipient's fiscal year have met the audit requirements of this part for that fiscal year." In addition, the Circular requires that the grantee "… issue a management decision on audit findings within six months after of the sub-recipient's audit report and ensure that the sub-recipient takes appropriate and timely corrective action." The Department issues grant awards to numerous municipal governments and non-profit organizations. The Department did not receive audit reports from any subrecipients.

We noted that subgrantee agreements contain language relating to the State Auditor's office performing audits and approving corrective action plans. The State Auditor's office does not perform audits of this type nor do they approve subrecipient corrective action plans.

The Department of Conservation also performs programmatic monitoring activities. These site reviews are conducted primarily to determine if program goals have been achieved. These site visits do not, however, include a review of financial data such as local match.

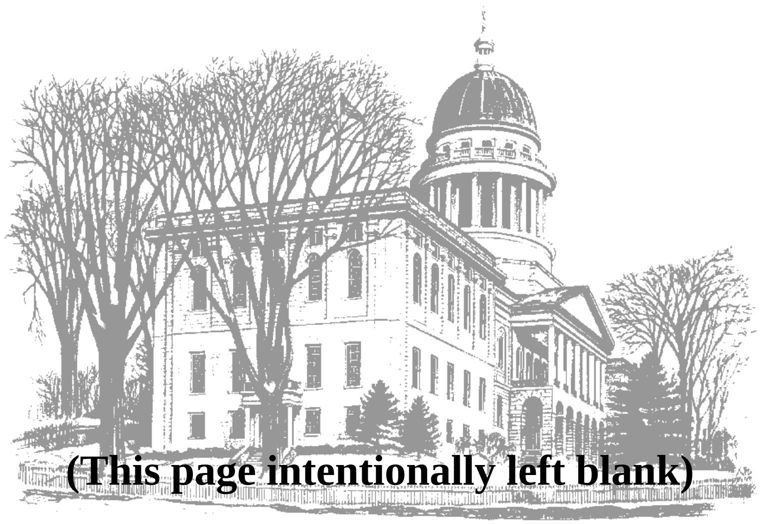
<u>Recommendation</u>:

We recommend that the Department monitor the audits obtained by subgrantees to determine compliance with state and federal requirements and establish procedures to follow-up on subgrantee corrective action plans. We also recommend that the Department rewrite the clause in the subgrantee agreements referring to the State Auditor's office performing audits and approving corrective action plans to recognize that these activities will be performed by independent public accountants. In addition, we recommend that the Department incorporate a financial review as a component of program monitoring site reviews.

<u>Auditee Response/Corrective Action Plan</u>:

We have made all sub-recipients aware of the audit requirement. We currently request cities and towns to provide us with the audit report. We have found them less than forthcoming. In an attempt to help the recipient comply with this requirement, we will work with Audit to re draft the language and enter into a dialog with the central agencies which could provide us with the information necessary to identify those recipients which receive federal funds above the $300,000 threshold. We will also initiate a process by which we identify critical information in the application process to better identify those recipients required to have a single audit. The process will include requesting a letter from the single audit auditor alerting us to any findings associated with the expenditure of the Cooperative Forestry Assistance funds.

Contact person: Peter Beringer, Resource Administrator



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Department of Corrections

(00-13) Juvenile Services

Juvenile Accountability Incentive Block Grant
CFDA#: 16.523

U. S. Department of Justice
Federal Award Number: 98-JB-VX-0023

Finding: Subrecipient monitoring procedures not documented

The Department of Corrections did not have procedures in place to ensure sufficient monitoring of subrecipients receiving Juvenile Accountability Block Grant funds. Although program managers indicated that informal procedures are in place, we did not find supporting evidence. Managers did provide a subrecipient monitoring plan for future application that was drafted at the time of our audit.

The Department is required to monitor all subrecipients as a condition of the federal grant award. Monitoring is also a requirement of the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non Profit Organizations.*

Recommendation:

We recommend that the Department of Corrections follow its new procedures to monitor subrecipients, and retain documentation of monitoring activities.

Auditee Response/Corrective Action Plan:

The Department has already drafted a subrecipient monitoring plan, and will implement it during fiscal year ending June 30, 2002.

Person responsible –Dennis Nichols
Action –Implement monitoring plan
Timeline for completion –federal fiscal year ending September 30,2002

(00-14) Juvenile Services

Juvenile Accountability Incentive Block Grant
CFDA#: 16.523

Department of Corrections

U. S. Department of Justice
Federal Award Number: 98-JB-VX-0023

<u>Finding</u>: Inadequate cash management procedures

The Department of Corrections distributes funds to certain subrecipients on a predetermined quarterly payment schedule and does not consider subrecipients' immediate cash needs in the disbursement process, as required by the Code of Federal Regulations.

Title 31 CFR part 205 stipulates, "A State or Federal agency shall limit the amount of funds transferred to a State to the minimum required to meet a State's actual immediate cash needs." The same requirements also apply to secondary recipients, also known as subrecipients.

<u>Recommendation</u>:

We recommend that the Department of Corrections establish procedures to ensure that all funds are disbursed to subrecipients based on immediate cash needs.

<u>Auditee Response/Corrective Action Plan</u>:

The Department will establish a better way to track subrecipients needs, and try to monitor their cash requests.

Person responsible –Dennis Nichols
Action –Tracking subrecipients needs in order to monitor their cash requests
Timeline for completion – federal fiscal year ending September 30,2002

(00-15) Juvenile Services

Juvenile Accountability Incentive Block Grant
<u>CFDA</u>#: 16.523

U. S. Department of Justice
Federal Award Number: 98-JB-VX-0023

<u>Finding</u>: Inadequate suspension and debarment procedures

Department of Corrections

The Department of Corrections has no established policy or procedure to ensure compliance with suspension and debarment requirements. The Department did not require certifications from four subrecipients and from three contractors subject to suspension and debarment requirements.

Title 28 CFR, Part 67, prohibits any agency from entering into primary covered transactions with parties that are debarred or suspended. Contractors receiving individual awards for $100,000 or more, and all subrecipients, must certify that the organization and its principals are not suspended or debarred.

Recommendation:

We recommend that the Department of Corrections obtain the required certifications prior to providing federal funds.

Auditee Response/Corrective Action Plan:

The Department will correct and comply.

Person responsible –Dennis Nichols
Action – Adding the suspension & debarment requirements to all new federal contracts over $100,000.
Timeline for completion –federal fiscal year ending September 30, 2002

(00-16) Juvenile Services

Juvenile Accountability Incentive Block Grant
CFDA#: 16.523 **Questioned Costs:** $12,485

U. S. Department of Justice
Federal Award Number: 98-JB-VX-0023

Finding: No procedures to ensure compliance with payroll requirements

The Juvenile Accountability Incentive Block Grant was charged with total payroll costs for one employee, a portion of which was attributable to other U. S. Department of Justice Programs. The employee's activity reports do not distinguish between different Department of Justice programs. Inquiry of program personnel indicated that approximately 50% of this employee's time is attributable to other programs. We therefore question one-half of the payroll costs charged to this grant.

Department of Corrections

Office of Management and Budget Circular A-87, *Cost Principles for State and Local, and Indian Tribal Governments*, allows payroll costs to be charged to a federal program only to the extent of benefits received.

Recommendation:

We recommend that the Department implement procedures to ensure that the Juvenile Accountability Incentive Block Grant is charged with payroll costs only to the extent that work is performed.

Auditee Response/Corrective Action Plan:

The Department will seek Legislative action to correct this issue.

Person responsible – Barry Stoodley
Action – Legislative authorization needed
Timeline for completion – 120th Legislature, 2nd regular session

(00-17) Administration

Violent Offender Incarceration and Truth in Sentencing Incentive
CFDA#: 16.586 **Questioned Costs:** $43,751

U. S. Department of Justice
Federal Award Number: 96-CV-VX-0023

Finding: No procedures to ensure correct payroll charges

Payroll costs of one Department of Corrections employee were charged entirely to the Violent Offender Incarceration and Truth in Sentencing Incentive Grant without adequate documentation. The employee's activity reports do not distinguish between various Department of Justice programs. There is insufficient documentation to determine the amount allocable to the grant; therefore we question $43,751, the entire amount charged to the grant.

Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments*, allows payroll costs to be charged to a federal program only to the extent of the benefits received by the program.

Department of Corrections

<u>Recommendation</u>:

We recommend that the Department implement procedures to ensure that the grant is charged with payroll costs only to the extent that work is performed.

<u>Auditee Response/Corrective Action Plan</u>:

The Department has already corrected this issue, and the position in question has been moved out of this account.

Person responsible –Dennis Nichols

(00-18) Administration

Violent Offender Incarceration and Truth in Sentencing Incentive
<u>CFDA</u>#: 16.586

U. S. Department of Justice
Federal Award Number: 96-CV-VX-0023

<u>Finding</u>: Inadequate controls over cash management

The Department of Corrections did not control cash such that draws of federal cash were timed to expenditures of that cash. Early in the fiscal year, for three months, the Department had between 713 and 1282 days of cash on hand. For the following six months, the days cash on hand ranged from 1 to 7 days. In the last three months of the fiscal year, the days cash on hand was between negative 44 to negative 138 days. During that time, the Department made only one insufficient draw of federal cash. The Department could not provide documentation to support the amount of funds drawn. Drawdown amounts appear to be estimated and not based on actual cash needs.

Title 31 CFR § 205 requires that recipients of federal funds have procedures in place to minimize time elapsed between the drawdown of federal funds and the disbursement of those funds. Similarly, time elapsed between charges to benefit federally funded programs and their reimbursement by the federal government should be minimized.

<u>Recommendation</u>:

We recommend that the Department of Corrections ensure better management of federal cash.

Auditee Response/Corrective Action Plan:

The Department will correct and comply.

Person responsible –Ralph Nichols & Barbara Otis

Action – The Department will not order cash until expenses are imminent
Timeline for completion –federal fiscal year ending September 30, 2002

(00-19) Administration

Violent Offender Incarceration and Truth in Sentencing Incentive
CFDA#: 16.586

U. S. Department of Justice
Federal Award Number: 96-CV-VX-0023

Finding: No controls over compliance with suspension and debarment requirements

The Department of Corrections had no established policies and procedures to ensure compliance with suspension and debarment requirements. Title 28 CFR, Part 67, and the Compliance Supplement of Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, prohibit non-federal entities from contracting with parties that are suspended or debarred, or making subawards under covered transactions to them. Contractors receiving individual awards for $100,000 or more and all subrecipients must certify that the organization and its principals are not suspended or debarred.

Of the five contracts selected for testing that were subject to the requirement, five did not contain the required certifications.

Recommendation:

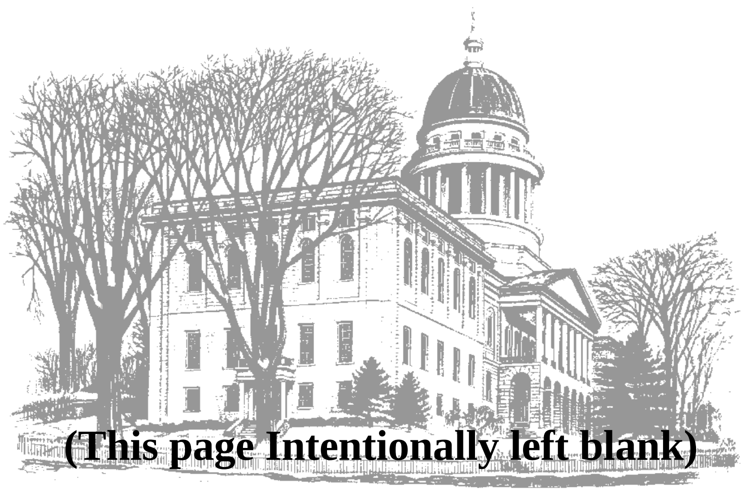
We recommend that the Department of Corrections implement procedures to ensure that the required certifications are obtained prior to disbursement of federal funds.

Department of Corrections

<u>Auditee Response/Corrective Action Plan</u>:

The Department will correct and comply.

Person responsible –Ralph Nichols
Action – Adding the suspension & debarment requirements to all new federal contracts over $100,000.
Timeline for completion – federal fiscal year ending September 30,2002



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Department of Defense, Veterans and Emergency Management

(00-20) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401

U.S. Department of Defense
Federal Award Number: DAHA17-97-2-3035
DAHA 17-99-2-1000

Finding: Procedures inadequate to ensure correct reporting of information for the Schedule of Expenditures of Federal Awards (Prior Year Finding)

The Department of Public Safety reported a total of $22,733,988 in federal expenditures to be included in the Schedule of Expenditures of Federal Awards (SEFA) for a federal grant awarded to the Department of Defense, Veterans and Emergency Management. Actual expenditures for the grants were $16,390,952.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires entities expending federal awards to be able to provide reasonable assurance that financial statements are reliable.

Recommendation:

We recommend that the Department develop and implement procedures to ensure that information submitted for inclusion in the SEFA is accurate and can be documented.

Auditee Response/Corrective Action Plan:

Sue Hammer (DPS), will be preparing the SEFA for DVEM as well as developing and documenting procedures. This will be completed by December 31, 2001.

(00-21) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401

U.S. Department of Defense
Federal Award Number: DAHA17-2-99-100X

Department of Defense, Veterans and Emergency Management

Finding: Controls insufficient to ensure compliance with cash management requirements (Prior Year Finding)

The Department of Defense, Veterans and Emergency Management did not ensure that cash was available only for immediate needs. The numberof days of cash on hand at the end of each quarter of the fiscal year was as follows:

Quarter	National Guard	Loring Rebuild
1	7.5	15.6
2	36.3	23.2
3	16.4	1.1
4	14.2	51.3

Title 31 CFR §205.20 states:

> Cash advances to a State shall be limited to the minimum amounts needed and shall be timed to be in accord only with actual, immediate cash requirements of the State in carrying out a program or project. The timing and amount of cash advances shall be as close as is administratively feasible to the actual outlay by the State for direct program costs and the proportionate share of allowable indirect costs.

Recommendation:

We recommend that the Department take appropriate action to ensure that cash on hand is limited to the minimum amount needed, and that drawdowns are timed to be in accord with actual, immediate cash requirements of the program.

Auditee Response/Corrective Action Plan:

Lin Gosselin (DFE) and Sue Hammer (DPS), are working on a process in which bills are coded and keyed for a specific date of payment. A report will be submitted to the Federal Government based on these bills and payment will be received within 3 days of the date that the checks are to be cut. Payment will be requested from the Federal Government on an as needed basis therefore there will be no cash setting in the Federal account. This will be in place not later than September 30, 2001.

(00-22) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401

U.S. Department of Defense
Federal Award Number: DAHA17-97-2-3035

Finding: Procedures do not ensure compliance with suspension and debarment requirements

Contracts for $100,000 or more between the Loring Rebuild Facility and four suppliers did not contain suspension and debarment certifications as required by the *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*, 32 CFR Part 25 and National Guard Regulation 5-1.

Recommendation:

We recommend that the Loring Rebuild Facility take appropriate action to ensure that contracts for $100,000 or more contain the required suspension and debarment certifications.

Auditee Response/Corrective Action Plan:

Contact Person: Bob St.Pierre

Suspension and debarment certifications, as required by the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, 32 CFR Part 25 and National Guard Regulation 5-1 will be forwarded to the four suppliers for compliance no later than August 15, 2001. Certifications will also be sent to one supplier whose contract was initiated on August 30, 2000 and all future suppliers whose contracts are over $100,000.

(00-23) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Costs:** $76,129

U.S. Department of Defense
Federal Award Number: DAHA17-97-2-3035

Finding: Federal funds used to fund contingency reserve

The Loring Rebuild Facility drew down federal funds of $76,129 to fund a contingency account in violation of grant agreements and Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment B (12). The account earned $436 in interest in fiscal year 2000.

Recommendation:

We recommend that the Department return the funds and the interest to the federal government and discontinue the use of this fund.

Auditee Response/Corrective Action Plan:

Contact Person: Bob St.Pierre

Administrative Services in Public Safety is preparing the necessary paperwork to move the funds from 014 to 013 per request from the USPFO and deactivate this account. This will be completed not later than July 31, 2001.

(00-24) Military Bureau

National Guard Military Operations and Maintenance Projects
CFDA#: 12.401 **Questioned Costs:** $56,213

U.S. Department of Defense
Federal Award Number: DAHA17-97-2-3035

Finding: Grant funded equipment not managed as if State owned

The Loring Rebuild Facility treated equipment purchased with federal grant funds awarded to the State (Cooperative Agreement grant funds) as federal property rather than as State property. The Facility first purchased the equipment with federal funds but then transferred the charge to the Cooperative Agreement funds. Until the fixed assets are placed under State management, we question $56,213, which represents the costs of the assets purchased in the report year.

Title 32 CFR 33.32 states that "title to equipment acquired under a grant… will vest upon acquisition in the grantee… " and a State "will use, manage and dispose of equipment acquired under a grant by the State in accordance with State laws and procedures."

Recommendation:

We recommend that the Facility manage all assets acquired with federal funds awarded to the State in accordance with State laws and procedures and record the assets on the State fixed asset system.

Department of Defense, Veterans and Emergency Management

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Bob St.Pierre

The USPFO does not concur with this finding and is seeking legal review from the National Guard Bureau reference 32 CFR 33.32. This issue will be resolved no later than Sept 30,2001.

(00-25) Military Bureau

National Guard Operations and Management Projects
<u>CFDA</u>#: 12.401

U.S. Department of Defense
Federal Award Number: DAHA17-99-2-1000

<u>Finding</u>: Accounting procedures inadequate (Prior Year Finding)

The Military Bureau of the Department of Defense, Veterans and Emergency Management uses General, Federal Expenditure, and Special Revenue Funds interchangeably. The Department charges transactions either to the General Fund or to a federal expenditure account based on available allotment rather than in accordance with federal/State cost sharing ratios contained within the applicable appendix of the *Cooperative Agreement.* Although the Department requests federal reimbursement based on the appropriate cost-sharing rate, it does not correlate requests to accounting records by fund. Other supporting documents are used. When a reimbursement is received, the Department and its Accounting Service Center at the Department of Public Safety credit revenue to the Federal Expenditure Fund, regardless of which fund incurred the expenditure. Expenditures are not transferred to the reimbursed fund. This distorts State accounting records as funds lose their identity and also renders budgetary controls ineffective. Crediting the Federal Expenditure Fund for all revenue also gives the appearance of excess federal cash on hand.

All reimbursements that were tested were fully supported, but because reimbursement requests are based on batches of individual invoices, controls are not in place to ensure that all costs that are eligible for reimbursement are requested by the Department. The Department relies on the knowledge of its accounting personnel to request appropriate reimbursement. The Department's ability to obtain correct reimbursement amounts would be affected should there be a change in personnel.

Government accounting standards (GASB 1800.103b) require that reimbursements for amounts paid from one fund and later charged to another should be recorded as a reduction of expenditures in the first fund.

Also, 32 CFR 33.20(a), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments,* requires States to expend and account for grant funds in accordance with procedures for State funds.

Fiscal control and accounting procedures of the State must be sufficient to permit preparation of reports required and permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Lack of proper accounting procedures hinders management's ability to:

? provide proper accountability of federal vs. State and grant vs. non-grant expenditures,
? ensure that the State complies with matching requirements,
? provide for proper cash management by minimizing the time elapsed between the drawdown of federal funds and the disbursement of those funds, and
? generate accurate federal expenditure data for the State's *Schedule of Federal Awards.*

In addition, federal revenue drawn down for the Military Construction Grant (CFDA# 12.400) was credited to the same account as revenue drawn down for the cooperative agreement.

Recommendation:

We recommend that both the Department of Defense, Veterans and Emergency Management and Department of Public Safety record transactions in the correct fund.

We recommend that both Departments revise their process for recording federal reimbursements, so that reimbursements can be reconciled to disbursements recorded in the federal expenditure fund. We also recommend that processes be documented so that a change in personnel will not affect continuity of operations.

We further recommend that both Departments comply with the requirements of GASB 1800.103b and 32 CFR Section 33.20(a).

Auditee Response/Corrective Action Plan:

Lin Gosselin (DFE) and Sue Hammer (DPS) are currently completing a new set of accounts that will be used for all processes i.e. vouchers, cash receipts, journal vouchers, to better track payments and cash against the proper appendices and accounts. All invoices that need split coding will be done properly using the above mentioned codes. All reimbursements will also be coded to the correct account and appendix using these codes. The new accounting codes will be in place not later than September 30, 2001.

Department of Education

(00-26) Support Systems Team

Special Education-Grants to States (Discretionary portion only)
Vocational Education-Basic Grants to States
CFDA#: 84.027**,** 84.048

U.S. Department of Education
Federal Award Number: H027A990109
V048A990019

Finding: Insufficient controls over suspension and debarment certification

The Department of Education did not have sufficient controls to ensure compliance with suspension and debarment certification requirements. Per 34 CFR §85.510(b), a State must require each participant in certain lower tier transactions to certify with each application that neither it nor its principals is presently debarred or suspended from participation. For two of the four major programs reviewed, a current certification was not required to be included with participant applications.

Recommendation:

We recommend that the Department establish controls to ensure that required suspension and debarment certifications are obtained.

Auditee Response/Corrective Action Plan:

In August, 1997 when the Department first implemented procedures for suspension/debarment certifications, we contacted Otis Wilson, Grants & Policy Branch Officer, U.S. Department of Education to inquire if subrecipients were required to submit certifications each year a grant was awarded. We were informed by Mr. Wilson that subrecipient certification of debarment or suspension is a "one shot deal." The Department followed the guidance received from the U.S. Department of Education and obtained one certification from subrecipients receiving funding for multiple years.

During fiscal year 2002, the application process for the two programs in question will be reviewed to ensure annual certifications for suspension/debarment are included. The individuals responsible for implementation of the corrective action are John Kierstead, IDEA Consultant, and Margaret Harvey, Program Accountant.

Department of Education

(00-27) Support Systems Team

Various
CFDA#: Various

U.S. Department of Education
Federal Award Number: Various

Finding: Pass-through entity responsibilities not met

The Department of Education does not sufficiently identify federal awards to subrecipients. Per OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, § 400(d), pass-through entities must "identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of Federal agency." The Department does not ensure that this information is communicated to subrecipients.

Recommendation:

We recommend that the Department identify federal awards as required.

Auditee Response/Corrective Action Plan:

The Department does identify Federal awards made and does inform subrecipients of applicable CFDA Numbers, Award Amounts, Award Years, Payment Amounts against the award, and State Passthrough Numbers. This information can be found in the following reports: 1) P-100 Grant Database Report on the Department's web site at www.state.me.us/education, which is accessible to all subrecipients and their auditors and maintained by the Support Systems Team, and 2) the grant award notification letter issued by the Learning Systems Team program staff which is sent to subrecipients prior to funding. The grant award notification not only identifies the CFDA Name, Award Amount, Award Year, but also identifies the Code of Federal Regulations specific to a particular program.

Although we understand this information is comprised of two reports, both reports are accessible to all school administrative units and their auditors, and other subrecipients and their auditors, and do provide the information required by OMB Circular A-133, §400(d).

The Department will notify all Federal program directors that this information must now be consolidated in their grant award notifications to subrecipients. Lesley Clark, Chief Accountant, will ensure implementation and completion will occur during fiscal year 2002.

Department of Education

(00-28) Bureau of Finance Support Systems Team

Special Education-Grants to States (Discretionary portion only)
Vocational Education-Basic Grants to States
<u>CFDA#:</u> 84.027 & 84.048

U.S. Department of Education
Federal Award Number: H02799109
V048A990019

<u>Finding</u>: Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)

For the two programs listed below, the Department of Education did not disburse federal funds as required by the provisions of the State's Cash Management Improvement Act Agreement with the federal government.

The Agreement specifies use of pre-issuance funding for these two grants. This requires that funds be disbursed within two days of the time of deposit. Controls did not ensure compliance with the agreement.

For the two tested programs, the average number of days cash on hand was:

CFDA#	Grant Name	
84.027	Special Education-Grants to States	7 days
84.048	Vocational Education- Basic Grants to States	5 days

<u>Recommendation</u>:

We recommend that the Department establish and implement controls to ensure compliance with the Agreement.

<u>Auditee Response/Corrective Action Plan</u>:

For the Special Education – Grants to States program, effective FY02, the Department has made arrangements with Accounts and Control to set up estimated revenue for the year with this department making draws approximately on the 4th day after checks have been written, in time for those checks to clear the bank.

Department of Education

For Vocational Education, we will try to be more cautious with reviewing allotment BEFORE drawing funds. Corrective action was implemented for the 2001-2002 grant year.

Contact: Lesley Ann Clark, MDOE Bureau of Finance

(00-29) Learning Systems Team

Technology Literacy Challenge Fund
CFDA#: 84.318

U.S. Department of Education
Federal Award Number: S318X000019

Finding: Insufficient controls over subrecipient monitoring

The Department of Education could not demonstrate sufficient controls over monitoring of school administrative units (SAUs) receiving Technology Literacy Challenge Fund (TLCF) grant money. The Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Subpart D §.400 (d)(3) requires each pass-through agency to monitor the activities of subrecipients to ensure that federal awards are used for authorized purposes in compliance with laws, regulations and contracts or grant agreements. Of $3.34 million expended, the Department awarded $3.26 million, or 97.5% of the grant, to SAUs. We noted lack of sufficient controls in the following areas:

? *Allowable activities*
The Department could not provide expenditure reports for grant year 2000 for three of 26 SAUs that we reviewed. Two other reports lacked the required signature of a superintendent. The Department relies on these reports to ensure that TLCF sub-grants are appropriately spent.

? *Cash management*
Insufficient controls over the timing of cash disbursements resulted in excessive cash balances held by SAUs at the end of the year. Of the 23 SAUs that we reviewed, eight reported a total of $56,535 unexpended at the end of the fiscal year. This is 7.8% of the $722,094 that these 23 units reported having received. Of this amount, only $5,000 was received from the Department in the final month of the year. To comply with the Cash Management Improvement Act, 31 CFR § 205.20 and 34 CFR § 80.20, cash advances must be timed to be in accord only with actual immediate requirements.

Department of Education

? *Equipment*
The Department could not document that there were adequate controls over SAU compliance with equipment management requirements. Per 34 CFR § 80.32 and §80.37, subrecipients are required to manage equipment according to State laws and procedures. Required procedures include maintenance of property records, regular physical inventories, adequate safeguards and maintenance, and disposition according to regulations. For 23 SAU expenditure reports that we reviewed, $300,256, or 45% of total grant expenditures of $665,559, was spent on equipment.

? *Private school participation*
The Department could not document that SAUs adequately considered private school needs in allocating TLCF awards. The private school participation requirements, codified in 34 CFR § 200.10, require SAUs to provide eligible private school children and their teachers or other educational personnel with equitable services or other benefits.

Recommendation:

We recommend that the Department of Education incorporate control systems used in other grants under its administration into TLCF management. Such controls include:

? establishing a system to document that required grant reports are received on a timely basis and establishing procedures to follow-up on late or incomplete filings,
? monitoring of grant cash balances to ensure that cash disbursements coincide with the cash needs of the subrecipient,
? incorporating equipment management monitoring into year-end grant reporting, and
? including documentation of the required private school consultations into the grant application process.

Auditee Response/Corrective Action Plan:

? *The Department plans to place critical data on an ACCESS data base to enable improved monitoring of school administrative units (SAU), and to ensure required reports are submitted in a timely manner.*

? *The Department plans to initiate and comply with cash management procedures so payments of expenditures are disbursed within 3 days. These procedures will require assurances from (SAU) that they are prepared to expend funds within the allotted time frame or no further funds will be distributed.*

Department of Education

- *The Department will require all SAU's to provide documentation of inventory and inventory controls for equipment purchased with Federal funds.*

- *Awards of final payment will not be made without signed assurances from administrators of approved private schools within the school administrative unit, that they have had the required portion of funds made available to them.*

We expect the aforementioned corrective action will bring the Technology Literacy Challenge Fund program in compliance with Federal program regulations. We will incorporate the corrective action into the 2001-2002 grant year.

Contact: Ed Gomes, Technology Coordinator

(00-30) Bureau of Special Services Learning Systems Team

Special Education Grants to States
CFDA#: 84.027

U.S. Department of Education
Federal Award Number: H027990109

Finding: Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)

The Department of Education collects information from the State's public schools on budgeted and actual expenditures of local special education funds. The Department does not compare budgeted expenditures for the grant year being awarded against actual expenditures of the previous grant year, as required. Of the fifteen local education agencies (LEAs) that we examined for maintenance of effort, four failed to report their budgeted local special education expenditures, and five reported a per capita decrease in fiscal year 2000 budgeted expenditures as compared to fiscal year 1999 actual expenditures.

According to 34 CFR §300.231, the State must be satisfied that the LEAs are meeting the required maintenance of effort requirement for the education of children with disabilities. That is, the total amount, or average per capita amount, of State and local school funds budgeted by the LEA for the current fiscal year must be at least equal to the total amount, or average per capita amount, actually spent for the same purpose in the previous year. Allowances can be made under some circumstances.

Recommendation:

We recommend that the Department implement measures to ensure compliance. These measures should include monitoring the LEAs current period budgeted expenditures and prior period actual expenditures, and ensuring that LEAs report their budgeted local special education expenditures.

The Department should have adequate documentation on hand to demonstrate that the maintenance of effort calculation has been performed. This documentation should indicate that deviations are investigated and allowable deviations are supported.

Auditee Response/Corrective Action Plan:

Contact Person: John Kierstead

The Department, after receiving a similar finding the previous year, created an Excel file to monitor actual expenditures from one year to the next. The finding for that year stated actual to actual monitoring rather than budget to actual, although 34 CFR, Section 300.230 required monitoring current year budgeted amounts to previous year actual amounts: "Of 21 LEA's that we examined, eight expended less local funding in fiscal year 1999 than they had in the preceding year." The Department plans to follow procedures outlined using the EF-S-02, 07 and the EF-M-46 reports.

(00-31) Division of School Support Systems – Food Service

Nutrition Cluster
CFDA#: 10.553, 10.555, 10.556, and 10.559

U.S. Department of Agriculture
Federal Award Number: N20001N1098

Finding: Controls did not ensure compliance with federal cash management requirements

The Division of School Support Systems did not disburse federal funds as required by the provisions of the State's Cash Management Improvement Act Agreement for the National School Lunch Program.

The Agreement specifies use of the pre-issuance funding method. This requires that funds be disbursed within two days from time of deposit.

Department of Education

There was an average of five business days between drawdown date and check date for ten of eleven drawdowns that were tested. Controls did not ensure compliance with cash management requirements.

Recommendation:

We recommend that the Department establish and implement controls to ensure compliance with cash management requirements.

Auditee Response/Corrective Action Plan:

Contact Person: Susan Griffin

For fiscal year beginning 7/1/01, this cluster will be using the average clearance method for CMIA purposes. We have arranged with Accounts and Control to have them set up estimated revenue for the year with this department making draws approximately on the 4^{th} day after checks have been written, in time for those checks to clear the bank.

Department of Human Services

(00-32) Bureau of Child and Family Services

Child Care Development Block Grant
CFDA#: 93.575 & 93.596

U.S. Department of Health and Human Services
Federal Award Number: G-9901MECCDF
G-0001MECCDF
G-001MECCDF2

Finding: No procedures to ensure compliance with monitoring requirements (Prior Year Finding)

The Bureau does not have procedures in place to ensure that all subrecipients will be monitored on a regular, on-going basis. We examined the Bureau's files for twenty-three subrecipients. The files did not contain evidence that the Bureau:

? tested the subrecipient's determinations of client eligibility (seven files),
? tested the subrecipient's determination of benefit payments to child care providers (seven files),
? submitted timely management reports of monitoring activity (twenty-three files),
? followed-up on monitoring findings (eleven files),
? tested that the subrecipients had received the required A-133 audits (three files), and
? tested that the subrecipients' A-133 audit findings had been followed-up (eight files).

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (the "Common Rule"), §40(a), requires grantees to monitor activities to assure compliance with applicable federal requirements and to ensure that performance goals are being achieved.

Recommendation:

We recommend that the Bureau document and adhere to policies and procedures that will ensure that each subrecipient is effectively monitored on a regular, ongoing basis.

Auditee Response/Corrective Action Plan:

Contact Person: Jeannette Talbot

The Community Services Center will be standardizing the on-site monitoring instrument used by contract staff to include the above-cited tests.

The Service Center also will establish formal procedures to ensure timely submission of monitoring reports and follow-up of monitoring findings. The expected date for implementation of these monitoring activities is October 1, 2001.

(00-33) Bureau of Child & Family Services

Child Care Development Block Grant
CFDA#: 93.575 & 93.596 **Questioned Costs:** $85,783

U.S. Department of Health and Human Services
Federal Award Number: G-9901MECCDF
G-0001MECCDF
G-0001MECCDF2

Finding: No controls to ensure compliance with payroll requirements (Prior Year Finding)

The Department of Human Services charged the Child Care Development Block Grant program with the payroll costs of three employees who performed administrative duties involving several federal and/or State programs. The Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* allows costs to be charged to a federal program only to the extent that benefits are received.

We question the total amount of payroll costs that were charged to the program for these individuals.

Recommendation:

We recommend that the Department develop procedures to ensure that salaries and fringe benefits are allocated to programs based on benefits received.

Auditee Response/Corrective Action Plan:

Contact Person: Jeannette Talbot

The State of Maine's financial policies do not allow positions to be budgeted against more than one account. The Community Services Center does not yet have a federally approved cost allocation plan for the allocation of salaries and fringe benefits. The Service Center has proposed the use of enhanced time sheets for all staff and management who fulfill functions related to CCDF administration beginning October 1, 2001.

Department of Human Services

(00-34) Bureau of Child and Family Services

Social Services Block Grant
CFDA#: 93.667 **Questioned Costs:** $24,455

U.S. Department of Health and Human Services
Federal Award Number: G-00001 MESOSR

Finding: Funds not spent in accordance with earmarking requirements (Prior Year Finding)

The Department of Human Services did not expend Social Services Block Grant (SSBG) funds of $2.5 million, transferred from the Temporary Assistance for Needy Families (TANF) Bock Grant, as required. According to 42 USC 604(d)(3)(b), TANF funds transferred to the SSBG are only to be used for children or their families whose income is less than 200 percent of the federal poverty level. The State used these TANF funds to reimburse State expenditures related to foster care children. Five of the 60 recipients that we tested were foster care children whose family income level made them ineligible for assistance. Eligibility could not be determined for eight additional recipients.

We question $24,455, the amount paid to the five ineligible recipients. In addition, we determined likely questioned costs of $263,245. We applied the sample dollar error rate, which we obtained by dividing the amount of the five ineligible transactions by the total amount of the 60 items sampled, to the entire population, resulting in a likely questioned cost of $236,610.

For the eight transactions that were indeterminable, we applied the dollar error rate, using the same methodology, to the entire population. Because it is not likely that all eight transactions would have been ineligible, we then multiplied the known error rate of 9.6 percent (5/52) to obtain additional likely questioned costs of $26,635.

The Department's interpretation of the income eligibility provision of these TANF funds is that it relates only to the child; as foster children are a family of one, and because foster children have no income, all foster children are eligible.

Recommendation:

We recommend that the Department expend funds only in accordance with earmarking requirements.

Auditee Response/Corrective Action Plan:

Contact Person: Diane Towle

Department of Human Services

The TANF funds pass through SSBG to Child Welfare. The issue here is the lack of documentation to test for the compliance of the TANF requirement that services funded with TANF under SSBG must be for clients under 200% of poverty. The MACWIS team will be working on generating a report to document and support this benchmark.

(00-35) Community Services Center

Various
CFDA#: Various

U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: No procedures to ensure that correct CFDA numbers are communicated (Prior Year Finding)

Department of Human Services subrecipient contracts do not reference the correct Catalog of Federal Domestic Assistance (CFDA) numbers. We sampled 25 summary listings of payments to subrecipients that received more than $300,000 and found incorrect CFDA numbers on 22 of the 25. We subsequently reviewed 10 contracts from the files of the 22 subrecipients, and verified that all 10 had incorrect CFDA numbers.

The Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* Subpart D Section .400, requires the pass-through entity to inform each subrecipient of CFDA title and number, award name and number, award year, and name of federal agency.

Contract language is the responsibility of either the Community Service Center or individual Bureaus.

Recommendation:

We recommend that the Department review controls over pass-through responsibilities and assign clear responsibility and authority for ensuring that those responsibilities are met.

Auditee Response/Corrective Action Plan:

Contact Person: Jeannette Talbot

Department of Human Services

The Community Services Center issued a memorandum to all its contract staff in September, 1999 regarding the need to verify CFDA references in contracts. All Service Center contracts with an effective date of October 1, 1999 or later would have the corrected CFDA #s. Verification of CFDA #s in contracts is part of the Service Center's contract review process.

Also, the Service Center includes a list of funding source acronyms and CFDA #s in the contracts, beginning October 1, 2000.

(00-36) Bureau of Family Independence

Medical Assistance Program
CFDA#: 93.778

U.S. Department of Health and Human Services
Federal Award Number: 05-9805ME5028
05-9905ME5028
05-0005ME5028

Finding: Procedures do not ensure compliance with Medicaid Eligibility Quality Control (MEQC) rules and procedures (Prior Year Finding)

The Department of Human Services, Bureau of Family Independence, does not have procedures in place to ensure compliance with program requirements for error rates and sampling plans of the Medical Assistance Program.

Error rates:
Title 42 CFR § 431.865 requires that each State have a payment error rate no greater than three percent, for each annual assessment period, or be subject to a disallowance of Federal Financial Participation. The payment error rate is the ratio of erroneous payments for medical assistance to total expenditures for medical assistance.

A letter issued by the Washington, D.C. office of the Health Care Financing Administration (HCFA) stated:

> Effective with the April-September 1995 review period and succeeding review periods, States will be required to calculate this information [the MEQC error rate] and submit it along with other aggregated information as requested… The statistical formula contained in Part 7, Chapter 2, Appendix A of the State Medicaid Manual is to be used for calculating… the payment error rate.

Since federal fiscal year 1996, the State's Quality Assurance Unit has not provided HCFA with the required error calculation reports.

In the absence of these reports, HCFA cannot be assured that the State of Maine's error rate is below the three-percent threshold. Although the Department has attempted to calculate payment error rates, it did not use the statistical formula contained in the State Medicaid Manual.

Sampling plan:
Title 42 CFR § 431.814 requires an agency to submit a basic MEQC sampling plan to HCFA for approval. It appears that the Department did not submit a sampling plan for fiscal year 2000 for approval. Additionally, the unapproved MEQC Positive Sampling Plan did not appear to contain the following components as required in the State Medicaid Manual:

? sample size
? accuracy and completeness of the sample selection lists
? number of items on the sample selection lists
? expected number of cases to be selected
? detailed description of the procedures used in selecting the sample review cases

Recommendation:

We recommend that the Quality Assurance Unit:

1. take the necessary steps to provide HCFA with past due error rate information,
2. calculate MEQC error rates using the prescribed statistical formula,
3. submit a sampling plan to HCFA for approval, and
4. include all of the basic components and descriptions in the sampling plan in accordance with provisions in the State Medicaid Manual.

Auditee Response/Corrective Action Plan:

Contact Person: MaryLou Pattison

The Department of Human Services, Bureau of Family Independence, Quality Assurance Unit is in the process of working with Stephen Doucette, Boston HCFA Unit, to resolve the issues cited in your letter dated July 18, 2001. The Quality Assurance Unit is taking positive steps to 1. provide HCFA with past due error rate information, 2. with Mr. Doucette's assistance, calculate MEQC error rates using the prescribed statistical formula, 3. submit a sampling plan to HCFA for approval, and 4. include all of the basic components and descriptions in the sampling plan in accordance with provisions in the State Medicaid Manual.

Department of Human Services

George Ghiloni, Boston HCFA, has met with Barbara Feltes, State Medicaid Program Manager and Medicaid Corrective Action Manger, and Gary Veilleux and Ann Condriet, Quality Assurance Unit Supervisors, recently to initiate Federal review of the State's practices. In the following weeks, he will return, along with Mr. Doucette, to complete their review and provide assistance in rectifying any deficiencies. The Quality Assurance Unit, with Mr. Doucette's guidance, expects to be in complete compliance, after correcting the deficiencies cited, by the start of the October 2001 to March 2002 review period.

(00-37) Bureau of Health

Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA#: 10.557 **Questioned Costs:** $50,855

U.S. Department of Health and Human Services
Federal Award Number: 1F9701 (FFY99) and 1ME700701 (FFY00)

Finding: Controls over payroll records not effective to ensure compliance (Prior Year Finding)

The Division of Technology Services of the Department of Human Services charged the salaries of two employees directly to the Special Supplemental Nutrition Program for Women, Infants, and Children without supporting personnel activity reports that meet federal requirements. Although all of the salary of two employees were charged, they and other individuals actually worked on multiple activities. The Division maintained an informal running tally of hours charged to the program versus hours worked by all employees. For federal reporting purposes, the Division reported on the "actual" equivalent hours worked. Division personnel prepared a journal to credit the account for the difference but had not processed it at the time of audit work. The employees did not maintain personnel activity reports or equivalent documentation in accordance with the requirements of Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments.* Some employees had a casual record of time worked but most based estimates on undocumented recollections. Estimates were prepared on a quarterly and not monthly basis. We question the remaining amount charged to the program, $50,855.

Recommendation:

We recommend that the Division maintain adequate records to support all payroll costs charged to the program.

Department of Human Services

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: John D. Mower

Legislation was passed to transfer the two positions referred to in this finding in Chapter 439 during the 120th legislature session.

The journal entry charging OMB, The Division of Technology Services account, and crediting the WIC Program did not get processed until July 2001, but it was for the balance of funds owed the WIC Program as of June 30, 2001. The Bureau of the Budget, who approves all personal services and adjustment to balance forward journals, had not approved the original journal entries because they were prepared incorrectly by using adjustment to balance forward revenue codes in a general fund account and using current year personal services character & object expenditure codes for prior year charges. When the positions are moved effective 9/22/01, DHS will prepare another journal entry transferring all the current year (FY 02) personnel services costs that will be questioned to the federal side of OMB where the positions are being transferred.

(00-38) Bureau of Health

Immunization Grants
<u>CFDA</u>#: 93.268

U.S. Department of Health and Human Services
Federal Award Number: H23/CCH104482-10

<u>Finding</u>: Procedures insufficient to ensure accurate information for inclusion in the SEFA(Prior Year Finding)

The Department of Human Services submitted inaccurate amounts, for inventory and for vaccine distributed during the year, to be included in the Schedule of Expenditures of Federal Awards (SEFA). The reported inventory value of $987,105 was understated by $19,600 and the value of vaccines distributed, reported as $3,018,461, was understated by $433,354.

Reporting inaccuracies were attributed to the following:

? incorrect distribution values used,
? omission of vaccines purchased with federal funds,
? inaccurate calculations for distribution and inventory totals,
? no reconciliation of purchase price of vaccines recorded in the inventory system to the State's official accounting records, and

? inadequate supervisory oversight of the inventory system.

The Office of Management and Budget Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires entities expending federal awards to be able to provide reasonable assurance that financial statements are reliable.

Recommendation:

We recommend that the Department:

1) account for vaccines to identify those purchased with federal and non-federal funds,
2) perform a reconciliation of the purchase price of recorded vaccines in the inventory system to the State's official accounting records,
3) adopt procedures for supervisory oversight of the inventory system, and
4) exercise greater care in the preparation of amounts used for the SEFA.

Auditee Response/Corrective Action Plan:

Contact Person: Charles Dwyer

After a review of the information provided by the auditor, The Maine Immunization Program concurs with the finding. Inaccurate information was provided for expenditure reports during the State FY2000 (7-99 to 6-2000). Inaccuracies were due in large part to a break down in communication between staff people at the Immunization Program managing the vaccine budget and those who reported budget information to the State accounting personnel for the SEFA. Other problems regarding the purchase, management and distribution of vaccines have been identified and are currently being addressed. Implementation date July 1, 2001.

1. *Vac-Man software provided by the CDC was recently upgraded (6-01) to provide greater functionality. Using the software, we are able to identify and track both federal and non-federal funding sources for all vaccines purchased using the Vac-Man software. In addition, vaccines that are not purchased through Vac-Man will be recorded on a separate Vaccine Purchase Tracking Spreadsheet, which includes all vaccines purchased and/or distributed through the Immunization Program. Vac-Man purchases will be reconciled monthly against the spreadsheet.*

2. *Vaccine receipts will be reviewed monthly to ensure that the estimated and actual purchase prices of vaccines correlate. This information will be checked against the report of inventory value on a monthly basis. Discrepancies will be investigated. A report will be submitted to the State's official accounting records when any adjustments are made that effects any previously submitted report.*

3. *A team of staff people that includes the Assistant Director of the Maine Immunization Program will meet monthly to discuss vaccine management issues and make recommendations for vaccine purchase. During each monthly meeting the latest weekly vaccine inventory is reviewed and a monthly distribution record is compared to the Inventory Purchase Tracking Spreadsheet.*

4. *The amounts prepared for the SEFA will be reviewed by the Assistant Director of the Maine Immunization Program before submission to the States' official accounting records. The review will consist of a series of checks against documents regarding the purchase of vaccines with federal and non-federal funds.*

(00-39) Bureau of Health

Immunization Grants
CFDA#: 93.268

U.S. Department of Health and Human Services
Federal Award Number: H23/CCH104482-10

Finding: Controls insufficient to ensure compliance with certification and personnel activity requirements

Some Immunization program employees worked on multiple activities or cost objectives but the distribution of their salaries or wages was supported by budgetary estimates rather than by personnel activity reports. Office of Management and Budget Circular A-87,*Cost Principles for State, Local, and Indian Tribal Governments* states:

> Where employees work on multiple activities or cost objectives a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection (5) unless a statistical sampling system… or other substitute system has been approved by the cognizant Federal agency.

Recommendation:

We recommend that the Division ensure compliance with requirements for employees who work on multiple activities or cost objectives.

Department of Human Services

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: John D. Mower

The Department of Human Services' position, as a whole, is that this certification requirement is being met by the inclusion of the MFASIS account code of the employees' position on the P-25, the Department of Human Services' weekly payroll report that is signed by the employee.

Also, the Department (and State as a whole) is in the process of converting from manual paper payroll time sheet to an electronic Time & Attendance Management System (TAMS) where employees can go on-line and enter their time and also their respective Programs then forwarded it to their supervisor with an electronic signature.

(00-40) Bureau of Human Resources

Various
<u>CFDA</u>#: Various

U.S. Department of Health and Human Services
U.S. Department of Agriculture
Federal Award Number: Various

<u>Finding</u>: Controls ineffective to ensure compliance with certification requirement (Prior Year Finding)

The Department of Human Services does not require its employees to periodically certify that they worked solely on a single federal program. Employee compensation costs in fiscal year 2000 for those individuals whose salaries are charged to a single federal award totaled approximately $28 million. Currently, the Department's weekly payroll lists the MFASIS (the State's accounting system) account code to which the employee's costs will be charged. The Department believes certification occurs when the employee signs their payroll report on a weekly basis. This method does not meet the requirements set forth by OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* Attachment B, Paragraph 11h(3), which states:

> Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Department of Human Services

All programs audited with direct and material payroll costs did not comply with the above OMB circular. Those programs are as follows:

CFDA#	Program Name
93.044 and 93.045	Aging Cluster
93.268	Immunization
10.557	Women, Infants and Children

We note that the Department periodically journals certain payroll expenditures to other account codes then those originally charged.

Recommendation:

We recommend that the Department revise its processes to implement the required certifications. To achieve compliance, consideration should be given to adding a certification clause on the weekly payroll reports signed by each employee whose salaries are charged to a single federal funding source. For certain programs, semi-annual certifications at the program level could done.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The Department of Human Services' position, as a whole, is that this certification requirement is being met by the inclusion of the MFASIS account code of the employees' position on the P-25, the Department of Human Services' weekly payroll report that is signed by the employee. Also, the Department (and State as a whole) is in the process of converting from manual paper payroll time sheet to an electronic Time & Attendance Management System (TAMS) where employees can go on-line and enter their time and also their respective Programs then forwarded it to their supervisor with an electronic signature.

(00-41) Bureau of Medical Services

Medical Assistance Program
CFDA#: 93.778

U.S. Department of Health and Human Services
Federal Award Number: 05-9805ME5028
05-9905ME5028
05-0005ME5028

Department of Human Services

<u>Finding</u>: Insufficient documentation for certain Medicaid reimbursement rates

The Bureau of Medical Services, Division of Financial Services, uses at least four methods to set rates for Medicaid services: provider cost reports, Medicare rates, calculations based on available State funds, and the administrative rulemaking process.

The Bureau could not provide documentation to support all reimbursement rates that were tested. We selected 71 Medicaid claims payments, which were associated with 29 service categories and which included 95 procedure codes. The Bureau could not document the basis for the rates established for 23 of the 95 procedure codes. The payments were for claims from 11 service categories: medical doctor services, home health services, non-traditional PHP, mental retardation group care, case management, general dentistry, mental health centers, laboratory services, rural health centers, and hospital inpatient and outpatient services. Although the Bureau had very good documentation for certain rates, such as nursing facilities and private non-medical institutions, the only basis that was provided for other rates was a memo or electronic message that stated the rate.

The Maine Medicaid Assistance Manual states that the Bureau of Medical Services, Division of Financial Services, is responsible for rate setting, claims payment, financial forecasting, developing principles of reimbursement for residential facilities and adult foster homes, for long term care, acute care and for rate setting for fee-for-service providers.

Rate setting authority is decentralized within the Bureau. Because of the number of types of allowable services, different individuals are authorized to set one or more of the reimbursement rates. The range of services also necessitates different rate setting methodologies. Procedures and management decisions must be well documented for a program whose expenditures exceed $1 billion annually.

<u>Recommendation</u>:

We recommend that the Bureau of Medical Services document those individuals or positions that are authorized to set rates, and establish written guidelines for how rates should be established and what documentation should be required and retained.

<u>Auditee Response/Corrective Action Plan</u>:

Contact Person: Christopher Nolan

The Department agrees with this finding. All individuals and their respective positions that are authorized to set reimbursement rates and how those rates are set will be documented.

Department of Human Services

The Division of Finance and Reimbursement will determine how the rates will be established and maintain all documentation related to any changes to the rates and will be the Division authorized to make changes to Medicaid rates in the Claims Management System.

(00-42) Bureau of Family Independence
Bureau of Health
Bureau of Elder & Adult Services
Division of Financial Services

Food Stamp Cluster
CFDA#: 10.551 & 10.561

U.S. Department of Health and Human Services
Federal Award Number: 1ME400401

Finding: Lack of controls to ensure accurate federal financial reporting

The Department of Human Services, Division of Financial Services, does not have adequate controls in place to ensure that accurate federal financial information is reported.

1. Expenditures recorded in the State's accounting system exceeded amounts reported to the federal government by approximately $611,000 for fiscal year 2000. Underreported federal cost outlays appeared to have been primarily related to Nutrition Education invoices of $845,140 that had been paid but not reported, and a federal audit adjustment of -$166,700.

2. The Department did not report amounts actually expended as matching funds, but merely reported an amount equivalent to the federal funds expended. We determined that the 50% match requirement for Nutrition Education costs had been met.

3. The Department reported the costs of education and training twice on the SF-269 Financial Status Report.

4. The Department did not maintain supporting documentation for SF-269 Financial Status Reports that were electronically submitted, nor did it keep a copy of the electronic filing.

Recommendation:

We recommend that the Department ensure that federal financial reporting is reviewed for accuracy, document the information that is reported, and submit revised reports as necessary to accurately reflect activity of the period.

Department of Human Services

Auditee Response/Corrective Action Plan:

Contact Person: Carol L. Bean

The Department of Human Services had already discovered that Food Stamps Nutrition Education expenses were not reported on the SF-269 Financial Status Reports. These quarterly reports had been revised to reflect these costs. The staff, responsible for preparing the FSR, will take due care in ensuring accuracy in the future. The agency will also begin to print off the electronic version of the FSR, compare it to the work copy, and have it signed by an authorizing official and kept on file.

(00-43) Division of Financial Services

Immunization Grants
CFDA#: 93.268

U.S. Department of Health and Human Services
Federal Award Number: H23/CCH104482-10

Finding: Controls insufficient to ensure accurate financial report

The Department of Human Services reported encumbrances as outlays on its annual Financial Status Report (SF-269). It also included encumbrances in the base amount to which the indirect cost rate was applied. This overstated expenditures for the period, giving the appearance that funds had been spent when they had not been.

Special terms and conditions contained in the Notice of Grant Award and in 45 CFR require the Immunization Grants Program to submit an annual SF-269 report, which reflects costs resulting from obligations of the funding period. Amounts reported as outlays should include only actual costs. Amounts encumbered should be reported as unliquidated obligations.

On the 1999 calendar year financial report, the Department overstated the total expenditure amount by $950,488, understated the unliquidated obligation amount by $388,791, and overstated the total federal share amount and unobligated balance of federal funds by $561,697. On the supporting schedule, the indirect cost base was overstated by $749,195 and the indirect cost amount was overstated by $36,711.

The overstatement of the amounts was caused by including 1999 encumbrances of $388,791, January 2000 encumbrances of $488,545 (which include $120,000 belonging to another federal program), not deducting a CHIPS Program reimbursement entry for $54,754, and misapplying some salary costs from the ESPDT reimbursement entries. The Department did not report unliquidated obligations of $388,791.

Department of Human Services

Recommendation:

We recommend that the Department ensure that the annual report is accurate, and that it includes only actual grant expenditures for the reporting period.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

Most of these questioned costs are legitimate Immunization Program costs but because of the inconsistent and unorthodox way costs were reported over different report periods they do not match up with the grant period. The Division of Financial Services has simplified its methodology in reporting only whole costs from either the MFASIS expenditure or encumbrance reports for the relevant grant period with any exceptions to this rule being well documented. The Division will discontinue reporting unliquidated obligations as liquidated and correctly prepare the report on a cash or accrual basis. NOTE: The inclusion of unliquidated obligations as liquidated obligations does not lead to duplicate reporting because these unliquidated obligations are subsequently subtracted out of the liquidated figure the following grant period.

As for the CHIPs and EPSDT costs, the Immunization Program is still waiting for a decision from the Centers for Disease Control and Prevention on whether they are allowable.

(00-44) Division of Financial Services

State Children's Health Insurance Program (SCHIP)
CFDA#: 93.767

U.S. Department of Health and Human Services
Federal Award Number: 05-9905ME5019 and 05-0005ME5019

Finding: Controls insufficient to ensure compliance with cash management requirements

The Department of Human Services did not have procedures in place to minimize time elapsed between the drawdown of federal funds and the expenditure of those funds, as required by 31 CFR § 205.

For the month of March of 2000 we noted the following:

Average daily disbursements	$20,548.58
Average daily receipts	$23,931.29
Average daily balance	$371,940.41
Number of days cash on hand	18.10

Department of Human Services

We observed during the first half of the State's fiscal year that the grant's federal cash balance fluctuated between negative $2.2 and $3 million. This was permitted by the use of estimated revenues in the State accounting system. During the second half of the fiscal year, the grant's federal cash balance was positive and resulted in 18.10 days of federal cash on hand at the end of March 2000.

Based on an analysis of cash balances for the program prepared by the Department, not enough federal funds were drawn down during the first half of the year to adequately cover program costs. To compensate for this, the Department increased its federal draws during the second half of the year.

Recommendation:

We recommend that the Department of Human Services implement procedures to ensure that federal funds are requested only for the program's immediate cash needs.

Auditee Response/Corrective Action Plan:

Contact Person: Jeffrey Pettengill

The cash situation referred to in the audit finding above was the result of adjustment to balance forward journal entries between the Medicaid account and the SCHIP account. During the first year of the State's Child Health Insurance Program (SCHIP), the MMIS Medicaid Management Information System was erroneously programmed to charge SCHIP expenses to the regular Title XIX Medicaid account not the CHIP account. The Division of Financial Services had to manually transfer by JE CHIP expenses and revenues over to the CHIP account. There was also a question as to where Title XIX Medicaid Enhancement costs were to be charged, Regular Medicaid or CHIPS? Journal entries were prepared to transfer the expenses between the two accounts. Also it was discovered that because of staff turnover, not all the costs were transferred correctly. The end result of all this movement of expenses and revenues artificially created large positive and negative cash balances as noted above. Implementation date July 1, 2001

(00-45) Division of Financial Services

Various
CFDA#: Various

U.S. Department of Health and Human Services
Federal Award Number: Various

Department of Human Services

Finding: Unsupported disbursement information reported to the federal government (Prior Year Finding)

The Department of Human Services could not provide documentation to support 20 tested disbursement amounts, of the 73 that were reported on the Report of Federal Cash Transactions (PMS-272 reports), for the following programs:

Program	CFDA #
Medicaid	93.778
TANF	93.558
Foster Care	93.658
Child Support Enforcement	93.563
Head Start	93.600
Bureau of Health	Various
Bureau of Elder and Adult Services	Various

Disbursement amounts include both actual and estimated expenditures.

The U.S. Department of Health and Human Services (HHS) requires these reports when it advances funds to recipients, and uses the PMS-272 reports to ensure cash is not held by a state for an excessive period of time. Inaccuracies in the reported disbursement amounts could impair the federal government's ability to monitor the amount of time that a state holds federally awarded cash.

Recommendation:

We recommend that the Department of Human Services prepare and retain documentation to support all disbursements reported on the PMS-272 reports.

Auditee Response/Corrective Action Plan:

Contact Person: Patricia V. Shaw

The Division of Financial Services now requires from its Account Managers supporting documentation when submitting disbursement figures to the Staff Accountant who is responsible for compiling the data for the PMS-272 quarterly report. Implementation date March 31, 2000.

(00-46) Division of Financial Services

Various
CFDA#: Various **Questioned Costs:** $963,687

Department of Human Services

U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: Controls inadequate to ensure accurate financial reporting: costs charged twice, cost allocation plan errors not detected

The Department of Human Services included certain expenditures as both direct program costs and as costs to be allocated through its departmental cost allocation plan. As a result, it double charged the federal government and overstated expenditures by $963,687 in the period under audit. We tested the Department's ten largest federal programs and identified duplicate charges in the following programs:

CFDA #	Program Name	Amount
10.561	Food Stamps	$121,980
93.575	Child Care Cluster	135,181
93.667	Social Services Block Grant	706,526
		$963,687

Also, the cost allocation plan included incorrect rates in a primary allocation schedule used to annually allocate costs of approximately $52 million to individual programs. The same schedule understated one of the allocated cost pools by $1 million, causing another cost pool to be overstated. The incorrect rates and misstated cost pools caused some programs to be overcharged and others undercharged. Agency accountants did not always revise pertinent financial reports to reflect amendments to cost allocation schedules. In addition, accountants sometimes completed financial reports using data extracted from the financial accounting system rather than from allocation schedules. This inconsistency caused both double counting and underreporting of expenditures. The Department has experienced staff turnover, which may have reduced the level of understanding of the cost allocation plan.

Recommendation:

We recommend that the Department:

1. document its processes so that staff will have guidance to follow,
2. develop controls to ensure that costs are not reported both as allocated and as direct costs,
3. direct staff to consistently use the same source of information to complete financial reports, and
4. revise financial reports as allocation schedules are amended.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

Department of Human Services

The Division of Financial Services concurs with this audit finding. More staff turnover in the position that oversees the Department's Cost Allocation Plan (CAP) has hampered what was outlined in Audit Finding 98-36. It is the Division's intent that this position be the central focal point of the CAP by verifying the accuracy of allocation schedules with MFASIS and to make sure when a staff accountant revises an allocation schedule, they go through this position who then makes sure the staff utilizing the schedules get copies for revising their Financial Status Reports.

Also, the staff accountants, who prepare financial status reports, will be asked to research where the data on the schedules they use is derived from and compare it to the direct costs they get from MFASIS to make sure there is no duplication

The Department's cost allocation plan is outdated and very cumbersome to follow and understand. We will be requesting a project position in the fall to work with our CAP position in revising and simplifying the Agency's plan. Part of this process will be to search for costs that could be claimed with the federal government on the plan as well as costs that may be claimed in duplicate. Implementation date June 30, 2002.

(00-47) Division of Financial Services

Various
CFDA#: Various

U.S. Department of Health and Human Services
Federal Award Number: Various

Finding: No procedures to ensure that pass-through responsibilities are met (Prior Year Finding)

The Department of Human Services does not have procedures in place in its Bureaus, or with a centralized authority, to ensure that subrecipients submit corrective action plans and that its personnel issue management decisions. The Department did not obtain corrective action plans for audit findings from three of five subrecipients. Two other plans were incomplete. Additionally, the Department did not issue formal management decisions in any of the five cases.

The Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart D Section .400, requires the pass through entity to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and to ensure that the subrecipient takes appropriate and timely corrective action.

Recommendation:

We recommend that the Department assign central oversight responsibilities and establish procedures to ensure that corrective action reports are requested and management decisions are issued as required.

Auditee Response/Corrective Action Plan:

Contact Person: Jeannette Talbot

The Community Services Center, in response to this finding in the prior year audit, has established procedures to ensure follow-up on audit corrective action plans. The CSC Action Transmittal was issued on July 1, 2001.

(00-48) Division of Financial Services

Various
CFDA#: Various

U.S. Department of Health and Human Services
U.S. Department of Agriculture
Federal Award Number: Various

Finding: Controls do not ensure compliance with cash management requirements (Prior Year Finding)

The Division of Financial Services of the Department of Human Services is not in compliance with the written agreement between the State and the U. S. Secretary of the Treasury that implements the Cash Management Improvement Act (CMIA). This agreement assigns various methods of drawing federal funds to individual programs.

All federal programs that were tested did not comply:

CFDA #	Grant Name
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
10.558	Child Care and Adult Care Food Program
10.561	State Administrative Matching Grants for Food Stamp Program
93.667	Social Services Block Grant

Title 31 CFR § 205.17(e) requires a State to maintain records supporting the implementation of the CMIA. The Division did not maintain adequate records to support drawdown amounts for three of the four programs tested.

Recommendation:

We recommend that the Division and the Department of Human Services establish procedures to comply with CMIA requirements.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The Division of Financial Services has continued to work with the Office of the Treasurer of State to come up with the cash draw down techniques that best fits the expenditure patterns in these and all the Department's federal programs. This is accomplished by conferring with the Deputy State Treasurer every year before the State's CMIA (Cash Management Improvement Act) agreement is signed to see if any changes are required. It is difficult to come up with a scheduled funding technique that fits the variable expenditure patterns in these complex programs. Implementation date July 1, 2000.

(00-49) Division of Financial Services

Various
CFDA#: Various

U.S. Department of Health and Human Services
U.S. Department of Agriculture
Federal Award Number: Various

Finding: Procedures do not ensure accurate reporting of information for the Schedule of Expenditures of Federal Awards (Prior Year Finding)

The Department of Human Services reported incorrect amounts for inclusion in the Schedule of Expenditures of Federal Awards (SEFA) for six of the eight programs that were audited as major federal programs in State fiscal year 2000. The Department also reported incorrect amounts for a non-major program (Temporary Assistance for Needy Families). Each federal program is required to report annual program expenditures on the SEFA.

Department of Human Services

Federal grant name	CFDA #	Overstated	Understated
Aging Cluster	93.044, 93.045	$621,490	
Food Stamps	10.551, 10.561	245,201	
Child Care Cluster	93.575, 93.596	727,534	
Immunization	93.268		$ 433,354
Child and Adult Food Care	10.558		462,415
Temporary Assistance to Needy Families	93.557		5,190,526
Net misstatement			$4,492,070

Medicaid (CFDA #93.778) was also misstated. The reported amounts have been corrected in the SEFA.

The Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Sec .310 (b)(3), states that the auditee shall "provide total Federal awards expended for each individual Federal program and the CFDA (Catalog of Federal Domestic Assistance) number."

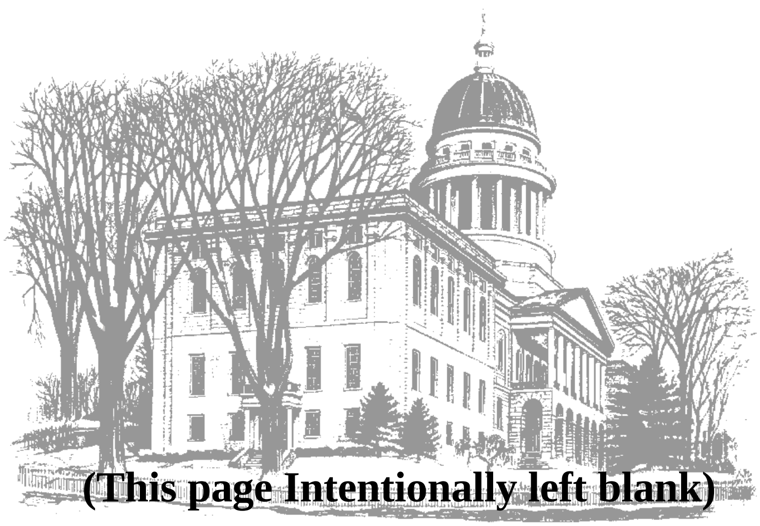
Recommendation:

We recommend that the Department develop procedures to ensure the accuracy of the amounts reported on the Schedule of Expenditures of Federal Awards.

Auditee Response/Corrective Action Plan:

Contact Person: John D. Mower

The Division of Financial Services, which is responsible for the preparation of the SEFA, concurs with this finding. While some of these inaccuracies are from information outside the Divisions' control, The Director of Budget & Fiscal Operations has strongly impressed upon the Divisions' staff the importance of the SEFA and to take due care in preparing the figures for future SEFAs. The fiscal complexity of some federal funding sources for the Department of Human Services can make this challenging but it should be attainable. Implementation date July 1, 2001.



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Department of Inland Fisheries and Wildlife

(00-50) Bureau of Administrative Services

Sport Fish and Wildlife Restoration Cluster
CFDA#: 15.605 & 15.611

U.S. Department of Interior
Federal Award Number: Various

Finding: Cash controls and records inadequate

The Department of Inland Fisheries and Wildlife does not have adequate controls over cash, or controls to ensure that revenues and expenditures are recorded in the correct fund. Although the Department maintains extensive internal records, its personnel could not initially explain a year-end federal cash balance of $285,000 for this program. Because grant funds are drawn on a reimbursement basis, no cash balances should exist.

The Department eliminated $259,772 of this cash balance with an adjustment in fiscal 2001 to charge the account for expenditures of fiscal 1999 that had originally been paid from the General Fund. However, an additional $155,000 of fiscal 1999 expenditures have not been transferred to the federal account because of insufficient cash. When Department personnel identified the specific charges transferred and those remaining to be transferred, we determined that the charges made in fiscal 2001 were appropriate. There is no explanation why sufficient cash was not available for the remaining $155,000 in expenditures, when cash had been drawn down.

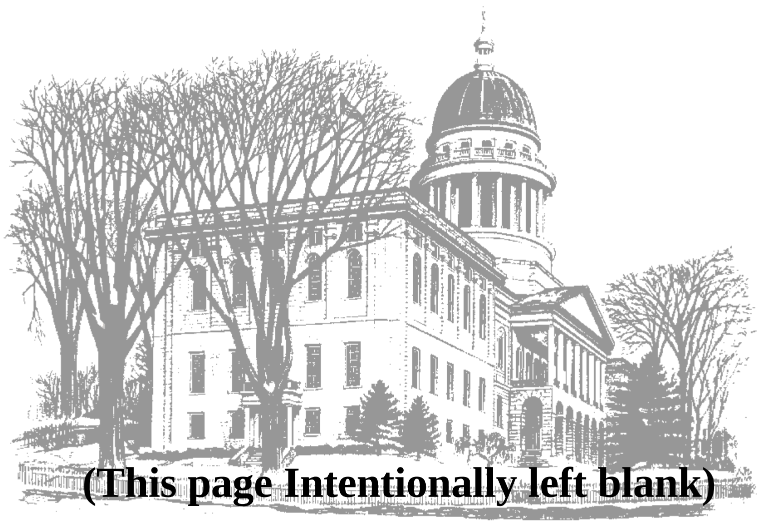
Recommendation:

We recommend that the Department develop internal controls to ensure complete and accurate recording of all transactions, and that documentation be maintained. We further recommend that the Department maintain and review federal cash balances.

Auditee Response/Corrective Action Plan:

Contact Person: Don Ellis

While the auditor's suggested recommendations were not in place during the period under audit, they were implemented prior to the audit and were in place during the audit. Specifically, journal numbers have been added to monthly summary sheets to tie the expense to revenue; a copy of all pertinent journals are maintained in each monthly file; and, as a result of this audit IF&W will insure all journals are reviewed on a monthly basis with regard to cash drawn as compared to expenses.



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Maine Department of Labor

(00-51) Office of Administrative Services

Unemployment Insurance/Employment Services Cluster
CFDA#: 17.225, 17.207

U.S. Department of Labor
Federal Award Number: Various

Finding: Procedures do not ensure compliance with the Cash Management Improvement Act

The Maine Department of Labor did not draw down federal funds in accordance with the terms of the Cash Management and Improvement Act agreement between the State of Maine and the U.S. Department of Treasury, as follows:

1. For the personal services portion of various federal grants, the Department has been requesting funds on the Friday before the Wednesday that payroll is issued. The agreement specifies drawdowns to be made based on the average day of clearance.

2. The Department could not identify the beginning cash balances attributable to portions of the grants for which the pre-issuance funding technique is used. In addition, we found no documentation to support the amount of federal funds that were drawn; drawdowns appear to be estimated and not based on actual cash needs. The Department does not maintain records in a manner to assist in minimizing the time elapsed between drawdown and disbursement of federal funds, as required.

3. We tested one month's cash activity for CFDA #17.225 using conservative estimates of the beginning cash balance. We found the average number of days' cash on hand to be ten. This pre-issuance method requires the department to request funds not more than three business days prior to disbursement.

Recommendation:

We recommend that the Maine Department of Labor review its procedures and ensure compliance with the Cash Management Improvement Act. We also recommend that the Department maintain documentation of its drawdown activity.

Maine Department of Labor

Auditee Response/Corrective Action Plan:

Contact Person: Rose M. Bailey, Chief Accountant, 287-1276

The current State accounting system requires that cash funds be received and available prior to making disbursements.

The MDOL OAS is requesting assistance from State Controllers' Office with regard to establishing an accrual in order to permit check issuance prior to receipt of federal funds. With the further assistance of the Maine State Treasury, MDOL OAS would then discuss the use of the Average clearance pattern or other alternative methods and amend the existing CMIA agreement accordingly.

(00-52) Office of Administrative Services

Various
CFDA#: Various

U.S. Department of Labor
Federal Award Number: Various

Finding: Accounting systems not reconciled (Prior Year Finding)

The Maine Department of Labor does not reconcile, on a timely basis, federal expenditures recorded on its internal accounting and reporting system (DOLARS) to the statewide accounting system (MFASIS) for various federal program. All expenditures are made through MFASIS. DOLARS is used to allocate indirect costs and to charge direct costs to the applicable federal grant, as well for federal financial reporting. The Department received 25 federal grants in fiscal year 2000, for a total of $64 million in federal expenditures.

Procedural deficiencies hinder the recording of transactions and the process of reconciliation, and complicate the process of cost allocation.

1. Transactions are separately coded and entered into the two systems (MFASIS and DOLARS). Each system has its unique account code structure. DOLARS transactions are entered into approximately 1000 fund ledgers. Due to the complexity of the account code structure, and the duplication of data entry, errors are inevitable.

2. The Department maintains a master file of each employee's hourly rate and benefit package on DOLARS. This master file must be updated whenever an employee's salary or benefits package changes. The Department tracks these changes for approximately 670 employees.

3. Certain prior period adjustments are not made on either system. Department personnel stated that some of these adjustments are due to timing differences; therefore, the adjustments may have cleared in subsequent periods.

The Common Rule, Section 20, Standards for Financial Management Systems, states:

> A State must expend and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State...must be sufficient to (1) permit preparation of reports required; and (2) permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

It is noted that a reconciliation of these grants has begun; however, not all reconciling items have been researched to determine the appropriate resolution.

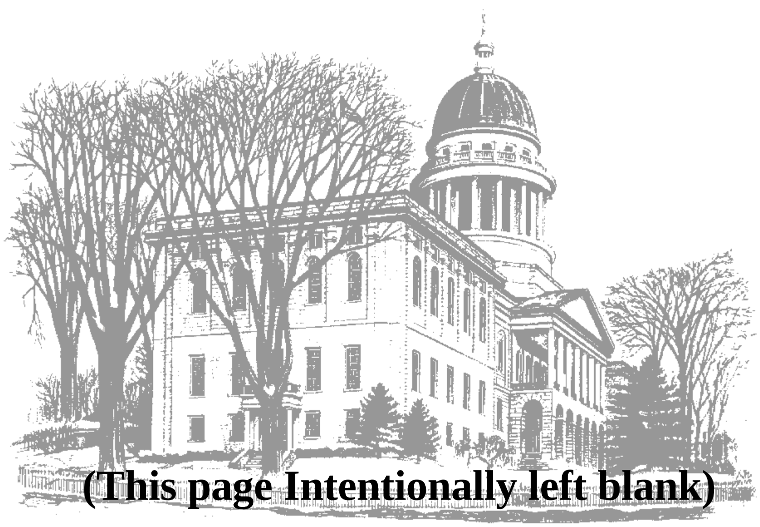
Recommendation:

In order to ensure compliance with federal regulations, accurate financial reporting and effective management review of allocated expenditures, we recommend that the Department reconcile federal revenue and expenditures recorded on DOLARS to those recorded on MFASIS for each federal grant. We recommend that the reconciliation be performed on a monthly basis and prior to preparing any federal or State financial reports.

Auditee Response/Corrective Action Plan:

Contact Person: Rose M. Bailey, OAS

The MDOL Office of Administrative Services concurs with the finding. The OAS has established a team to aggressively focus on reconciling all outstanding federal appropriations between the internal cost accounting system (DOLARS) and the State accounting system (MFASIS). It is anticipated that all reconciling items and adjusting entries will be cleared and reconciliations current by June, 2002. In addition, with the implementation of TAMS (Time and Attendance Management System), the MDOL will explore the possibility of using a download from TAMS to populate our internal time distribution system and discontinue reliance on the internal employee master file that requires considerable maintenance.



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Department of Mental Health, Mental Retardation and Substance Abuse Services

(00-53) Office of Substance Abuse

Substance Abuse Prevention and Treatment Block Grant
CFDA#: 93.959

U.S. Department of Health and Human Services
Federal Award Number: 98 B1 ME SAPT-01

Finding: Controls insufficient to ensure compliance with cash management requirements for subgrantees (Prior Year Finding)

The Office of Substance Abuse did not have controls in place to minimize the time elapsed between its draw down of federal funds and the expenditure of those funds by its subgrantees, as required by 31 CFR §205, 45 CFR §92 and U.S. Treasury Circular 1075.

The office has developed contract language that specifies quarterly payments to subrecipients rather than payment for immediate cash needs. In many circumstances, payments were made as much as two weeks in advance of the scheduled payment date.

As of January 2001, the Office of Substance Abuse has taken steps to minimize excess cash disbursed to subrecipients by amending payment schedules in certain existing contracts to specify monthly payments.

Recommendation:

We recommend that the Office of Substance Abuse continue to transition subrecipients to monthly payment schedules.

Auditee Response/Corrective Action Plan:

Contact Person: Jeffrey Toothaker

The Office of Substance Abuse has amended its procedures to ensure that subrecipient payments are made on or close to the dates specified in the contracts. This change was implemented during State fiscal year 2000.

The contracts that have been converted from quarterly to monthly payments include approximately eighty (80) percent of Block Grant funding, approximately one-third of total contracts. This change was implemented with payments in January, 2001.

Department of Mental Health, Mental Retardation and Substance Abuse Services

The Office believes the additional administrative effort to process monthly payments for the remaining two thirds of contracts would place an undue burden on fiscal and contracting staffs, and is not necessary to comply with the regulations cited above.

Department of Public Safety

(00-54) Bureau of Highway Safety

Byrne Formula Grant Program
CFDA#: 16.579

U.S. Department of Justice
Federal Award Number:

Finding: Inadequate documentation of compliance with earmarking requirements

The Department of Public Safety does not maintain required documentation in order to allow certain expenditures to be used to meet pass-through earmarking requirements. A letter from the U.S. Department of Justice states that grant monies used to pay salaries and fringe benefits of local officers assigned to regional task forces of the Maine Drug Enforcement Agency may be used to meet the pass through requirements, as long as specific conditions are met. The Department is required to obtain "… evidence that the positions vacated by assigned agents have had their yearly budget allocations increased by amounts at least equal to the reimbursed personnel costs." No written documentation exists to support this requirement.

Funds passed through to local communities totaled $1,848,370 for the period under audit. Grant monies used to pay salaries and fringe benefits of local officers assigned to the regional task forces of the Maine Drug Enforcement Agency amounted to $1,235,975, or 67% of the total funds awarded to local communities.

Recommendation:

We recommend that the Department of Public Safety require the local governments to forward documentation or evidence supporting that vacated positions have been backfilled or that their yearly budget allocations have been increased.

Auditee Response/Corrective Action Plan:

Recommendation will be implemented by requiring all existing and future grants to send documentation and to be monitored by the grants manager David Giampetruzzi. Will request documentation for next reporting cycle (September 2001).

(00-55) Bureau of Highway Safety

Byrne Formula Grant Program
CFDA#: 16.579 **Questioned Costs:** $34,421

Department of Public Safety

U.S. Department of Justice
Federal Award Number: Various

Finding: Procedures inadequate to ensure compliance with payroll requirements (Prior Year Finding)

The payroll costs of three Department of Public Safety employees were charged entirely to the Byrne Formula Grant Program. Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State and Local Governments*, allows payroll costs to be charged to a federal program only to the extent of the benefit received. Journal entries were made to transfer the non-related payroll costs; however, only a portion of the non-related costs was transferred. We therefore question the remaining wages and fringe benefits of $14,459.

The Byrne Formula Grant Program was also charged with payroll costs of a fourth employee, a portion of which was attributable to other U.S. Department of Justice Programs. The employee's activity reports do not distinguish between different Department of Justice programs, so we question the entire $19,962 payroll costs charged to the Byrne Formula Grant Program.

In addition, thirty-six employees of the Department who worked solely for the Byrne Formula Grant Program during fiscal year 2000 did not submit semi-annual certifications, as required by OMB Circular A-87.

Recommendation:

We recommend that the Department review its procedures, and ensure that payroll costs are charged to the Byrne Formula Grant Program only to the extent that work is performed for the program. We also recommend that certifications be prepared for employees who work solely for one federal program.

Auditee Response/Corrective Action Plan:

Payroll adjustments will be made and certifications will be prepared for individuals working solely for one grant. Procedures implemented following FY1999 audit fndings in September 2000. This requirement will be monitored by Jim Grover.

(00-56) Bureau of Highway Safety

Byrne Formula Grant
CFDA#: 16.579

Department of Public Safety

U.S. Department of Justice
Federal Award Number: Various

<u>Finding</u>: Procedures inadequate to ensure compliance with pass-through requirements (Prior Year Finding)

The Department of Public Safety failed to identify the Federal Award name and CFDA number on its contracts with subgrantees, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*.

In addition, deadlines for subrecipient financial reports were not met. Rider D, Additional Regulations, of the contract states that reports are due within 15 days after the end of each quarter. Only two out of twenty-nine reports that were reviewed were filed timely. Four of the twenty-nine were never filed. The remaining twenty-three reports were filed from a week to over a month late.

<u>Recommendation</u>:

We recommend that the Department of Public Safety identify the Federal Award name and CFDA number on future contracts. We also recommend that the Department of Public Safety enforce its requirement that subrecipients submit timely financial reports.

<u>Auditee Response/Corrective Action Plan</u>:

Recommendation implemented by grants manager David Giampetruzzi, by including the Federal Award name and CFDA number on contracts effective September 2000.

(00-57) Bureau of Highway Safety

Byrne Formula Grant
<u>CFDA</u>#: 16.579

U.S. Department of Justice
Federal Award Number: Various

<u>Finding</u>: Procedures do not ensure compliance with cash management requirements (Prior Year Finding)

Department of Public Safety

The Department of Public Safety did not comply with cash management requirements. Tile 31 CFR §205 Subpart B requires that States time drawdowns to be "… as close as administratively feasible to the actual cash outlay." One month of three months tested had an average of 23 days cash on hand.

Recommendation:

We recommend that the Department of Public Safety implement procedures to ensure that federal funds are requested only for immediate cash needs.

Auditee Response/Corrective Action Plan:

The Department will follow the new provisions required by Treasury in requesting drawdowns and cash requests and cash balances will be monitored by Jim Grover for compliance with cash management requirements effective August 2001.

(00-58) Administrative Services Division

National Guard Operations and Management Projects
CFDA#: 12.401

U.S. Department of Defense
Federal Award Number: DAHA17-99-2-1000

Finding: Accounting procedures inadequate (Prior Year Finding)

The Military Bureau of the Department of Defense, Veterans and Emergency Management uses General, Federal Expenditure, and Special Revenue Funds interchangeably. The Department charges transactions either to the General Fund or to a federal expenditure account based on available allotment rather than in accordance with federal/State cost sharing ratios contained within the applicable appendix of the *Cooperative Agreement.* Although the Department requests federal reimbursement based on the appropriate cost-sharing rate, it does not correlate requests to accounting records by fund. Other supporting documents are used. When a reimbursement is received, the Department and its Accounting Service Center at the Department of Public Safety credit revenue to the Federal Expenditure Fund, regardless of which fund incurred the expenditure. Expenditures are not transferred to the reimbursed fund. This distorts State accounting records as funds lose their identity and also renders budgetary controls ineffective. Crediting the Federal Expenditure Fund for all revenue also gives the appearance of excess federal cash on hand.

Department of Public Safety

All reimbursements that were tested were fully supported, but because reimbursement requests are based on batches of individual invoices, controls are not in place to ensure that all eligible reimbursements are requested. The Department relies on the knowledge of its accounting personnel to request appropriate reimbursement. The Department's ability to obtain correct reimbursement amounts would be affected should there be a change in personnel.

Government accounting standards (GASB 1800.103b) require that reimbursements for amounts paid from one fund and later charged to another should be recorded as a reduction of expenditures in the first fund. Also, 32 CFR 33.20(a), *Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments,* requires States to expend and account for grant funds in accordance with procedures for State funds. Fiscal control and accounting procedures of the State must be sufficient to permit preparation of reports required and permit the tracing of funds to a level of expenditure adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

Lack of proper accounting procedures hinders management's ability to:

? provide proper accountability of federal vs. State and grant vs. non-grant expenditures,
? ensure that the State complies with matching requirements,
? provide for proper cash management by minimizing the time elapsed between the drawdown of federal funds and the disbursement of those funds, and
? generate accurate federal expenditure data for the State's *Schedule of Federal Awards.*

In addition, federal revenue drawn down for the Military Construction Grant (CFDA# 12.400) was credited to the same account as revenue drawn down for the cooperative agreement.

Recommendation:

We recommend that both the Department of Defense, Veterans and Emergency Management and Department of Public Safety record transactions in the correct fund.

We recommend that both Departments revise their process for recording federal reimbursements, so that reimbursements can be reconciled to disbursements recorded in the federal expenditure fund. We also recommend that processes be documented so that a change in personnel will not have negative consequences.

We further recommend that both Departments comply with the requirements of GASB 1800.103b and 32 CFR Section 33.20(a).

Department of Public Safety

<u>Auditee Response/Corrective Action Plan</u>:

Lin Gosselin (DFE) and Sue Hammer (DPS) are currently completing a new set of accounts that will be used for all processes i.e. vouchers, cash receipts, journal vouchers, to better track payments and cash against the proper appendices and accounts. All invoices that need split coding will be done properly using the above mentioned codes. All reimbursements will also be coded to the correct account and appendix using these codes. The new accounting codes will be in place not later than September 30, 2001.

Department of Transportation

(00-59) Office of Passenger Transportation

Formula Grants for Other Than Urbanized Areas
CFDA#: 20.509 **Questioned Costs:** $60,807

U.S. Department of Transportation
Federal Award Number: ME-18-X018
ME-18-X019
ME-18-X020

Finding: Procedures not effective to ensure expenditure of federal funds within the period allowed

The Office of Passenger Transportation expended grant funds beyond the periods in which they were available for expenditure. It also did not commit or expend all funds available, thereby not taking full advantage of the grant awards.

Grant funds are available for three fiscal years, beginning with the year of apportionment. In fiscal year 2000, the Office expended $41,511 of grant funds originally apportioned in fiscal year 1995, and $19,296 of grant funds originally apportioned in fiscal year 1996. Because these funds were not expended within the period of availability, we question costs of $60,807.

The Department's policy is to apportion grant award funds to project identification numbers (PINS) on its internal accounting system (PROMIS/MEDIA). For three grants, for which the period of availability has ended, $88,224 was not apportioned. The three grants did not expend all of the funds awarded. Unspent funds are as follows:

ME-18-X018	$62,236
ME-18-X019	17,557
ME-18-X020	97,761
	$177,554

Because the Department did not reconcile the total award to the apportioned PINS and also did not reconcile the PROMIS/MEDIA system to the State accounting system, it was not aware that funds remained unspent.

Recommendation:

We recommend that the Office of Passenger Transportation implement procedures to ensure expenditure of federal funds within the period allowed. We recommend that the Office close the three grants for which the period of availability has ended and file final Financial Status Reports.

We further recommend that the entire grant award be reflected on the PROMIS/MEDIA system, or that reconciliations be performed periodically.

Auditee Response/Corrective Action Plan:

We concur with the finding. Barbara Donovan is the responsible party. We will seek clarification in writing from the Federal Transit Administration to resolve this issue. Our actions defining the "period of availability" have been in accordance with FTA past practices.

(00-60) Office of Passenger Transportation

Formula Grants for Other Than Urbanized Areas
CFDA#: 20.509 **Questioned Costs:** $139,155

U.S. Department of Transportation
Federal Award Number: ME-18-X019
ME-18-X020
ME-18-X021

Finding: Procedures do not ensure compliance with earmarking requirements

Grant provisions require that at least fifteen percent of the State's annual apportionment be spent to support rural intercity bus transportation, unless the State's governor certifies that intercity needs are being adequately met. For three grant awards, the Office of Passenger Transportation did not meet this earmarking requirement. Questioned costs are the difference between required and actual expenditures.

Recommendation:

We recommend that the Office of Passenger Transportation implement procedures to ensure compliance with earmarking requirements.

Auditee Response/Corrective Action Plan:

We concur with the finding. Barbara Donovan is the responsible party. We will seek clarification in writing from the Federal Transit Administration to resolve this issue. Our actions defining the "period of availability" have been in accordance with FTA past practices.

Department of Transportation

(00-61) Office of Passenger Transportation

Formula Grants for Other Than Urbanized Areas
CFDA#: 20.509 **Questioned Costs:** $48,144

U.S. Department of Transportation
Federal Award Number: ME-18-X021
ME-18-X025

Finding: No controls to ensure compliance with payroll requirements

Payroll expenses of $48,144 for the Manager of the Passenger Transportation Programs were charged entirely to this program. The Manager's job description includes overseeing and directing division operations. Of the five staff positions currently in the division, only one is charged to this grant. The other four positions are charged to urban transportation, capital improvements, federal aviation and to the General Fund.

The Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, allows costs to be charged to a federal program only to the extent of the benefit received.

Recommendation:

We recommend that the Department implement procedures to ensure and document compliance with federal payroll requirements.

Auditee Response/Corrective Action Plan:

We concur with the finding. Barbara Donovan is the responsible party. We will seek clarification in writing from the Federal Transit Administration to resolve this issue.

(00-62) Office of Passenger Transportation

Formula Grants for Other Than Urbanized Areas
CFDA#: 20.509

U.S. Department of Transportation

Department of Transportation

Federal Award Number: ME-18-X021
ME-18-X023

<u>Finding</u>: Procedure to ensure compliance with federal cash management requirements not followed (Prior Year Finding)

The Maine Department of Transportation made $275,256 available for the purchase of several buses 7 to 210 days in advance of disbursement by two subrecipients. Approximately sixteen percent of total grant expenditures were used for these two payments. Had the Department followed its procedure of not releasing grant funds until after the buses had been satisfactorily inspected, these premature payments would not have been made.

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (the "Common Rule"), Subpart C § 21(b), requires that methods and procedures for payment minimize time elapsing between the transfer of funds and disbursement by the grantee or subgrantee, in accordance with 31 CFR Part 205.

<u>Recommendation</u>:

We recommend that the Department follow its established procedures to ensure compliance with federal regulations regarding subrecipient cash management procedures.

<u>Auditee Response/Corrective Action Plan</u>:

We concur with the finding. Barbara Donovan is the responsible party. The period of this audit was prior to the delivery of the results from the previous years' findings. The corrective actions have been taken.

Office of the Treasurer of State

(00-63) Office of the Treasurer of State

<u>CFDA</u>#: Various

U.S. Department of Treasury
Federal Award Number: Various

<u>Finding</u>: Internal control not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)

The Office of the Treasurer of State did not satisfy all administrative requirements of the Cash Management Improvement Act (CMIA). The Office is responsible for administering the Act for the State of Maine. This includes negotiating the annual CMIA Agreement between the State and the U.S. Treasury Department, preparing the CMIA Annual Report, and monitoring State agency compliance with CMIA provisions.

We noted the following instances of noncompliance or inadequate internal control:

? One federal assistance program (Child Care and Development Block Grant) was omitted from the Agreement and from the Annual Report for fiscal year 2000. As a result, no drawdown methods were designated, nor interest calculations made for this program.

? The Office did not periodically review agency cash management records for programs with interest neutral drawdown methods, as required by the *CMIA Policy and Procedures Manual.* The Office did review records relating to preissuance funded program components.

? The Departments of Labor, Human Services, Education and Transportation did not comply with drawdown procedures outlined in the Treasury State Agreement (TSA) for all programs included in the TSA. The Office did not take action to change the drawdown procedures for these departments or to report an interest accrual on all instances of premature drawdowns. Interest accruals were calculated for instances of premature drawdowns only when reported as exceptions by state agencies.

? The Office made unsupported adjustments to interest calculations for Department of Labor programs, which use preissuance funding methods. Interest calculations were revised because data produced by the computer program used to calculate interest was unreliable. Although attempts were made to correct accounting information used by the program to calculate interest, results continued to be suspect.

Office of the Treasurer of State

Recommendation:

We recommend that the Office ensure that all programs are properly addressed by the Agreement, that it monitor agencies' compliance with drawdown methods, and that it retain supporting documentation for any actions taken.

Auditee Response/Corrective Action Plan:

Deputy State Treasurer Holly A. Maffei is responsible for the corrective action plan with regards to this finding.

The corrective action plan has already begun. The Treasurer's Office will utilize the last available SEFA, in conjunction with the threshold established by the Department of Audit, to determine those grants that need to be included in the contract. This will ensure that all programs are properly addressed.

Effective with the Fiscal Year 2002 contract, State Agencies received a full copy of the CMIA Agreement filed with the U.S. Treasury and were asked to return a sign-off form indicating their understanding and agreement to the terms of the contract. This places the necessary responsibility with the agencies for complying with the contract. In addition, the Treasurer's Office will discuss processes to monitor agencies and possibly amend the CMIA Policies and Procedures to ensure effective monitoring and responsibility.

The Federal Government clearly promotes interest-neutral drawdown techniques. The Treasurer's Office is working with State Agencies and the Bureau of Accounts and Control to convert from preissuance funding to interest-neutral methods wherever appropriate. The Treasurer's Office intends to replace the Federal check clearance patterns with updated State clearance patterns in the computer program that calculates interest due to the Federal Government for preissuance programs. When this change is made in the program, it will provide an opportunity to review the interest calculations.

Changes should be implemented by the Fiscal Year 2003 effective Cash Management Improvement Act contract date.

STATE OF MAINE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2000

Finding Number: 00-01
Department of Administrative and Financial Services
Bureau of Accounts and Control
Contact Person: Terry Brann

Finding: General Fixed Assets Account Group not presented (Prior Year Finding)

Corrective Action Plan:

The procedures are and have been available along with the automated AMS Fixed Asset module for several years. It is working well for virtually all agencies. Currently, there is just one agency with outstanding Fixed Assets. That agency has completed a review of all their parcels of land and simply must add these to the database. We expect the General Fixed Asset Group to be reported for FY01.

Finding Number: 00-02
Department of Administrative and Financial Services
Bureau of Accounts and Control
Division of Financial and Personnel Services
Bureau of General Services
Contact Person: Kirsten Figueroa

Finding: Inadequate internal control over lease transactions identification, classification and reporting (Prior Year Finding)

Corrective Action Plan:

During Fiscal Year 2000, the Division of Financial and Personnel Services worked with the Bureau of General Services in preparation for the implementation of Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 13, Accounting for Leases. Data was collected on all active leases. Each lease was analyzed to determine if it was capital in nature and entries were made to MFASIS to record the assets, outstanding lease obligations, and accumulated depreciation.

Through the course of the 2000 audit, it was determined that there were errors with the data collected by BGS, as well as the way it was interpreted. Based on recommendations made by the Department of Audit, the data collected was reexamined, eliminating the executory costs and cancelable portions of the leases for all computations. Adjustments were made to the accounting system to record the changes found during this analysis.

Upon further examination of the capital leases, Audit indicated that the Fair Market Values used during the analysis were incorrect. The Fair Market Values of the building and land in each lease should be as of the lease inception date. However, when the data was collected, it was not specified to ask for the Fair Market Value as of the inception date; therefore the data is as of June 2000. This error is being corrected. The Bureau of General Services is reexamining the leases and the Values are being researched and recorded as of the inception date. As the data is collected, the Division of Financial and Personnel Services is analyzing the leases and calculating the necessary adjustments. The work was completed on June 30, 2001, and the adjusting entries were completed during Period 13. The Department will be in compliance for Fiscal Year 2001.

Finding Number: 00-03
Department of Administrative and Financial Services
Bureau of Accounts and Control
Bureau of the Budget
Contact Person: Terry Brann

Finding: Internal controls inadequate to ensure accurate budgetary reporting

Corrective Action Plan:

As the audit report clearly indicates, internal controls in the Bureau of Accounts & Control corrected the $3 million double entry. Although the MFASIS controls were unaffected, budgeted expenditures were overstated in the budget vs. actual financial statement. The finding relating to four financial orders involving dedicated revenue would have impacted the budget amounts within individual categories in the financial statement but would not have affected the overall financial position. The Bureau of the Budget has taken steps to implement internal control procedures to minimize the likelihood of a similar occurrence. Additionally, the Bureau of Accounts and Control will reconcile the two systems prior to preparing the budget vs. actual statement in the future.

Finding Number: 00-04
Department of Administrative and Financial Services
Division of Financial and Personnel Services
Bureau of Alcoholic Beverages and Lottery Operations
Contact Person: Kirsten Figueroa

Finding: Accurate financial reporting not ensured

Corrective Action Plan:

Cash – In – Transit: It is agreed that errors occurred in the Alcoholic Beverages Cash-In-Transit account and that adjustments were required for Fiscal Year 2000. A major portion of the issue cited by the Auditor results from coding credit card transactions to a balance sheet account other than Cash – In – Transit. The Cash – In – Transit account averages a flow through of over $76.0 million per year. The errors cited amount to a little less than 2% of the total activity for that account.

Since the audit, better controls have been put in place, to ensure the correct coding of items that belong in Cash – In – Transit and to ensure the balance in the account is in reconciliation between the Tomax System detail and the General Ledger balance.

Accounts Receivable: We agree with the finding. The understatement of Accounts Receivable is the other side of the Cash – In – Transit adjustment. We also agree that there were several agent invoices that exceeded the 3-day payment limit as required by Title 28 – A, Subsection 352, M.R.S.A.

Since the audit, better controls have been put in place, to ensure the correct coding of items that belong in Accounts Receivable and to ensure the balance in the account is in reconciliation between the Tomax System detail and the General Ledger balance. We are also working with the Bureau of Alcoholic Beverages and Lottery Operations to ensure better compliance with Title 28 – A, Subsection 352, M.R.S.A.

Accounts Payable: We are in agreement that we had $170,000 variance. The ending accounts payable entry is an estimate of the year end. Occasionally, in the year end process, as items are being scheduled for accrual estimates, they may be incorrectly reflected as a payable obligation when in fact they have been scheduled for payment or paid before year end. During the course of the audit, we made three attempts to create a more accurate payables schedule, but ended up with a final variance of $170,000. When put into perspective with the total accounts payable for Liquor Operations of about $53.8 million, this variance amounts to .316%. We believe that the Division's control over payables is adequate. We are examining procedures to increase our accuracy and ensure that better recording procedures are put in place to prevent a reoccurrence of this finding.

We disagree that controls over vendor payables are inadequate. Our payment to liquor vendors for the year are in excess of $44 million, and are controlled by Liquor Operations and the Division of Financial and Personnel Services.

With regard to the warehouse operation, representatives from Fore River met with the Bureau of Alcoholic Beverages and the Audit Department to review their internal controls and warehouse security. Each time an order is submitted to the bailment warehouse and accepted for shipment, an electronic report is generated and sent to the Central Office Merchandising Unit. The Merchandising Unit verifies the Warehouse Shipment Notice against the online receiving reports from stores, and manual receiving reports from agents. The resulting spreadsheet is sent to the Division of Financial and Personnel Services to be matched against vendor invoices for payment. Any discrepancy noted by Accounting is discussed with BABLO. Once shipped, the order can't be changed. If the order is different than the shipped amount or goods requested, we have an exception report that is researched. However, there is always the possibility that an order may be changed before shipment (say wrong item number). When the shipment arrives at its destination it is physically checked, discrepancies noted, and Central Office and the Division of Financial and Personnel Services notified.

The necessary controls are in place as each shipment is checked for accuracy at four separate locations during the Bailment process with all exceptions researched and approved by BABLO and Fore River before payment is made. Fore River also described in detail their security procedures in the warehouse. Therefore, we believe Fore River and the bailment process have adequate and effective controls in place regarding this process.

Accounts Receivable / Sales: It is agreed that a week of Sales (and therefore Accounts Receivables) was missed in July 2000 amounting to an error of less than 1% of sales.

- ? The accrual process has been reviewed and an adjustment made.
- ? SGI is to send Sales and Prize Expense data electronically. This would eliminate the need for data entry of these figures off paper reports, which led to the missing Sales error.

Prize Reserve: We appreciate the discovery regarding the mistakes in the calculation of the Lottery Prize Reserve. That calculation error did cause an understatement in the Fiscal Year 2000 reserve, and an understatement of the Fiscal Year 2001 reserve. Adjustments for both prior year and current year have been calculated and recorded. An entirely new database and spreadsheet have been constructed to ensure the proper funding of the Reserve going forward.

The Division has examined its accounting procedures and personnel assignments related to the two funds that comprise the Bureau of Alcoholic Beverages and Lottery Operations accounting. We have assigned new staff members where appropriate and have put better control procedures in place to prevent the repeat of these findings.

Finding Number: 00-05
Economic & Community Development
Office of Community Development
Contact Person: Orman Whitcomb

Finding: Loans receivable balances not recorded on the State's financial statements

Corrective Action Plan:

On or before August 31, 2001, the DECD will provide the Office of the State Controller the loans receivable outstanding as of June 30, 2001 as well as an estimate for balances potentially uncollectable and will continue this practice each year. The information for the period ending June 30, 2002 will be provided by July 31, 2002 and by July 31st for each period ending June 30th thereafter.

Finding Number: 00-06
Department of Human Services

Bureau of Elder and Adult Services
Contact Person: Karen Elliott

Finding: Reported balance of assets held in trust not supported

Corrective Action Plan:

To correct the noted discrepancies between reported balances and bank balances the Regional DROMBO staff will date and initial bank statements to show the current balance on accounts that have outstanding transactions.

The Director of Regional OMB, Robert Nadeau has addressed this issue with the appropriate regional staff. This will assure all regional offices are in compliance with the recommendation.

The Department has implemented a more conservative approach to the valuation of real property. The tax-assessed value of the real property is reviewed and in most cases adjusted to accurately reflect the actual market value. The condition of the property is considered along with any past use that may have adversely affected the value of the property.

The N.A.D.A. web site is now used to value all mobile homes manufactured between 1961 and 2001.

Finding Number: 00-07
Department of Human Services
Bureau of Medical Services
Division of Financial Services
Contact Person: John D. Mower

Finding: Duplicative and incorrect accounts receivable subsidiary records

Corrective Action Plan:

There is a need for two sets of records one at the Bureau of Medical Services and another at OMB's Division of Financial Services because of the different processes involved. The main issue here is because of temporary staff turnover and shortages in both units, reconciliation was not done recently and the disparity between the two records was large. A meeting was held recently between the two units involved with the State Controller and Budget Office. The result of that meeting and a meeting with the Attorney General's Office resulted in a more aggressive approach to collect old receivables and bring down the outstanding balance. Also the disparity between both sets of records has been reconciled.

Finding Number: 00-08
Department of Conservation
Maine Forest Service
Contact Person: Peter Beringer

Finding: Controls insufficient to ensure compliance with financial reporting requirements and documentation of financial reports

Corrective Action Plan:

Up to now it has been the common practice to wait to file the final FS 269 financial status report after the program report has been prepared. In the case of the referenced $3 million, the final report is not complete. The final SF269 now has been submitted and the final report should be completed by the Department of Transportation in a few weeks.
In addition, future SF269s will only reflect obligations for which adequate documentation can be readily available.

Finding Number: 00-09
Department of Conservation
Maine Forest Service
Contact Person: Peter Beringer

Finding: Inadequate controls over cash management

Corrective Action Plan:

At the Forest Service, there has been a long-standing procedure for processing the grant payments. For several of the grant programs, the checks are returned to the Department for mailing out with a cover letter. This has allowed us to have one final check to ensure the correct person is receiving the funds. Just in the last year we have had 5 events that may have been avoided if the check had been routed back through the program manager. While there currently is no Accounts & Control policy or procedure regarding the routing of checks back through agencies for distribution, we have implemented a policy that directs all grant payments to go directly to the recipient. Additionally for FY 2002 we are included in the CMIA, which should provide us with greater flexibility in the requesting cash and processing payments.

Finding Number: 00-10
Department of Conservation
Maine Forest Service
Contact Person: Peter Beringer

Finding: No procedures to ensure that budget modifications are approved

Corrective Action Plan:

MFS has not used the Consolidated grant payment since the early 90's. Consolidated Payment was used for the Ice Storm Recovery because it was promoted by the USDA Forest Service as providing the state with greater latitude. MFS was unaware that it was necessary to request a waiver on the consolidated payment grant in order to have it be considered one grant. If a waiver had been requested, the budget variances would have been within the 10%. Because we did not have a waiver, the 10% is by sub program within the consolidated grant.

Future grants will not be consolidated grants and we will continue to monitor for variances in the budgeted expenditures.

MFS will contact USDA Forest Service to determine the amendments necessary to comply. A request for the waiver mentioned in 7 CFR 3016.30 has been requested.

Finding Number: 00-11
Department of Conservation
Maine Forest Service
Contact Person: Will Harris

Finding: Federal grant not properly accounted for and controls inadequate over electronic payments

Corrective Action Plan:

On April 10, 2000, the State of Maine Department of Conservation purchased a conservation easement around Nicatous Lake for $ 3,750,000. Of that sum, $3 Million came from the Federal Forest Legacy program. The federal government, in the cash management system for its grant program, provides for the transfer of funds through electronic wire transfer. As an integral part of this system, they allow wire transfer directly to third parties. The DOC has been using this system of wire transfers to draw down cash for several years and the normal procedure is that we transfer it to the State Treasury. This real estate transfer was reviewed and approved at all of the normal levels of review. After all approvals had been received, we had USDA Forest Service directly wire transfer the funds to the seller's representatives. At no time previous to that action were we aware of any State procedures, which specifically prohibited this. The transaction was made and the State received the conservation easement on 20,260 acres of land.

While it is true that by using the direct payment to a third party from the Forest Legacy Program we apparently violated Title 5 Section 131, we believed that we were operating within the appropriate federal guidelines and making an approved purchase on the State's behalf. As a Department with a modest-sized financial staff, we were relatively new to large federal grants, when we received the Ice Storm Recovery Grant in 1998. We sent employees to training on Federal grants and their cash management system, and it was through this training that we were instructed in the use of wire transfers, including the use of third party direct wire. At no time were we given any instructions or procedural memos by any of the federal program as to this aspect of the federal grant cash management system not being available for Maine or prohibited in its use. What we were told by the Federal granting agencies was that they encouraged this use of technology to streamline the system. Given that training, we used the direct wire transfer to a third party feature of the system in this instance.

The purchase of the Nicatous easement was not the first time we had used the third party direct wire transfer feature. In 1998, we purchased a 1,315-acre easement for $250,000 through the same Forest Legacy Program and had the funds transferred directly to the seller. In that case, an audit was performed in 1999 on our 1998 transactions and nothing was said about this direct wire transfer.

We also believe that it is not accurate to state that the Department did not comply with OMB Circular 133 §300. All of the records regarding this transaction were contained in the grant file and open to ready inspection by the auditor.

We do not believe that this is the Department of Conservation's issue alone. We suggest that policies and procedures be developed and implemented at the State level both to instruct agencies such as ours, and to assure proper financial controls at the State level. For our part, we have taken all deliberate action to prevent this action from reoccurring including developing and implementing a Department policy regarding federal cash transfers. All federal funds that are drawn down by whatever means will be deposited in the State's treasury. All expenditures made will be by means of checks signed by the State Treasurer. This policy is effective immediately.

Finding Number: 00-12
Department of Conservation
Maine Forest Service
Contact Person: Peter Beringer

Finding: Inadequate controls over subrecipient monitoring

Corrective Action Plan:

We have made all sub-recipients aware of the audit requirement. We currently request cities and towns to provide us with the audit report. We have found them less than forthcoming. In an attempt to help the recipient comply with this requirement, we will work with Audit to re draft the language and enter into a dialog with the central agencies, which could provide us with the information necessary to identify those recipients, which receive federal funds above the $300,000 threshold. We will also initiate a process by which we identify critical information in the application process to better identify those recipients required to have a single audit. The process will include requesting a letter from the single audit auditor alerting us to any findings associated with the expenditure of the Cooperative Forestry Assistance funds.

Finding Number: 00-13
Department of Corrections
Contact Person: Dennis Nichols

Finding: Subrecipient monitoring procedures not documented

Corrective Action Plan:

The Department has already drafted a subrecipient monitoring plan, and will implement it during fiscal year ending June 30, 2002.
Action – Implement monitoring plan
Timeline for completion – federal fiscal year ending September 30,2002

Finding Number: 00-14
Department of Corrections
Contact Person: Dennis Nichols

Finding: Inadequate cash management procedures

Corrective Action Plan:

The Department will establish a better way to track subrecipients'needs, and try to monitor their cash requests.
Action – Tracking subrecipients needs in order to monitor their cash requests
Timeline for completion – federal fiscal year ending September 30,2002

Finding Number: 00-15
Department of Corrections
Contact Person: Dennis Nichols

Finding: Inadequate suspension and debarment procedures

Corrective Action Plan:

The Department will correct and comply.
Action – Adding the suspension & debarment requirements to all new federal contracts over $100,000.
Timeline for completion – federal fiscal year ending September 30, 2002

Finding Number: 00-16
Department of Corrections
Contact Person: Barry Stoodley

Finding: No procedures to ensure compliance with payroll requirements

Corrective Action Plan:

The Department will seek Legislative action to correct this issue.
Action – Legislative authorization needed
Timeline for completion – 120th Legislature, 2nd regular session

Finding Number: 00-17
Department of Corrections
Contact Person: Dennis Nichols

Finding: No procedures to ensure correct payroll charges

Corrective Action Plan:

The Department has already corrected this issue, and the position in question has been moved out of this account.

Finding Number: 00-18
Department of Corrections
Contact Person: Ralph Nichols & Barbara Otis

<u>Finding:</u> Inadequate controls over cash management

<u>Corrective Action Plan:</u>

The Department will correct and comply.
Action – The Department will not order cash until expenses are imminent.
Timeline for completion – federal fiscal year ending September 30,2002

Finding Number: 00-19
Department of Corrections
Contact Person: Ralph Nichols

Finding: No controls over compliance with suspension and debarment requirements

<u>Corrective Action Plan:</u>

The Department will correct and comply.
Action – Adding the suspension & debarment requirements to all new federal contracts over $100,000.
Timeline for completion – federal fiscal year ending September 30,2002

Finding Number: 00-20
Department, Defense, Veterans and Emergency Management
Military Bureau
Contact Person: Roland Leach

<u>Finding</u>: Procedures inadequate to ensure correct reporting of information for the Schedule of Expenditures of Federal Awards (Prior Year Finding)

<u>Corrective Action Plan:</u>

Sue Hammer (DPS) will be preparing the SEFA for DVEM as well as developing and documenting procedures. This will be completed by December 31, 2001.

Finding Number: 00-21
Department of Defense, Veterans and Emergency Management
Military Bureau
Contact Person: Roland Leach

<u>Finding:</u> Controls insufficient to ensure compliance with cash management requirements (Prior Year Finding)

<u>Corrective Action Plan:</u>

Lin Gosselin (DFE) and Sue Hammer (DPS), are working on a process in which bills are coded and keyed for a specific date of payment. A report will be submitted to the Federal Government based on these bills and payment will be received within 3 days of the date that the checks are to be cut. Payment will be requested from the Federal Government on an as needed basis therefore there will be no cash setting in the Federal account. This will be in place not later than September 30, 2001.

Finding Number: 00-22

Department, Defense, Veterans and Emergency Management
Military Bureau
Contact Person: Robert St.Pierre

<u>Finding:</u> Procedures do not ensure compliance with suspension and debarment requirements.

<u>Corrective Action Plan:</u>

Suspension and debarment certifications, as required by the Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, 32 CFR Part 25 and National Guard Regulation 5-1 will be forwarded to the four suppliers for compliance no later than August 15, 2001. Certifications will also be sent to one supplier whose contract was initiated on August 30, 2000 and all future suppliers whose contracts are over $100,000.

Finding Number: 00-23
Department, Defense, Veterans and Emergency Management
Military Bureau
Contact Person: Robert St.Pierre

<u>Finding</u>: Federal funds used to fund contingency reserve

<u>Corrective Action Plan:</u>

Administrative Services in Public Safety is preparing the necessary paperwork to move the funds from 014 to 013 per request from the USPFO and deactivate this account. This will be completed not later than July 31, 2001.

Finding Number: 00-24
Department, Defense, Veterans and Emergency Management
Military Bureau
Contact Person: Robert St.Pierre

<u>Finding</u>: Grant funded equipment not managed as if State owned

<u>Corrective Action Plan:</u>

The USPFO does not concur with this finding and is seeking legal review from the National Guard Bureau reference 32 CFR 33.32. This issue will be resolved no later than Sept 30, 2001.

Finding Number: 00-25
Department of Defense, Veterans and Emergency Management
Military Bureau
Department of Public Safety
Administrative Services Division
Contact Person: Roland Leach

<u>Finding</u>: Accounting procedures inadequate (Prior Year Finding)

<u>Corrective Action Plan:</u>

Lin Gosselin (DFE) and Sue Hammer (DPS) are currently completing a new set of accounts that will be used for all processes i.e. vouchers, cash receipts, journal vouchers, to better track payments and cash against the proper appendices and accounts. All invoices that need split coding will be done properly using the above mentioned codes. All reimbursements will also be coded to the correct account and appendix using these codes. The new accounting codes will be in place not later than September 30, 2001.

Finding Number: 00-26
Department of Education
Office of the Commissioner
Support Systems Team
Contact Person: John Kierstead and Margaret Harvey

<u>Finding</u>: Insufficient controls over suspension and debarment certification

<u>Corrective Action Plan:</u>

In August, 1997 when the Department first implemented procedures for suspension/debarment certifications, we contacted Otis Wilson, Grants & Policy Branch Officer, U.S. Department of Education to inquire if subrecipients were required to submit certifications each year a grant was awarded. We were informed by Mr. Wilson that subrecipient certification of debarment or suspension is a "one shot deal." The Department followed the guidance received from the U.S. Department of Education and obtained one certification from subrecipients receiving funding for multiple years.

During fiscal year 2002, the application process for the two programs in question will be reviewed to ensure annual certifications for suspension/debarment are included.

Finding Number: 00-27
Department of Education
Commissioner's Office
Support Systems Team
Contact Person: Susan Griffin

<u>Finding</u>: Pass-through entity responsibilities not met

<u>Corrective Action Plan:</u>

The Department does identify Federal awards made and does inform subrecipients of applicable CFDA Numbers, Award Amounts, Award Years, Payment Amounts against the award, and State Pass through Numbers. This information can be found in the following reports: 1) P-100 Grant Database Report on the Department's web site at www.state me.us/education, which is accessible to all subrecipients and their auditors and maintained by the Support Systems Team, and 2) the grant award notification letter issued by the Learning Systems Team program staff which is sent to subrecipients prior to funding. The grant award notification not only identifies the CFDA Name, Award Amount, Award Year, but also identifies the Code of Federal Regulations specific to a particular program.

Although we understand this information is comprised of two reports, both reports are accessible to all school administrative units and their auditors, and other subrecipients and their auditors, and do provide the information required by OMB Circular A-133, §400(d).

The Department will notify all Federal program directors that this information must now be consolidated in their grant award notifications to subrecipients. Lesley Clark, Chief Accountant, will ensure implementation and completion will occur during fiscal year 2002.

Finding Number: 00-28
Department of Education
Bureau of Finance Support Systems Team
Contact Person: Lesley Ann Clark

<u>Finding</u>: Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)

Corrective Action Plan:

For the Special Education – Grants to States program, effective FY'02, the Department has made arrangements with Accounts and Control to set up estimated revenue for the year with this department making draws approximately on the 4th day after checks have been written, in time for those checks to clear the bank.

For Vocational Education, we will try to be more cautious with reviewing allotment BEFORE drawing funds. Corrective action was implemented for the 2001-2002 grant Year.

Finding Number: 00-29
Department of Education
Learning Systems Team
Contact Person: Ed Gomes

Finding: Insufficient controls over subrecipient monitoring

Corrective Action Plan:

The Department plans to place critical data on an ACCESS database to enable improved monitoring of school administrative units (SAU), and to ensure required reports are submitted in a timely manner.

The Department plans to initiate and comply with cash management procedures so payments of expenditures are disbursed within 3 days. These procedures will require assurances from (SAU) that they are prepared to expend funds within the allotted time frame or no further funds will be distributed.

The Department will require all SAU's to provide documentation of inventory and inventory controls for equipment purchased with Federal funds.

Awards of final payment will not be made without signed assurances from administrators of approved private schools within the school administrative unit, that they have had the required portion of funds made available to them.

We expect the aforementioned corrective action will bring the Technology Literacy Challenge Fund program in compliance with Federal program regulations. We will incorporate the corrective action into the 2001-2002 grant year.

Finding Number: 00-30
Department of Education
Bureau of Special Services Learning Systems Team
Contact Person: John Kierstead

Finding: Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)

Corrective Action Plan:

The Department, after receiving a similar finding the previous year, created an Excel file to monitor actual expenditures from one year to the next. The finding for that year stated actual to actual monitoring rather than budget to actual, although 34 CFR, Section 300.230 required monitoring current year budgeted amounts to previous year actual amounts: "Of 21 LEA's that we examined, eight expended less local funding in fiscal year 1999 than they had in the preceding year." The Department plans to follow procedures outlined using the EF-S-02, 07 and the EF-M-46 reports.

Finding Number: 00-31
Department of Education
Division of School Support Systems – Food Service
Contact Person: Susan Griffin

__Finding__: Controls did not ensure compliance with federal cash management requirements

__Corrective Action Plan:__

For fiscal year beginning 7/1/01, this cluster will be using the average clearance method for CMIA purposes. We have arranged with Accounts and Control to have them set up estimated revenue for the year with this department making draws approximately on the 4th day after checks have been written, in time for those checks to clear the bank.

Finding Number: 00-32
Department of Human Services
Bureau of Child and Family Services
Contact Person: Jeannette Talbot

__Finding__: No procedures to ensure compliance with monitoring requirements (Prior Year Finding)

__Corrective Action Plan:__

The Community Services Center will be standardizing the on-site monitoring instrument used by contract staff to include the above-cited tests. The Service Center also will establish formal procedures to ensure timely submission of monitoring reports and follow-up of monitoring findings. The expected date for implementation of these monitoring activities is October 1, 2001.

Finding Number: 00-33
Department of Human Services
Bureau of Child & Family Services
Contact Person: Jeannette Talbot

__Finding__: No controls to ensure compliance with payroll requirements (Prior Year Finding)

__Corrective Action Plan:__

The State of Maine's financial policies do not allow positions to be budgeted against more than one account. The Community Services Center does not yet have a federally approved cost allocation plan for the allocation of salaries and fringe benefits. The Service Center has proposed the use of enhanced time sheets for all staff and management who fulfill functions related to CCDF administration beginning October 1, 2001.

Finding Number: 00-34
Department of Human Services
Bureau of Child and Family Services
Contact Person: Diane Towle

__Finding__: Funds not spent in accordance with earmarking requirements (Prior Year Finding)

__Corrective Action Plan:__

The TANF funds pass through SSBG to Child Welfare. The issue here is the lack of documentation to testfor the compliance of the TANF requirement that services funded with TANF under SSBG must be for clients under 200% of poverty. The MACWIS team will be working on generating a report to document and support this benchmark .

Finding Number: 00-35
Department of Human Services
Community Services Center
Contact Person: Jeannette Talbot

<u>Finding</u>: No procedures to ensure that correct CFDA numbers are communicated (Prior Year Finding)

<u>Corrective Action Plan:</u>

The Community Services Center issued a memorandum to all its contract staff in September, 1999 regarding the need to verify CFDA references in contracts. All Service Center contracts with an effective date of October 1, 1999 or later would have the corrected CFDA #s. Verification of CFDA #s in contracts is part of the Service Center's contract review process.

Also, the Service Center includes a list of funding source acronyms and CFDA #s in the contracts, beginning October 1, 2000.

Finding Number: 00-36
Department of Human Services
Bureau of Family Independence
Contact Person: MaryLou Pattison

<u>Finding</u>: Procedures do not ensure compliance with Medicaid Eligibility Quality Control (MEQC) rules and procedures (Prior Year Finding)

<u>Corrective Action Plan:</u>

The Department of Human Services, Bureau of Family Independence, Quality Assurance Unit is in the process of working with Stephen Doucette, Boston HCFA Unit, to resolve the issues cited in your letter dated July 18, 2001. The Quality Assurance Unit is taking positive steps to 1. provide HCFA with past due error rate information, 2. with Mr. Doucette's assistance, calculate MEQC error rates using the prescribed statistical formula, 3. submit a sampling plan to HCFA for approval, and 4. include all of the basic components and descriptions in the sampling plan in accordance with provisions in the State Medicaid Manual.

George Ghiloni, Boston HCFA, has met with Barbara Feltes, State Medicaid Program Manager and Medicaid Corrective Action Manger, and Gary Veilleux and Ann Condriet, Quality Assurance Unit Supervisors, recently to initiate Federal review of the State's practices. In the following weeks, he will return, along with Mr. Doucette, to complete their review and provide assistance in rectifying any deficiencies.

The Quality Assurance Unit, with Mr. Doucette's guidance, expects to be in complete compliance, after correcting the deficiencies cited, by the start of the October 2001 to March 2002 review period.

Finding Number: 00-37
Department of Human Services
Bureau of Health
Contact Person: John D. Mower

<u>Finding</u>: Controls over payroll records not effective to ensure compliance (Prior Year Finding)

<u>Corrective Action Plan:</u>

Legislation was passed to transfer the two positions referred to in this finding in Chapter 439 during the 120th legislature session. The journal entry charging OMB, The Division of Technology Services account, and crediting the WIC Program did not get processed until July 2001, but it was for the balance of funds owed the WIC Program as of June 30, 2001. The Bureau of the Budget, who approves all personal services and adjustment to balance forward journals, had not approved the original journal entries because they were prepared incorrectly by using adjustment to balance forward revenue codes in a general fund account and using current year personal services character & object expenditure codes for prior year charges. When the positions are moved effective 9/22/01, DHS will prepare another journal entry transferring all the current year (FY 02) personnel services costs that will be questioned to the federal side of OMB where the positions are being transferred.

Finding Number: 00-38
Department of Human Services
Bureau of Health
Contact Person: Charles Dwyer

Finding: Procedures insufficient to ensure accurate information for inclusion in the SEFA (Prior Year Finding)

Corrective Action Plan:

After a review of the information provided by the auditor, The Maine Immunization Program concurs with the finding. Inaccurate information was provided for expenditure reports during the State FY2000 (7-99 to 6-2000). Inaccuracies were due in large part to a break down in communication between staff people at the Immunization Program managing the vaccine budget and those who reported budget information to the State accounting personnel for the SEFA. Other problems regarding the purchase, management and distribution of vaccines have been identified and are currently being addressed. Implementation date July 1, 2001.

1. *Vac-Man software provided by the CDC was recently upgraded (6-01) to provide greater functionality. Using the software, we are able to identify and track both federal and non-federal funding sources for all vaccines purchased using the Vac-Man software. In addition, vaccines that are not purchased through Vac-Man will be recorded on a separate Vaccine Purchase Tracking Spreadsheet, which includes all vaccines purchased and/or distributed through the Immunization Program. Vac-Man purchases be reconciled monthly against the spreadsheet.*

2. *Vaccine receipts will be reviewed monthly to ensure that the estimated and actual purchase prices of vaccines correlate. This information will be checked against the report of inventory value on a monthly basis. Discrepancies will be investigated. A report will be submitted to the State's official accounting records when any adjustments are made that effects any previously submitted report.*

3. *A team of staff people that includes the Assistant Director of the Maine Immunization Program will meet monthly to discuss vaccine management issues and make recommendations for vaccine purchase. During each monthly meeting the latest weekly vaccine inventory is reviewed and a monthly distribution record is compared to the Inventory Purchase Tracking Spreadsheet.*

4. *The amounts prepared for the SEFA will be reviewed by the Assistant Director of the Maine Immunization Program before submission to the State's official accounting records. The review will consist of a series of checks against documents regarding the purchase of vaccines with federal and non-federal funds.*

Finding Number: 00-39
Department of Human Services
Bureau of Health
Contact Person: John D. Mower

Finding: Controls insufficient to ensure compliance with certification and personnel activity requirements

Corrective Action Plan:

The Department of Human Services' position, as a whole, is that this certification requirement is being met by the inclusion of the MFASIS account code of the employee's position on the P-25, the Department of Human Services' weekly payroll report that is signed by the employee. Also, the Department (and State as a whole) is in the process of converting from manual paper payroll time sheet to an electronic Time & Attendance Management System (TAMS) where employees can go on-line and enter their time and also their respective Programs then forwarded it to their supervisor with an electronic signature.

Finding Number: 00-40
Department of Human Services
Bureau of Health
Contact Person: John D. Mower

Finding: Controls ineffective to ensure compliance with certification requirement (Prior Year Finding)

Corrective Action Plan:

The Department of Human Services' position, as a whole, is that this certification requirement is being met by the inclusion of the MFASIS account code of the employee's position on the P-25, the Department of Human Services' weekly payroll report that is signed by the employee. Also, the Department (and State as a whole) is in the process of converting from manual paper payroll time sheet to an electronic Time & Attendance Management System (TAMS) where employees can go on-line and enter their time and also their respective Programs then forwarded it to their supervisor with an electronic signature.

Finding Number: 00-41
Department of Human Services
Bureau of Medical Services
Contact Person: Christopher Nolon

Finding: Insufficient documentation for certain Medicaid reimbursement rates

Corrective Action Plan:

The Department agrees with this finding. All individuals and their respective positions that are authorized to set reimbursement rates and how those rates are set will be documented. The Division of Finance and Reimbursement will determine how the rates will be established and maintain all documentation related to any changes to the rates and will be the Division authorized to make changes to Medicaid rates in the Claims Management System.

Finding Number: 00-42
Department of Human Services
Bureau of Family Independence
Bureau of Health
Bureau of Elder & Adult Services
Division of Financial Services

Contact Person: Carol L. Bean

Finding: Lack of controls to ensure accurate federal financial reporting

Corrective Action Plan:

The Department of Human Services had already discovered that Food Stamps Nutrition Education expenses were not reported on the SF-269 Financial Status Reports. These quarterly reports had been revised to reflect these costs. The staff, responsible for preparing the FSR, will take due care in ensuring accuracy in the future. The agency will also begin to print off the electronic version of the FSR, compare it to the work copy, and have it signed by an authorizing official and kept on file.

Finding Number: 00-43
Department of Human Services
Division of Financial Services
Contact Person: John D. Mower

Finding: Controls insufficient to ensure accurate financial report

Corrective Action Plan:

The Division of Financial Services concurs with this audit finding. More staff turnover in the position that oversees the Department's Cost Allocation Plan (CAP) has hampered what was outlined in Audit Finding 98-36. It is the Division's intent that this position be the central focal point of the CAP by verifying the accuracy of allocation schedules with MFASIS and to make sure when a staff accountant revises an allocation schedule, they go through this position who then makes sure the staff utilizing the schedules get copies for revising their Financial Status Reports.

Also, the staff accountants, who prepare financial status reports, will be asked to research where the data on the schedules they use is derived from and compare it to the direct costs they get from MFASIS to make sure there is no duplication

The Department's cost allocation plan is outdated and very cumbersome to follow and understand. We will be requesting a project position in the fall to work with our CAP position in revising and simplifying the Agency's plan. Part of this process will be to search for costs that could be claimed with the federal government on the plan as well as costs that may be claimed in duplicate. Implementation date June 30, 2002.

Finding Number: 00-44
Department of Human Services
Division of Financial Services
Contact Person: Jeffrey Pettengill

Finding: Controls insufficient to ensure compliance with cash management requirements

Corrective Action Plan:

The cash situation referred to in the audit finding above was the result of adjustment to balance forward journal entries between the Medicaid account and the SCHIP account. During the first year of the State's Child Health Insurance Program (SCHIP), the MMIS Medicaid Management Information System was erroneously programmed to charge SCHIP expenses to the regular Title XIX Medicaid account not the CHIP account. The Division of Financial Services had to manually transfer by JE CHIP expenses and revenues over to the CHIP account. There was also a question as to where Title XIX Medicaid Enhancement costs were to be charged, Regular Medicaid or CHIPS? Journal entries were prepared to transfer the expenses between the two accounts. Also it was discovered that because of staff turnover, not all the costs were transferred correctly. The end result of all this movement of expenses and revenues artificially created large positive and negative cash balances as noted above.

Finding Number: 00-45
Department of Human Services
Division of Financial Services
Contact Person: Patricia V. Shaw

Finding: Unsupported disbursement information reported to the federal government (Prior Year Finding)

Corrective Action Plan:

The Division of Financial Services now requires from its Account Managers supporting documentation when submitting disbursement figures to the Staff Accountant who is responsible for compiling the data for the PMS-272 quarterly report.

Finding Number: 00-46
Department of Human Services
Division of Financial Services
Contact Person: John D. Mower

Finding: Controls inadequate to ensure accurate financial reporting: costs charged twice, cost allocation plan errors not detected

Corrective Action Plan:

The Division of Financial Services concurs with this audit finding. More staff turnover in the position that oversees the Department's Cost Allocation Plan (CAP) has hampered what was outlined in Audit Finding 98-36. It is the Division's intent that this position be the central focal point of the CAP by verifying the accuracy of allocation schedules with MFASIS and to make sure when a staff accountant revises an allocation schedule, they go through this position who then makes sure the staff utilizing the schedules get copies for revising their Financial Status Reports.

Also, the staff accountants, who prepare financial status reports, will be asked to research where the data on the schedules they use is derived from and compare it to the direct costs they get from MFASIS to make sure there is no duplication

The Department's cost allocation plan is outdated and very cumbersome to follow and understand. We will be requesting a project position in the fall to work with our CAP position in revising and simplifying the Agency's plan. Part of this process will be to search for costs that could be claimed with the federal government on the plan as well as costs that may be claimed in duplicate. Implementation date June 30, 2002.

Finding Number: 00-47
Department of Human Services
Contact Person: Jeanette Talbot

Finding: No procedures to ensure that pass-through responsibilities are met (Prior Year Finding)

Corrective Action Plan:

The Community Services Center, in response to this finding in the prior year audit, has established procedures to ensure follow-up on audit corrective action plans. The CSC ActionTransmittal, was issued on July 1, 2001.

Finding Number: 00-48
Department of Human Services

Division of Financial Services
Contact Person: John D. Mower

<u>Finding</u>: Controls do not ensure compliance with cash management requirements (Prior Year Finding)

<u>Corrective Action Plan:</u>

The Division of Financial Services has continued to work with the Office of the Treasurer of State to come up with the cash draw down techniques that best fits the expenditure patterns in these and all the Department's Federal Programs. This is accomplished by conferring with the Deputy State Treasurer every year before the State's CMIA (Cash Management Improvement Act) agreement is signed to see if any changes are required. It is difficult to come up with a scheduled funding technique that fits the variable expenditure patterns in these complex programs.

Finding Number: 00-49
Department of Human Services
Division of Financial Services
Contact Person: John D. Mower

<u>Finding</u>: Procedures do not ensure accurate reporting of information for the Schedule of Expenditures of Federal Awards (Prior Year Finding)

<u>Corrective Action Plan:</u>

The Division of Financial Services, which is responsible for the preparation of the SEFA, concurs with this finding. While some of these inaccuracies are from information outside the Division's control, The Director of Budget & Fiscal Operations has strongly impressed upon the Division's staff the importance of the SEFA and to take due care in preparing the figures for future SEFAs. The fiscal complexity of some federal funding sources for the Department of Human Services can make this challenging but it should be attainable.

Finding Number: 00-50
Department of Inland Fisheries and Wildlife
Bureau of Administrative Services
Contact Person: Don Ellis

<u>Finding</u>: Cash controls and records inadequate

<u>Corrective Action Plan:</u>

While the auditor's suggested recommendations were not in place during the period under audit, they were implemented prior to the audit and were in place during the audit. Specifically, journal numbers have been added to monthly summary sheets to tie the expense to revenue; a copy of all pertinent journals are maintained in each monthly file; and, as a result of this audit IF&W will insure all journals are reviewed on a monthly basis with regard to cash drawn as compared to expenses.

Finding Number: 00-51
Maine Department of Labor
Office of Administrative Services
Contact Person: Rose M. Bailey

<u>Finding</u>: Procedures do not ensure compliance with the Cash Management Improvement Act

<u>Corrective Action Plan:</u>

The current State accounting system requires that cash funds be received and available prior to making disbursements.

The MDOL OAS is requesting assistance from State Controller's Office with regard to establishing an accrual in order to permit check issuance prior to receipt of federal funds. With the further assistance of the Maine State Treasury, MDOL OAS would then discuss the use of the Average clearance pattern or other alternative methods and amend the existing CMIA agreement accordingly.

Finding Number: 00-52
Maine Department of Labor
Office of Administrative Services
Contact Person: Rose M. Bailey

Finding: Accounting systems not reconciled (Prior Year Finding)

Corrective Action Plan:

The MDOL Office of Administrative Services concurs with the finding. The OAS has established a team to aggressively focus on reconciling all outstanding federal appropriations between the internal cost accounting system (DOLARS) and the State accounting system (MFASIS). It is anticipated that all reconciling items and adjusting entries will be cleared and reconciliations current by June 2002. In addition, with the implementation of TAMS (Time and Attendance Management System), the MDOL will explore the possibility of using a download from TAMS to populate our internal time distribution system and discontinue reliance on the internal employee master file that requires considerable maintenance.

Finding Number: 00-53
Department of Mental Health, Mental Retardation and Substance Abuse Services
Office of Substance Abuse
Contact Person: Jeffrey Toothaker

Finding: Controls ineffective to ensure compliance with certification requirement (Prior Year Finding)

Corrective Action Plan:

The Office of Substance Abuse has amended its procedures to ensure that subrecipient payments are made on or close to the dates specified in the contracts. This change was implemented during State fiscal year 2000.

The contracts that have been converted from quarterly to monthly payments include approximately eighty (80) percent of Block Grant funding, approximately one-third of total contracts. This change was implemented with payments in January 2001. The Office believes the additional administrative effort to process monthly payments for the remaining two thirds of contracts would place an undue burden on fiscal and contracting staffs, and is not necessary to comply with the regulations cited above.

Finding Number: 00-54
Department of Public Safety
Bureau of Highway Safety
Contact Person: Roland Leach

Finding: Inadequate documentation of compliance with earmarking requirements

Corrective Action Plan:

Recommendation will be implemented by requiring all existing and future grants to send documentation and to be monitored by the grants manager David Giampetruzzi. Will request documentation for next reporting cycle. (September 2001).

Finding Number: 00-55
Department of Public Safety
Bureau of Highway Safety
Contact Person: Roland Leach

Finding: Procedures inadequate to ensure compliance with payroll requirements (Prior Year Finding)

Corrective Action Plan:

Payroll adjustments will be made and certifications will be prepared for individuals working solely for one grant. Procedures implemented following FY1999 audit findings in September 2000. Jim Grover will monitor this requirement.

Finding Number: 00-56
Department of Public Safety
Bureau of Highway Safety
Contact Person: Roland Leach

Finding: Procedures inadequate to ensure compliance with pass-through requirements (Prior Year Finding)

Corrective Action Plan:

Recommendation implemented by grants manager, David Giampetruzzi, by including the Federal Award name and CFDA number on contracts effective September 2000.

Finding Number: 00-57
Department of Public Safety
Bureau of Highway Safety
Contact Person: Roland Leach

Finding: Procedures do not ensure compliance with cash management requirements (Prior Year Finding)

Corrective Action Plan:

The Department will follow the new provisions required by Treasury in requesting draw downs and cash requests and cash balances will be monitored by Jim Grover for compliance with cash management requirements effective August 2001.

Finding Number: 00-58
Department of Defense, Veterans and Emergency Management
Military Bureau
Department of Public Safety
Administrative Services Division
Contact Person: Roland Leach

Finding: Accounting procedures inadequate (Prior Year Finding)

Corrective Action Plan:

Lin Gosselin (DFE) and Sue Hammer (DPS) are currently completing a new set of accounts that will be used for all processes i.e. vouchers, cash receipts, journal vouchers, to better track payments and cash against the proper appendices and accounts. All invoices that need split coding will be done properly using the above mentioned codes. All reimbursements will also be coded to the correct account and appendix using these codes. The new accounting codes will be in place not later than September 30, 2001.

Finding Number: 00-59
Department of Transportation
Office of Passenger Transportation
Contact Person: Barbara Donovan

Finding: Procedures not effective to ensure expenditure of federal funds within the period allowed

Corrective Action Plan:

We concur with the finding. Barbara Donovan is the responsible party. We will seek clarification in writing from the Federal Transit Administration to resolve this issue. Our actions defining the "period of availability" have been in accordance with FTA past practices.

Finding Number: 00-60
Department of Transportation
Office of Passenger Transportation
Contact Person: Barbara Donovan

Finding: Procedures do not ensure compliance with earmarking requirements

Corrective Action Plan:

We concur with the finding. Barbara Donovan is the responsible party. We will seek clarification in writing from the Federal Transit Administration to resolve this issue. Our actions defining the "period of availability" have been in accordance with FTA past practices.

Finding Number: 00-61
Department of Transportation
Office of Passenger Transportation
Contact Person: Barbara Donovan

Finding: No controls to ensure compliance with payroll requirements

Corrective Action Plan:

We concur with the finding. Barbara Donovan is the responsible party. We will seek clarification in writing from the Federal Transit Administration to resolve this issue.

Finding Number: 00-62
Department of Transportation
Office of Passenger Transportation
Contact Person: Barbara Donovan

Finding: Procedure to ensure compliance with federal cash management requirements not followed (Prior Year Finding)

Corrective Action Plan:

We concur with the finding. Barbara Donovan is the responsible party. The period of this audit was prior to the delivery of the results from the previous year's findings. The corrective actions have been taken.

Finding Number: 00-63
Office of the Treasurer of State
Contact Person: Holly A. Maffei

Finding: Internal control not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)

Corrective Action Plan:

The corrective action plan has already begun. The Treasurer's Office will utilize the last available SEFA, in conjunction with the threshold established by the Department of Audit, to determine those grants that need to be included in the contract. This will ensure that all programs are properly addressed.

Effective with the Fiscal Year 2002 contract, State Agencies received a full copy of the CMIA Agreement filed with the U.S. Treasury and were asked to return a sign-off form indicating their understanding and agreement to the terms of the contract. This places the necessary responsibility with the agencies for complying with the contract. In addition, the Treasurer's Office will discuss processes to monitor agencies and possibly amend the CMIA Policies and Procedures to ensure effective monitoring and responsibility.

The Federal Government clearly promotes interest-neutral draw down techniques. The Treasurer's Office is working with State Agencies and the Bureau of Accounts and Control to convert from preissuance funding to interest-neutral methods wherever appropriate. The Treasurer's Office intends to replace the Federal check clearance patterns with updated State clearance patterns in the computer program that calculates interest due to the Federal Government for preissuance programs. When this change is made in the program, it will provide an opportunity to review the interest calculations.

Changes should be implemented by the Fiscal Year 2003 effective Cash Management Improvement Act contract date.

State of Maine
Summary Schedule of Prior Audit Findings
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Finding #	CFDA #	Department	Description	Questioned Costs	Status
98-25	93.658	DHS - Child & Family Services	Payments to unlicensed foster care homes (3 of 40)	$234	One Central Office Program Specialist has been assigned to oversee the licensing program; a collaboration has been worked out with the Fire Marshall's office to assure timely fire inspections; three new fire inspectors have been hired by the Fire Marshall's Office; foster home studies have been outsourced; we are moving to increase the term of a license from one to two years; additional training has been provided to licensing staff; a tracking tool has been implemented; changes to the SACWIS system are underway to develop an automatic notification system to alert staff when fire inspections are due; a report will identify homes in renewal status; IV-E eligibility will be automated.
98-37	Various	DHS - Div of Finan Serv	Incorrect allocation of program costs	$150,910	The Department of Human Services has corrected the formulas to allocate the costs properly. The federal reports were revised to reflect this change. The Department has installed a policy that does not allow revisions to the cost allocation schedule once it is submitted; it cannot be revised without going through the staff member responsible for the cost allocation plan.
98-45	17.225	DOL - OAS, LMIS, OIP	Incorrect or unverifiable data on federal financial reports (prior year)	None	Letter from the Grant/Contracting Officer, Jaime G. Salgado, Chief, Division of Resolution and Appeals received February 22, 2000, considered this finding corrected and resolved. The OAS can provide a copy if necessary.
98-48	N/A	Division of Financial and Personnel Services Bureau of General Services	Working Capital of Retiree Health Insurance excessive, disbursements not in compliance, and account structure inadequate*(prior year)*	$324,077	The resolution of DFPS has been accepted by the Federal Division of Cost Allocation.
99-01	N/A	Bureau of Accounts and Control	General Fixed Assets Account Group not presented (Prior Year Finding)	None	Beginning in FY 2001, new procedures were implemented.
99-02	N/A	Bureau of Accounts and Control Division of Financial and Personnel Services Bureau of General Services	Inadequate internal control system to identify, classify and report leasing transactions (Prior Year Finding)	None	Capital Leases have been properly reflected as of June 30, 2001.
99-03	N/A	Bureau of Accounts And control	Accounts Payable procedures inadequate (Prior Year Finding)	None	New procedures were implemented. Fiscal year 2000 corrective action has been taken.
99-04	N/A	Division of Financial and Personnel Services	Understanding of Lottery Prize Reserve account	None	No longer an issue. Adjustments have been made.
99-05	N/A	Office of the Treasurer of State	Untimely bank reconciliations and untimely clearing of reconciling items (Prior Year Finding)	None	No longer an issue. Has been resolved per FY2000 audit.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
99-06	Various	Division of Financial and Personnel Services	Excess working capital and disbursement not in compliance (Prior Year Finding)	$697,257	An agreement has been reached with the Feds on a timetable to fund actuarially determined premiums.
99-07	10.568 10.569	Office of Policy, Planning, Legislation and Information Service	Inadequate subrecipient monitoring process	None	The new State Distribution plan that has been approved by the USDA gives Maine the unified, independent and objective review and monitoring authority of recipient agencies. It allows the subcontracting agency to do the inspections of the local EFOs and to report the problems to the TEFAP Director. The new edition of the CAP contract drops the language that requires the quarterly monitoring reports to be sent in to the State TEFAP office.
99-08	10.569	Office of Policy, Planning, Legislation and Information Service	Noncompliance with record keepingrequirements, and inadequate documentation to support the Schedule of Expenditure of Federal awards	None	The TEFAP program has been developing and implementing a perpetual inventory program with the assistance of our in house programmer. We have been using this to track all shipments in and out as well as to prepare reports of stock on hand and stock allocated. It tracks the inventory at each warehouse as well. This program automates the recording keeping that is required in the receipt, shipment and distribution of USDA TEFAP Commodities.
99-09	12.401	Department of Public Safety Administrative Services Division	Accounting procedures inadequate (Prior Year Finding)	None	New procedures have been initiated and are in place.
99-10	12.401	Military Bureau	Failure to contribute required State matching funds (Prior Year Finding)	$541,100	Position funding has been adjusted (Chapter 1, P.L. 2001) to reflect proper matching requirements – funds generated in the Other Special Revenue Funds may be used for match so long as they are expended within the parameters of the Master Cooperative Agreement (reimbursable projects and operational functions).
99-11	12.401	Military Bureau	Data incomplete and inaccurate (Prior Year Finding)	None	Procedures are in place to correct findings and provide the required data.
99-12	12.401	Military Bureau	Noncompliance with cash management requirements (Prior Year Finding)	None	Procedures will be developed and implemented in accordance with the agreement between the Maine State Treasury and the U.S. Treasury Department as soon as possible after we receive written directives.
99-13	83.544	Maine Emergency Management Agency	Errors in payments to subrecipients	$101,634	Overpayment has been recovered and corrective actions have been taken to avoid future overpayments.
99-14	84.173 84.181	Bureau of Special Services	Federal compliance not ensured	None	The Child Development Services System State Office (CDS System) has procured the audit services of a Certified Public Accountant to conduct an independent OMB Circular A-133 financial and compliance audit of the CDS System for fiscal year 7/1/99 to 6/30/00. The CDS System Office will also procure the audit services of a Certified Public Accountant to conduct an independent A-133 audit for each subsequent fiscal year as applicable.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
99-15	93.667	Bureau of Child and Family Services	Funds not spent in accordance with earmarking requirements	$3,921	We consider Finding 99.15 no longer valid based on a clearer definition of TANF Financial Eligibility. Foster children are considered a family of one with no personal income; therefore, they meet the TANF financial eligibility requirements.
99-16	93.596	Bureau of Child and Family Services	Payment to provider in excess of authorized rates (Prior Year Finding)	$28	The Service Center has issued copies of the CCDF market rates to all child care providers and all Department regional offices' financial managers with clear instructions on the start date for the use of the updated payment schedules.
99-17	93.575	Bureau of Child and Family Services Division of Financial Services	Payroll costs not equitably distributed (Prior Year Finding)	$80,850	The State's current budget system does not allow individual staff positions to be charged against more than one federal and/or State program. The employees whose salaries are cited in this finding are staff within the Office of Child Care and Head Start and the Bureau of Child & Families' Financial Manager whose job activities extend beyond the Child Care & Development Fund. The Department is currently reviewing all of its cost allocation procedures, and will be implementing a cost allocation plan for the various State-funded and federally-funded staff. The staff within the Office of Child Care and Head Start cited in this finding have been cost allocated between the CCDF and the federal Head Start Collaboration grant in proportion to the level of their activities that support each grant. Also, the Bureau of Child & Families Financial Manager's position is no longer being charged against the Child Care & Development Fund. In July 2001, the Administration for Children and Families has requested the department pay $80,850 in settlement of the questioned costs.
99-18	93.575 93.596	Bureau of Child and Family Services Division of Financial Services	Inaccurate financial data and noncompliance with grant reporting requirements	None	The Department's Division of Financial Services has revised the reports that contain incorrect data. The Division also works with the Community Services Cente to clearly identify funds within the multiple account numbers designated to the Child Care & Development Fund prior to the submission of reports to DHHS.
99-19	93.778	Bureau of Family Independence	Inadequate controls over compliance with Medicaid eligibility quality control requirements	None	The quality assurance unit submits a sampling plan to HCFA on a six-month basis along with the interval. These are submitted in January and July as required by the Medicaid State Plan Chapter 7. We have been and continue to work with HCFA to improve our reporting obligations as it relates to the error rate. We expect to meet with a HCFA statistician in August to resolve any existing issues relative to erro rate reporting.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
99-20	93.778	Bureau of Family Independence/ Regional OMB Operations	Documentation to support participant eligibility not located	$26,160	The following activities have been completed or implemented by the Bureau of Family Independence: 1. All new Family Independence Specialists are required to complete Centralized Eligibility Policy Training and the associated Learning-At-Work curriculum, which include case file management and documentation. From July 2000 until July 2001, forty-nine (49) Family Independence Specialist have successfully completed the training and completed the State Employee probation period with eleven (11) Family Independence Specialist currently in training. This training will continue to be required. 2. The Bureau of Family Independence entered into a contract with Keane, Inc. for the design, development, construction and implementation for an Automated Client Eligibility System in June 2000. The contracted date for full statewide implementation is March 2002. We are currently in the construction phase with all contract deliverables and products on schedule. 3. The State's Quality Assurance Unit has forwarded one hundred and fifty-two (152) corrective action memos to the appropriate operational office, which provide the reasons for the issue including lack of documentation. This process will continue to be required.
99-21	10.557	Bureau of Health	Excess payroll costs charged to the program	$52,393	The legislative transfer of the two positions referred to in this finding is included in Part II legislation (LD 855) currently before the 120th legislature. The journal charging OMB and crediting the WIC Program has not been processed as yet. The Bur. of the Budget, who approves all personal services and adjustment to balance forward journals, has not approved it yet because you cannot use adjustment to balance forward revenue codes in a general fund account and you cannot use current year personal services character & object expenditure codes for prior year charges. When the positions are moved effective 7/01/01 DHS will prepare an adj. to bal fwd journal charging all the costs to the federal side of OMB where the positions are being transferred to.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
99-22	93.919	Bureau of Health	Insufficient matching funds	$99,627	The Department of Human Services does not fundamentally concur with this audit finding. The methodology in question used for the third part in-kind contribution has been in place since the inception of the program and was deemed appropriate by the granting agency based on the interpretation of the regulations at that time. The Department has, in good faith, followed this guidance in each subsequent grant period. We defer to the cognizant agency to determine if this is appropriate. At this point in time no corrective action will be made pending review.
99-23	93.268	Bureau of Health	Unallowable expenditure	$363,364	The Department of Audit, which is currently auditing the Immunization Program for FY 00, has contacted the Centers of Disease Control & Prevention in reference to this finding. CDC still has not issued a ruling on whether these costs are allowable.
99-24	93.778	Bureau of Medical Services	Provider information not obtained or maintained	None	Ownership information was requested from all enrolled Medicaid Providers and continues to be part of the required paperwork for any new provider. A database has been developed to track ownership paperwork that needs to be completed. New files have been set up for the providers. The new provider enrollment package is expected to be completed by 7/31/01.
99-25	17.225 17.246 17.250	Office of Administrative Services	Accounting systems not reconciled (Prior Year Finding)	None	The OAS agrees with the finding and is making progress in researching and clearing the identified reconciling items, as well as being aggressively engaged in the completion of all outstanding reconciliations. The OAS had experienced a turnover in staffing that inhibited our progress and efforts to completely resolve this finding. We now have the additional resources necessary to meet our time line for completion of all delinquent reconciliations during the SFY 2002 period
99-26	various	Office of Administrative Services	Noncompliance with Cash Management Improvement Act	None	We have asked the Bureau of Accounts & Control's assistance in developing a plan that would allow the Maine Department of Labor to have estimated revenues for one draw down period. This would allow MDOL to use an established clearance pattern for all Federal drawdowns.
99-27	14.238	Bureau of Mental Health	Noncompliance with cash management requirements	None	The Department is now aware of the requirement that cash advances to the State be timed for immediate cash disbursement needs and has made an effort to significantly decrease the time between the day the funds are drawn dow and the day payment checks are issued.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
99-28	14.238	Bureau of Mental Health	Late filing of annuals report	None	The Department has created a matrix detailing all Shelter Plus Care grants, including their respective Annual Progress Report due dates, and distribute this information both internally and to the Central Administrative Agency to ensure the timely submission of Annual Progress Reports.
99-29	14.238	Bureau of Mental Health	Inadequate subrecipient monitoring	None	I. The Department will require the following documentation on all monthly reports, regarding Shelter Plus Care, from the Subrecipient: Project Number, Project Name, CDFA #, and Federal Awarding Agency (HUD). I. The Department requires the following documentation on all monthly reports, regarding Shelter Plus Care, from the Subrecipient: Project Number, Project Name, CDFA #, and Federal Awarding Agency (HUD). II. The Department modified the existing contracts with the Central Administrative Agency, to include the following provisions a. The existing regional contracts which currently include both aState funded Program and the Federally funded Shelter Plus Care program are segregated. b. Compliance with specific Shelter Plus Care regulationsare addressed through a provision in the FY2002 contract. c. Additional provisions include specific responsibilities of the Central Administrative Agency and its monitoring of funds that are passed through to the Local Administrative Agencies. III The Department developed a subrecipient monitoring plan to include elements already addressed. Additionally the monitoring plan includes both a format and a timetable for periodic on-site reviews of the Central Administrative Agency.
99-30	93.959	Office of Substance Abuse	Late obligation of grant funds (Prior Year Finding)	$1,138,041	The Office of Substance Abuse has continued to improve its ability to obligate Block Grant funds in the required time period. Block Grant regulations have been changed for the current period (10/01/00 - 9/30/02) to allow funds to be obligated and expended throughout the entire two years of the award.
99-31	93.959	Office of Substance Abuse	Amounts reported as expended not supported (Prior Year Report)	$48,314	The Office of Substance Abuse is continuing to improve our monitoring of Block Grant expenditures, including use of report categories. The Office has provided records to audit staff that support FFY 99 Block Grant expenditures.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
99-32	93.959	Office of Substance Abuse	Noncompliance with cash management requirements	None	The Office of Substance Abuse (OSA) agrees that monitoring of payments to sub recipients needs to be improved. 1. Payments to subrecipients are withheld if required financial reportsare not submitted 2. OSA has changed to monthly payments for the largest BlockGrant subrecipients, which represents 80% of Block Grant subrecipient contract funds. This change was effective in January, 2001. 3. OSA has taken steps to ensure that payments are made in accordance with the payment schedule as stated in the contract and not significantly earlier as in past practice. Payments to subrecipients are made no earlier than 2 days before the scheduled date.
99-33	93.959	Office of Substance Abuse	Weakness in subrecipient monitoring procedures (Prior Year Finding)	None	The Office of Substance Abuse does adhere to our procedures to track and monitor subrecipient financial and narrative report. When reports are not filed, or filed late, the tracking forms document contacts made with the agency and action taken. This monitoring has resulted in delayed payments to agencies until conditions are met.
99-34	93.959	Office of Substance Abuse	Unobligated expenditures not in period of availability	$453,655	The Office of Substance Abuse (OSA) has been expending Block Grant funds for OSA salaries and related expenses beyond the first year of the Block Grant for several years. In the most recent audit resolution, Substance Abuse and Mental Health Services Administration (SAMSHA) agreed with OSA that these expenditures can be considered obligations, by virtue of being included in our approved state budget, and allowed these questioned costs. Block Grant regulations have been changed for the current period (10/01/00 - 9/30/02) to allow funds to be obligated and expended throughout the entire two years of the award.
99-35	16.579	Bureau of Highway Safety	Excess payroll costs charged to the program and no certification for employees working solely for program	$53,483	Payroll adjustments are made on a quarterly basis.
99-36	20.205	Bureau of Project Development	Inadequate controls over Locally Administered Projects	$52,777	Additional staffing and assignment of specific roles for administration coordination and oversight of all LPs has occurred as part of the Bureau's reorganization. A "Local Project Coordinator" position within the Bureau was recently filled and is expected to support the new 2001 projects and the new 2002-2003 Biennial Transportation Improvement Program. Existing project management has been more centrally focused within the Urban and Arterial Highway Program to better maintain and manage locally administered projects.

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Finding #	CFDA #	Department	Description	Questioned Costs	Status
99-37	20.509	Office of Passenger Transportation	Noncompliance with federal cash management procedures	None	Financial procedures for capital payments - Capital equipment is not handled on a reimbursement basis. The industry standard process is payment on delivery once the vehicles and/or equipment has satisfactorily passed MDOT's and the provider's inspection. The delivery of vehicles and other capital equipment can require flexible scheduling. The request from the Office of Passenger Transportation to the Finance office of MDOT to draw down the FTA funds for capital purposes and process a check will take place no more than one week before the scheduled delivery. In the event that the delivery does not take place as scheduled or the inspection delays acceptance of the vehicles, the checks will be stored in the Finance office safe to be released upon vehicle acceptance. As an added safeguard all checks will be requested to be returned to MDOT and not mailed to the vendor or provider.