State of Maine

Single Audit Report
Fiscal Year Ended
June 30, 2003

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, 2003

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Letter of Transmittal

Senator Beverly C. Daggett
President of the Senate

Representative Patrick Colwell
Speaker of the House of Representatives

The Honorable John E. Baldacci
Governor of Maine

We are pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2003. This report complies with the State's audit requirements, including those placed upon the State as a condition for the receipt of over $2.2 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
- Basic Financial Statements and Notes to the Financial Statements
- Management's Discussion and Analysis
- 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, Questioned Costs and Corrective Action Plans
- Summary Schedule of Prior Audit Findings

- 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 2003 Single Audit of the State of Maine.

Respectfully submitted,

Gail M. Chase

Gail M. Chase, CIA
State Auditor

July 30, 2004

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

EXECUTIVE SUMMARY

Introduction

The Department of Audit performs an annual financial and compliance audit, the Single Audit of the State of Maine, in order to comply with federal and State requirements. This document is the written summary of the audit, and provides information that the federal government, rate setting agencies and State policymakers need. The audit also provides what citizens of our State deserve: a report on the accountability of our government for the funds it receives and uses.

Scope and Results

The Opinion

Our audit opinion is rendered on the Basic Financial Statements as presented by the management of the State of Maine. The opinion is unqualified, which means that we are able to give assurance that the statements fairly present the financial position of the State of Maine government, and the financial results of its operations. It also means that the State has taken action to correct the conditions for which we qualified the opinion in previous years. The opinion, contained in the *Independent Auditor's Report*, is found on pages B-3 and B-4 of this report.

Internal Control and Compliance

We report on internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the financial statements. That report, titled *Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards*, is found on page C-1 and C-2. We found no material instances of noncompliance. However, we did find certain immaterial instances of noncompliance, which have been reported to the management of the State of Maine in a separate letter.

We cite nine instances of control weaknesses that we consider to be reportable conditions. Three of these conditions rise to the level of material weaknesses. These findings are described briefly below, and are summarized on pages E-11 and E-12. The detailed findings can be found on pages E-13 through E-27.

We also issue an opinion on the compliance of each major federal program with that program's requirements, and on the internal control over that compliance. We audited 28 major federal programs totaling $2.1 billion. We found that two Title IV-E programs, Adoption Assistance and Foster Care, are in material noncompliance with federal requirements regarding allowable costs, eligibility and reporting. In all, we identified 99 instances of control deficiencies or noncompliance with the requirements of federal programs. These findings are identified in the report titled, *Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133*, found on pages C-3 to C-5.

Summary of findings

As stated above, the State of Maine has corrected the deficiencies that resulted in a qualification of the audit financial statements in previous years. Various departments and agencies have improved systems of accountability, and most managers and employees perform their duties well. The Department of Human Services, where a preponderance of the deficiencies were found, has taken aggressive action to address problems and adopt new policies. For the most part, these changes occurred after the period of our audit. To present a balanced view, and to allow any department to describe the improvements that have been made subsequent to the audit, we include responses immediately following each finding. Our responsibility, however, is to report those instances when agencies have fallen short of compliance with law or regulation, or when the systems that are designed to ensure compliance are absent or ineffective. The findings reflect those instances.

Financial statement findings

In general, we found that the State of Maine's systems adequately support the processing of transactions in accordance with the budgetary basis of accounting, but do not facilitate preparation of financial statements in accordance with generally accepted accounting principles (GAAP). The conditions that we cite, which can be found in greater detail on pages E -11 and E-12, are deficiencies in the State's ability to capture accurate and complete information and to account for its federal programs.

Federal findings

We found deficiencies in cash management, eligibility determination, expenditure of funds in compliance with program regulations, federal financial reporting, accounting for federal programs, documentation of transactions, oversight of subrecipients, reconciliation of accounts and systems, determination of allocated cost and application of indirect cost rates, and the State's methods of maximizing federal financial participation. The most significant deficiencies were in cash management, eligibility determination and reporting of unallowed costs. A more detailed summary of these findings can be found at the beginning of each department's federal findings.

We found that the State of Maine did not always draw federal program funds to meet the needs of the program. In some cases, program funds were drawn in excess of actual expenditures, and appear to have been used to benefit other federal and non-federal programs. In other cases, insufficient federal funds were drawn, and one program was subsidized by other programs, by the General Fund, or by the Other Special Revenue Fund. The State did not always conform to restrictions regarding the timing of cash draws to be used on behalf of a program or to be awarded to a subrecipient.

Federal program benefits are designed to be utilized by individuals or providers that are eligible for those benefits. Two programs, Foster Care and Adoption Assistance, were materially noncompliant with eligibility requirements. Charges were made for children who were not eligible for the program.

We found that costs incurred on behalf of federal programs were not always allowed: duplicate payments were made, and payments were made from the wrong federal program. We questioned a total of $30.7 million as a result of our audit. Questioned costs are those amounts of federal financial assistance that we believe were not spent in compliance with program requirements, or that were insufficiently documented for us to determine compliance. The federal government may or may not disallow those costs and require reimbursement from the State.

Accounting for some federal programs was weak. More than one federal grant program might share one account, or federal and non-federal accounts might be combined into a larger account. Accounting for some of the larger programs is overly complex and prone to error.

The State did not always monitor subrecipients of federal dollars, perform required site visits, or provide required information.

We questioned over $8 million that resulted from the State's efforts to maximize federal financial participation.

We found inaccurate data, faulty logic and a lack of controls over security in some automated systems.

Finally, we found that segregation of duties in one federal program is extremely weak: the same individuals determine eligibility, establish individual plans, authorize expenditures and approve payments, generally without supervision.

Conclusion

Our audit resulted in an unqualified opinion on the financial statements of the State of Maine. We identified instances of noncompliance and serious weaknesses in internal control. However, financial managers of the State of Maine have been responsive to our findings, and we recognize that they have initiated action that should resolve many of these issues.

FINANCIAL STATEMENTS


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Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2003, which collectively comprise the State's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the State of Maine's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Child Development Services System, Finance Authority of Maine, Governor Baxter School for the Deaf, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities, Maine Maritime Authority, Maine Municipal Bond Bank, Maine State Housing Authority, Maine State Retirement System, Maine Community College System, Northern New England Passenger Rail Authority, and University of Maine System. Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

Government-Wide Financial Statements:	Percent of Assets	Percent of Revenues
Primary Government-Governmental Activities	4.8%	.2%
Component Units	100%	100%

Fund Financial Statements:	Percent of Assets	Percent of Revenues or Additions
Proprietary Funds-Governmental Activities-Internal Service Funds	47%	3%
Fiduciary Funds-Pension (and Other Employee Benefit) Trust Funds	100%	100%
Component Units	100%	100%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinion, insofar as it relates to the amounts included for those component units and funds, is based solely on the reports of the other auditors.

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 our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. The financial statements of the Maine Educational Loan Authority and the Maine Governmental Facilities Authority were audited in accordance with auditing standards generally accepted in the United States but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of June 30, 2003, and the respective changes in financial position and cash flows thereof, where applicable, 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 April 28, 2004 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.

The Management's Discussion and Analysis, budgetary comparison schedules and related notes, information about infrastructure assets reported using the modified approach, and information on the schedules of funding progress and employer contributions for the State retirement plan and the Participating Local District plan are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Gail M. Chase

Gail M. Chase, CIA
State Auditor

April 28, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the State of Maine's annual financial report presents the State's discussion and analysis of financial performance during the year ended June 30, 2003. Please read it in conjunction with the transmittal letter at the front of this report and with the State's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

Government-wide:

- The State's net assets increased by less than two percent from the previous fiscal year, as restated. Net assets of governmental activities increased by $44.2 million, while net assets of business-type activities increased by $8.3 million. The State's assets exceeded its liabilities by $3.2 billion at the close of fiscal year 2003. Component units reported net assets of $1.4 billion, an increase of $92 million (roughly seven percent) from the previous year.

Fund level:

- At the end of the fiscal year, the State's governmental funds reported combined ending fund balances of $348.7 million, a decrease of $188.8 million from the previous year. The General Fund's total fund balance was a deficit of $20.4 million, a decrease of $40.7 million from the previous year.

- The proprietary funds reported net assets at year end of $624.7 million, an increase of $57 million.

Long-term Debt:

- The State's liability for general obligation bonds increased by $11.9 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $97.1 million in bonds and made principal payments of $85.2 million.

Additional information regarding the government-wide, fund level, and long-term debt activities can be found beginning on page 7.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the State of Maine's basic financial statements, which are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Statements

The government-wide statements report information about the State as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets presents all of the State's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases and decreases in net assets are an indicator of whether the financial position is improving or deteriorating.

The Statement of Activities presents information showing how the State's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying events giving rise to the change occur, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused leave).

Both government-wide statements report three activities:

Governmental activities - Most basic services, such as health & human services, education, governmental support & operations, justice & protection, and transportation are included in this category. The Legislature, Judiciary and the general operations of the Executive departments fall within the governmental activities. Income taxes, sales and use taxes, and State and federal grants finance most of these activities.

Business-type activities - The State charges fees to customers to help cover all or most of the costs of certain services it provides. Lottery tickets, liquor sales and the State's unemployment compensation services are examples of business-type activities.

Component units - Although legally separate, component units are important because the State is financially accountable for these entities. The State has "blended" two component units, the Maine Governmental Facilities Authority (MGFA) and the Maine Military Authority (MMA) as governmental activities as described above. Maine reports 11 other component units as discretely presented component units of the State.

Government-wide statements are reported utilizing an economic resources measurement focus and full accrual basis of accounting. The following summarizes the impact of the transition from modified accrual to full accrual accounting:

- Capital assets used in governmental activities are not reported on governmental fund statements but are included on government-wide statements

- Certain tax revenues that are earned, but not available, are reported as governmental activities, but are reported as deferred revenue on the governmental fund statements

- Other long-term assets that are not available to pay for current period expenditures are deferred in governmental fund statements, but not deferred on the government-wide statements

- Internal service funds are reported as governmental activities, but reported as proprietary funds in the fund financial statements

- Governmental fund long-term liabilities, such as certificates of participation, pension obligations, compensated absences, bonds and notes payable, and others appear as liabilities only in the government-wide statements

- Capital outlay spending results in capital assets on the government-wide statements, but is recorded as expenditures on the governmental fund statements

- Proceeds from bonds, notes and other long-term financing arrangements result in liabilities on the government-wide statements, but are recorded as other financing sources on the governmental fund statements

- Net asset balances are allocated as follows:

  Net Assets invested in capital assets, net of related debt;

  Restricted Net Assets are those with constraints placed on the use by external sources (creditors, grantors, contributors, or laws or regulations of governments) or imposed by law through constitutional provisions or enabling legislation; and

  Unrestricted Net Assets are net assets that do not meet any of the above restrictions.

Fund Financial Statements

The fund financial statements provide more detailed information about the State's most significant funds. Funds are fiscal and accounting entities with self-balancing sets of accounts that the State uses to keep track of specific revenue sources and spending for particular purposes. The State's funds are divided into three categories – governmental, proprietary, and fiduciary – and use different measurement focuses and bases of accounting.

Governmental funds: Most of the basic services are included in governmental funds, which generally focus on how money flows into and out of those funds and the balances left at year-end that are available for future spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the programs of the State. The governmental fund statements focus primarily on the sources, uses, and balance of current financial resources and often have a budgetary orientation. These funds are reported using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Because this information does not encompass the additional long-term focus of the government-wide statements, a separate reconciliation provides additional information that explains the relationship (or differences) between them. The governmental funds consist of the General Fund, special revenue, capital projects, and permanent funds.

Proprietary funds: When the State charges customers for the services it provides, whether to outside customers or to other agencies within the State, these services are generally reported in proprietary funds. Proprietary funds (enterprise and internal service) apply the accrual basis of accounting utilized by private sector businesses. Enterprise funds report activities that provide supplies and services to the general public. An example is the State Lottery Fund. Internal service funds report activities that provide supplies and services to the State's other programs and activities – such as the State's Postal, Printing & Supply Fund. Internal service funds are reported as governmental activities on the government-wide statements.

Fiduciary funds: The State is the trustee or fiduciary for assets that belong to others. The State is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. These funds include pension and other employee benefit trusts administered by the Maine State Retirement System, a discrete component unit, private-purpose trusts, and agency funds. Fiduciary funds are reported using the accrual basis of accounting. The State excludes these activities from the government-wide financial statements because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in both the government-wide and fund financial statements.

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds. Also included are notes and a reconciliation of fund balance from the budgetary basis to fund balance determined according to generally accepted accounting principles. This section also includes schedules of funding progress for certain pension trust funds and condition and maintenance data regarding certain portions of the State's infrastructure.

Other Supplementary Information

Other supplementary information includes combining financial statements for non-major governmental, proprietary, and fiduciary funds. These funds are added together, by fund type, and presented in single columns in the basic financial statements.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets increased by just under two percent to $3.2 billion at June 30, 2003, as detailed in Tables A-1 and A-2.

Table A- 1: Condensed Statement of Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002*	2003	2002*	2003	2002*
Current and other noncurrent assets	$ 1,222,403	$ 1,359,027	$ 479,243	$ 486,129	$ 1,701,646	$ 1,845,156
Capital assets	2,972,419	2,727,184	72,375	58,941	3,044,794	2,786,125
Total Assets	4,194,822	4,086,211	551,618	545,070	4,746,440	4,631,281
Current liabilities	859,538	706,809	17,567	19,259	877,105	726,068
Long-term liabilities	645,755	705,590	370	472	646,125	706,062
Total Liabilities	1,505,293	1,412,399	17,937	19,731	1,523,230	1,432,130
Net assets:						
Investment in capital assets, net of related debt	2,628,197	2,424,949	72,375	53,679	2,700,572	2,478,628
Restricted	184,809	242,976	459,127	464,862	643,936	707,838
Unrestricted	(123,477)	5,887	2,179	6,798	(121,298)	12,685
Total Net Assets	$ 2,689,529	$ 2,673,812	$ 533,681	$ 525,339	$ 3,223,210	$ 3,199,151

* As originally stated.

Changes in Net Assets

The State's fiscal year 2003 revenues totaled $5.7 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 45.4 percent and 37.4 percent, respectively, of every dollar raised. The remainder came from charges for services and other miscellaneous sources.

The total cost of all programs and services totaled $5.6 billion for the year 2003. (See Table A-2) These expenses (69 percent) are predominantly related to health & human services and education activities. The State's governmental support & operations activities accounted for 7.2 percent of total costs. Total net assets increased by $52.5 million.

Table A-2: Changes in Net Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002*	2003	2002	2003	2002*
Revenues						
Program Revenues:						
Charges for Services	$ 376,117	$ 301,595	$ 377,555	$ 391,506	$ 753,672	$ 693,101
Grants/Contributions	2,116,996	1,818,541	9,000	36,369	2,125,996	1,854,910
General Revenues:						
Corporate Income Taxes	182,554	158,493	-	-	182,554	158,493
Individual Income Taxes	1,095,143	1,043,312	-	-	1,095,143	1,043,312
Fuel Taxes	161,534	149,193	-	-	161,534	149,193
Property Taxes	38,179	35,546	-	-	38,179	35,546
Sales & Use Taxes	1,012,552	976,618	-	-	1,012,552	976,618
Other Taxes	90,769	63,111	-	-	90,769	63,111
Investment Earnings	8,521	8,944	-	-	8,521	8,944
Other	220,202	263,742	-	1,093	220,202	264,835
Total Revenues	5,302,567	4,819,095	386,555	428,968	5,689,122	5,248,063
Expenses						
Governmental Activities:						
Governmental Support	403,505	432,206	-	-	403,505	432,206
Arts, Heritage & Culture	13,012	-	-	-	13,012	-
Business Lic & Reg	34,447	-	-	-	34,447	-
Economic Development			-	-		
& Workforce Training	206,586	223,829			206,586	223,829
Education	1,340,614	1,323,259	-	-	1,340,614	1,323,259
Health & Human Services	2,522,643	2,367,786	-	-	2,522,643	2,367,786
Justice & Protection	301,575	108,742	-	-	301,575	108,742
Natural Resources	163,606	132,858	-	-	163,606	132,858
Transportation Safety	240,286	240,869			240,286	240,869
Interest	32,120	24,576	-	-	32,120	24,576
Business-Type Activities:						
Employment Security	-	-	124,452	123,606	124,452	123,606
Other	-	-	253,761	261,042	253,761	261,042
Total Expenses	5,258,394	4,854,125	378,213	384,648	5,636,607	5,238,773
Increase (Decrease) in Net Assets	$ 44,173	$ (35,030)	$ 8,342	$ 44,320	$ 52,515	$ 9,290

* Expenses by policy area are not comparable from FY 2002 to 2003 due to statutory realignment of agencies among policy areas for budgeting and reporting purposes.

In tables A-2 and A-3, $56.8 million of statutorily required profit transfers are included as other revenues in the governmental activities and other expenses in the business-type activities.

Governmental Activities

Revenues for the State's governmental activities totaled $5.3 billion while total expenses equaled $5.26 billion. Therefore, the increase in net assets for governmental activities was $44.2 million in 2003. The users of the State's programs financed $376.1 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $2.1 billion. $2.8 billion of the State's net costs were financed by taxes and other miscellaneous revenue.

Table A-3: Total Sources of Revenues for Governmental Activities for Fiscal Year 2003

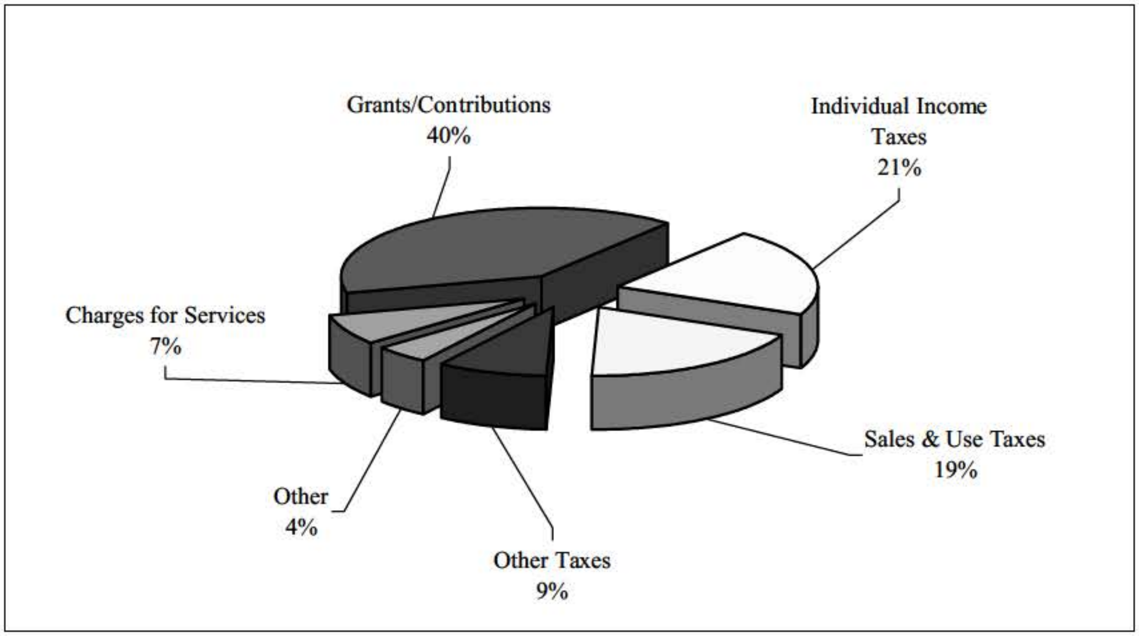
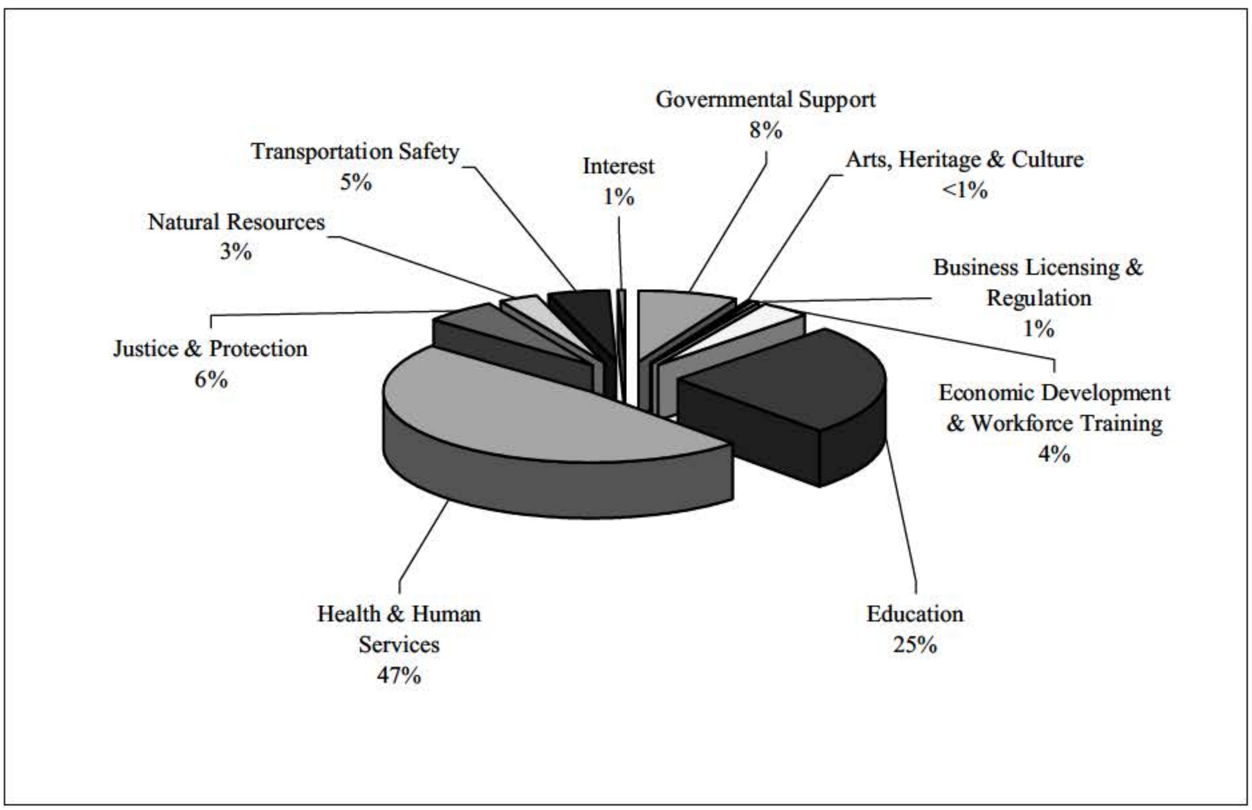


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2003



Business-type Activities

Revenues for the State's business-type activities totaled $386.5 million while total expenses and transfers totaled $378.2 million. The increase in net assets for business-type activities was $8.3 million in 2003.

Table A-5 presents the cost of major State business-type activities: employment security, alcoholic beverages, lottery and other. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden placed on the State's taxpayers by each of these functions.

Table A-5: Net Cost of Business-Type Activities
(Expressed in Thousands)

	Total Cost		**Net Cost (Revenue)**	
Category	2003	2002	2003	2002
Employment Security	$ 124,452	$ 123,606	$ 5,125	$ (57,012)
Alcoholic Beverages	59,412	56,896	(26,573)	(24,724)
Lottery	125,641	120,520	(41,262)	(38,613)
Other	11,918	13,990	(2,422)	7,486
Total	$ 321,423	$ 315,012	$ (65,132)	$ (112,863)

The cost of all business-type activities this year was $321.4 million. The users of the State's programs financed all of the cost. The State's net revenue from business-type activities was $65.1 million, of which $56.8 million was transferred to the State's governmental activities.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

At the close of the fiscal year, the State reported fund balances of $348.7 million in its governmental funds. The Other Special Revenue Fund, at $218.3 million, comprises just less than 63 percent of the total, while the General Fund, at ($20.4) million, the Highway Fund, at $46.7 million, and the Federal Fund, at $13.3 million comprise just over 11 percent of the total fund balances. Miscellaneous non-major governmental funds, in the aggregate, comprise just over one-quarter of the total. Total fund balances in the governmental funds diminished by $188.8 million. Almost 80 percent of that decrease occurred in the General, Highway and Other Special Revenue funds, primarily because of lower tax collections as a result of an economic downturn consistent with the national economic condition. Existing resources within the Highway and Other Special Revenue funds were used to offset the declines in revenue yet maintain program service levels. Additionally, resources within the Other Special Revenue fund were transferred to the General Fund to help offset the shortfall. The General Fund carries a deficit balance into the next fiscal year, which will be funded through future revenues or further reductions in program spending.

Budgetary Highlights

For the 2003 fiscal year, the final budgeted expenditures for the General Fund decreased by about $138 million from the original budget of approximately $2.7 billion. The Legislatively approved reduction was made necessary by flagging revenues, primarily on the tax lines. Two budget revisions, Chapter 714, PL 2002 and Chapter 2, PL 2003, were necessary to balance the budget. The programs impacted the most by the reductions fell into the broad categories of general government and social services. Some programs within State government took advantage of other funding sources to help offset the reduction of General Fund support. General Fund revenue estimates decreased by approximately $198 million.

On the modified accrual basis, General Fund expenditures and other financing uses exceeded revenues and other financing sources by $40.7 million for the fiscal year. A portion of this difference was funded by resources carried forward from the prior fiscal year, leaving a $20.4 million deficit in the fund balance. The deficit is, for the most part, related to an accrual in the General Fund to recognize a liability for overdrawn federal Medicaid funds. Reductions in income tax revenues and the effects of Maine's recession contributed to the need to draw upon existing fund balances. Actual revenues were less than the original budget forecasts mainly due to lower than expected personal income tax revenues. Actual expenditures in the General Fund were less than original forecasts, resulting from a concerted effort to reduce spending.

During fiscal year 2003, the State of Maine, as a component of the legislatively authorized budget, transferred available balances from several other funds to the unappropriated surplus of the General Fund. These transfers provided resources to balance the budget. Significant transfers during the fiscal year included: $34.5 million from the Rainy Day Fund, $43.2 million from the Fund for a Healthy Maine, $16.6 million from the Highway Fund, $14.6 million from the Maine Learning Technology Endowment, $6.5 million from the Clean Election Fund, and $3.2 million from the Maine State Housing Authority.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2003, the State had roughly $3.1 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2003, the State acquired or constructed more than $348 million of capital assets. The most significant impact on capital assets during the year resulted from continued construction and rehabilitation of roads and bridges, and major construction and renovation of State-owned facilities. More detailed information about the State's capital assets and significant construction commitments is presented in Notes 8 and 15 to the financial statements.

Table A-6: Capital Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2003	2002	2003	2002	2003	2002
Land	$ 303,327	$ 277,900	$ 6,517	$ 6,403	$ 309,844	$ 284,303
Buildings	418,157	392,803	8,746	16,378	426,903	409,181
Equipment	215,898	204,608	18,905	19,410	234,803	224,018
Improvements	16,162	16,936	51,410	44,763	67,572	61,699
Infrastructure	2,216,788	2,027,179	-	-	2,216,788	2,027,179
Construction in Progress	50,723	27,267	19,632	1,593	70,355	28,860
Total Capital Assets	3,221,055	2,946,693	105,210	88,547	3,326,265	3,035,240
Accumulated Depreciation	(248,636)	(219,509)	(32,835)	(29,606)	(281,471)	(249,115)
Capital Assets, net	$ 2,972,419	$ 2,727,184	$ 72,375	$ 58,941	$ 3,044,794	$ 2,786,125

Modified Approach for Infrastructure

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets – highways and bridges. Under this alternative method, referred to as the modified approach, the State expenses certain maintenance and preservation costs and does not report depreciation expense. Utilization of this approach requires the State to: 1) maintain an asset management system that includes an up-to-date inventory of infrastructure assets; 2) perform condition assessments that use a measurement scale and document that the infrastructure assets are being preserved at or above the condition level established; and 3) estimate the annual amounts that must be expended to preserve and maintain the infrastructure at the condition level established by the State. As long as the State meets these requirements, any additions or improvements to infrastructure are capitalized and all other maintenance and preservation costs are expensed.

Highways and bridges are included in the State's infrastructure. There are 8,712 highway miles or 17,702 lane miles within the State. Bridges have a deck area of 11 million square feet among 2,959 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2003, the actual average condition was 77.6. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 76 at June 30, 2003. Preservation costs for fiscal year 2003 totaled $34.3 million compared to estimated preservation costs of $36 million.

Chapter 38, P&S 2001, authorized $61 million of transportation bonds and Chapter 33, P&S 2003, authorized $60 million of transportation bonds. These bonds are for improvements to highways and bridges and were approved at referendum. As of June 30, 2003 $28 million of bonds were issued related to Chapter 38.

Additional information on infrastructure assets can be found in Required Supplementary Information (RSI).

Long-Term Debt

The State Constitution authorizes general obligation long-term borrowing, with 2/3 approval of the Legislature and ratification by a majority of the voters; and general obligation short-term notes, of which the principal may not exceed an amount greater than 10% of all moneys appropriated, authorized and allocated by the Legislature from undedicated revenues to the General Fund and dedicated revenues to the Highway Fund for that fiscal year, or greater than 1% of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had $744.5 million in general obligation and other long-term debt outstanding. More detailed information about the State's long-term liabilities is presented in Note 11 to the financial statements.

Table A-7: Outstanding Long-Term Debt
(Expressed in Thousands)

	Governmental Activities		**Business-type Activities**		**Total Primary Government**	
	2003	2002	2003	2002	2003	2002
General Obligation Bonds	$ 358,410	$ 346,495	$ -	$ -	$ 358,410	$ 346,495
Other Long-Term Obligations	385,685	362,799	452	526	386,137	363,325
Total	$ 744,095	$ 709,294	$ 452	$ 526	$ 744,547	$ 709,820

During the year, the State reduced outstanding long-term obligations of $85.2 million for outstanding general obligation bonds and $28.1 million for other long-term debt. Also during fiscal year 2003, the State incurred $147.2 million of additional long-term obligations.

Credit Ratings

Three of the major bond rating agencies regularly assess the State's credit rating. During fiscal year 2003, Moody's Investors Service rated the State at Aa2, Standard & Poor's rated it at AA+, and FitchRatings rated it at AA+.

FACTORS BEARING ON THE FUTURE OF STATE AND NEXT YEAR'S BUDGETS

The consensus economic forecast for the State of Maine is for little or no employment growth during the first half of 2004, with slow improvement during the second half of the year. As a result, calendar year 2004 employment and income growth are projected to increase by .8% and 4%, respectively. The consensus economic forecast expects that job growth will improve to 1% a year between 2005 and 2007. Personal income growth is forecasted to grow by 4.5% annually over the same period.

The sluggish national economy has impacted Maine's estimated revenues available for appropriation by the legislature. The State has revised its revenue estimates several times during the year causing the enactment of several budget amendments to reduce appropriations and allocations, to meet emergency needs in the Department of Corrections and Department of Human Services, and to make changes in statute to implement revisions to services provided to the public. The major contributors to the sluggish growth rate of revenues include little growth in employment and decline in tax revenue from capital gains, which is a result of the on-going stock market correction, and tax reductions associated with conformity with the federal tax code. The State Budget Office has estimated that the stock market correction has reduced State tax revenues by approximately $130 million annually.

The revenue estimate for the 2004 – 2005 biennium provides approximately $4.9 billion in general tax revenues to be available for general purpose spending. This is approximately $1.2 billion less than what is required to maintain current services levels in the 2004 – 2005 biennium. This will result in an economic and budgetary challenge for the State of Maine.

CONTACTING THE STATE'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, investors and creditors with a general overview of the finances of the State and to demonstrate the State's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact:

State of Maine
Office of the State Controller
14 State House Station
Augusta, ME 04333-0014
207-626-8420
Bureau.Accounts-Ctrl@maine.gov

BASIC FINANCIAL STATEMENTS

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2003
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Cash and Short-Term Investments	$ 58,943	$ 4,736	$ 63,679	$ 109,750
Cash with Fiscal Agent	35,780	-	35,780	-
Investments	105,274	1,200	106,474	648,837
Restricted Deposits and Investments	13,559	434,774	448,333	-
Inventories	19,915	1,366	21,281	1,042
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	342,787	-	342,787	-
Loans Receivable	6,028	-	6,028	69,217
Notes Receivable	-	-	-	368
Other Receivables	150,366	43,822	194,188	37,462
Internal Balances	8,260	(8,260)	-	-
Due from Other Governments	359,250	-	359,250	123,184
Due from Primary Government	-	-	-	13,858
Other Current Assets	5,981	387	6,368	50,041
Total Current Assets	1,106,143	478,025	1,584,168	1,053,759
Noncurrent Assets:				
Assets Held in Trust	-	-	-	158
Restricted Deposits and Investments	28,665	-	28,665	54,267
Investments	48,925	1,218	50,143	508,154
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	38,670	-	38,670	-
Loans Receivable	-	-	-	2,256,902
Notes Receivable	-	-	-	73,733
Other Receivables	-	-	-	5,438
Due from Other Governments	-	-	-	1,015,208
Other Noncurrent Assets	-	-	-	21,393
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	2,570,838	26,149	2,596,987	165,024
Buildings and Equipment	650,217	79,061	729,278	679,427
Less: Accumulated Depreciation	(248,636)	(32,835)	(281,471)	(345,044)
Capital Assets, Net of Accumulated Depreciation	2,972,419	72,375	3,044,794	499,407
Total Noncurrent Assets	3,088,679	73,593	3,162,272	4,434,660
Total Assets	4,194,822	551,618	4,746,440	5,488,419
Liabilities				
Current Liabilities:				
Accounts Payable	443,256	8,038	451,294	47,518
Accrued Payroll	43,056	388	43,444	643
Compensated Absences	3,851	82	3,933	495
Tax Refunds Payable	119,009	-	119,009	-
Due to Component Units	13,449	-	13,449	-
Due to Other Governments	43,953	-	43,953	4,334
Amounts Held under State Loan Programs	-	-	-	68,810
Undistributed Grants and Administrative Funds	-	-	-	8,220
Allowances for Losses on Insured Commercial Loans	-	-	-	6,249
Claims Payable	65,912	-	65,912	-
Bonds Payable	84,155	-	84,155	-
Notes Payable	11	-	11	154,219
Obligations under Capital Leases	6,348	-	6,348	212
Certificates of Participation and Other Financing Arrangements	12,297	-	12,297	-
Accrued Interest Payable	3,209	-	3,209	44,716
Deferred Revenue	16,939	363	17,302	49,271
Other Current Liabilities	4,093	8,696	12,789	38,849
Total Current Liabilities	859,538	17,567	877,105	423,536

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Long-Term Liabilities:				
Compensated Absences	$ 35,616	$ 370	$ 35,986	$ -
Due to Other Governments	759	-	759	5,201
Bonds Payable	470,638	-	470,638	-
Notes Payable	-	-	-	3,599,744
Obligations under Capital Leases	28,568	-	28,568	4,642
Certificates of Participation and Other Financing Arrangements	36,361	-	36,361	-
Deferred Revenue	4,427	-	4,427	656
Pension Obligation	66,261	-	66,261	-
Other Noncurrent Liabilities	3,125	-	3,125	65,641
Total Long-Term Liabilities	645,755	370	646,125	3,675,884
Total Liabilities	1,505,293	17,937	1,523,230	4,099,420
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,628,197	72,375	2,700,572	400,127
Restricted:				
Highway Fund Purposes	45,250	-	45,250	-
Federal Programs	13,268	-	13,268	-
Natural Resources	19,719	-	19,719	-
Capital Projects and Debt Service	32,263	-	32,263	-
Unemployment Compensation	-	459,127	459,127	-
Other Purposes	16,996	-	16,996	793,627
Funds Held as Permanent Investments:				
Expendable	48,487	-	48,487	-
Nonexpendable	8,826	-	8,826	-
Unrestricted	(123,477)	2,179	(121,298)	195,245
Total Net Assets	$ 2,689,529	$ 533,681	$ 3,223,210	$ 1,388,999

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 403,505	$ 46,501	$ 35,327	$
Arts, Heritage & Cultural Enrichment	13,012	712	4,657	
Business Licensing & Regulation	34,447	35,159	92	
Economic Development & Workforce Training	206,586	3,552	103,458	
Education	1,340,614	465	153,157	
Health & Human Services	2,522,643	57,627	1,545,210	
Justice & Protection	301,575	52,009	51,355	
Natural Resources Development & Protection	163,606	75,312	30,562	
Transportation Safety & Development	240,286	104,780	28,251	164,927
Interest Expense	32,120			
Total Governmental Activities	5,258,394	376,117	1,952,069	164,927
Business Type Activities:				
Employment Security	124,452	119,327		
Alcoholic Beverages	59,412	85,985		
Lottery	125,641	166,903		
Other	11,918	5,340		9,000
Total Business Type Activities	321,423	377,555		9,000
Total Primary Government	$ 5,579,817	$ 753,672	$ 1,952,069	$ 173,927
Component Units:				
Child Development Services	$ 24,108	$ 3,906	$ 18,891	$
Governor Baxter School for the Deaf	5,891	55	79	
Finance Authority of Maine	23,368	3,572	20,222	
Maine Community College System	82,459	18,605	20,357	4,040
Maine Educational Loan Authority	3,926	2,949		
Maine Health & Higher Educational Facilities Authority	67,185	54,568	8,541	19,709
Maine Maritime Academy	19,704	8,429	1,796	3,755
Maine Municipal Bond Bank	60,441	51,946	1,470	21,937
Maine State Housing Authority	201,483	91,996	107,675	
Northern New England Passenger Rail Authority	4,269	27	3,226	399
University of Maine System	535,024	209,707	148,679	2,055
Total Component Units	$ 1,027,858	$ 445,760	$ 330,936	$ 51,895

General Revenues:
- Taxes:
  - Corporate
  - Individual Income
  - Fuel
  - Property
  - Sales & Use
  - Other
- Assessments
- Unrestricted Investment Earnings
- Non Program Specific Grants, Contributions & Appropriations
- Miscellaneous Income
- Loss on Assets Held for Sale
- Tobacco Settlement

Transfers   Internal Activities
- Total General Revenues and Transfers
  - Change in Net Assets

Net Assets   Beginning (as Restated)
Net Assets   Ending

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

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	Component Units
$ (321,677)	$	$ (321,677)	$
(7,643)		(7,643)	
804		804	
(99,576)		(99,576)	
(1,186,992)		(1,186,992)	
(919,806)		(919,806)	
(198,211)		(198,211)	
(57,732)		(57,732)	
57,672		57,672	
(32,120)		(32,120)	
(2,765,281)		(2,765,281)	
	(5,125)	(5,125)	
	26,573	26,573	
	41,262	41,262	
	2,422	2,422	
	65,132	65,132	
(2,765,281)	65,132	(2,700,149)	
			(1,311)
			(5,757)
			426
			(39,457)
			(977)
			15,633
			(5,724)
			14,912
			(1,812)
			(617)
			(174,583)
			(199,267)
182,554		182,554	
1,095,143		1,095,143	
161,534		161,534	
38,179		38,179	
1,012,552		1,012,552	
90,769		90,769	
			35,348
8,521		8,521	11,170
			242,628
119,825		119,825	2,211
			(174)
43,587		43,587	
56,790	(56,790)		
2,809,454	(56,790)	2,752,664	291,183
44,173	8,342	52,515	91,916
2,645,356	525,339	3,170,695	1,297,083
$ 2,689,529	$ 533,681	$ 3,223,210	$ 1,388,999


DIRIGO
MAINE

GOVERNMENTAL FUND FINANCIAL STATEMENTS

MAJOR FUNDS

General Fund – This is the State's primary operating fund. Its purpose is to account for all financial resources obtained and used for general government operations, which are not required to be accounted for in another fund.

Highway Fund – This fund is used primarily to account for motor fuel tax revenues, motor vehicle license and registration fees, and special State appropriations that are legally restricted to the construction and maintenance of State highways and bridges.

Federal Fund – This fund is used to account for grants, block grants and other financial assistance received from the federal government, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

Other Special Revenue Fund – This fund is used to account for revenue sources that are legally restricted to expenditures for specified purposes, including some major capital projects that are not accounted for in the Highway and Federal Funds.

NON-MAJOR FUNDS

Other *Non-major Special Revenue Funds* are used to account for revenue sources that are legally restricted to expenditures for specified purposes, including some major capital projects and funds held in trust for public purposes.

Non-major governmental funds are presented, by fund type, beginning on page 91.

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2003
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Current Assets:						
Cash and Short-Term Investments	$ 135	$ 5,385	$ 4	$ 1,135	$ 2,742	$ 9,401
Cash with Fiscal Agent	9,123	9,722	-	16,774	-	35,619
Investments	-	9,180	-	-	59,125	68,305
Restricted Deposits and Investments	-	-	-	5,651	32,337	37,988
Inventories	457	2	15,647	-	-	16,106
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	321,408	15,695	-	5,683	-	342,786
Loans Receivable	-	121	-	5,906	-	6,027
Other Receivable	46,458	2,298	33,046	64,014	-	145,816
Due from Other Funds	45,782	32,847	36,702	209,245	-	324,576
Due from Other Governments	1,609	-	343,570	-	-	345,179
Other Current Assets	5,025	1	31	-	-	5,057
Total Current Assets	429,997	75,251	429,000	308,408	94,204	1,336,860
Noncurrent Assets						
Investments	-	9,315	-	-	2,104	11,419
Taxes Receivable, Net of Allowance for Uncollectibles	38,670	-	-	-	-	38,670
Working Capital Advances Receivable	1,136	-	-	-	-	1,136
Total Noncurrent Assets	39,806	9,315	-	-	2,104	51,225
Total Assets	$ 469,803	$ 84,566	$ 429,000	$ 308,408	$ 96,308	$ 1,388,085
Liabilities and Fund Balances						
Current Liabilities:						
Accounts Payable	$ 116,007	$ 19,041	$ 231,462	$ 29,877	$ 3,693	$ 400,080
Accrued Payroll	18,992	7,457	7,948	7,166	-	41,563
Tax Refunds Payable	119,009	-	-	-	-	119,009
Due to Other Governments	-	-	43,951	-	-	43,951
Due to Other Funds	189,930	4,574	109,275	21,670	-	325,449
Due to Component Units	3,305	-	4,805	3,545	1,794	13,449
Compensated Absences	1,867	684	533	573	-	3,657
Deferred Revenue	-	-	17,758	23,912	-	41,670
Notes Payable	-	11	-	-	-	11
Other Accrued Liabilities	2,438	187	4	99	1	2,729
Total Current Liabilities	451,548	31,954	415,736	86,842	5,488	991,568
Long-Term Liabilities:						
Working Capital Advances Payable	-	-	-	25	-	25
Deferred Revenue	38,670	5,885	-	3,263	-	47,818
Total Long-Term Liabilities	38,670	5,885	-	3,288	-	47,843
Total Liabilities	490,218	37,839	415,736	90,130	5,488	1,039,411
Fund Balances:						
Reserved						
Continuing Appropriations	49,116	60,473	53,550	211,180	58	374,377
Debt Service	9,123	3,220	-	-	-	12,343
Capital Projects	-	-	-	-	19,920	19,920
Permanent Trusts	-	-	-	-	8,826	8,826
Other	2,707	121	-	30,303	62,016	95,147
Unreserved	(81,361)	(17,087)	(40,286)	(23,205)	-	(161,939)
Total Fund Balances	(20,415)	46,727	13,264	218,278	90,820	348,674
Total Liabilities and Fund Balances	$ 469,803	$ 84,566	$ 429,000	$ 308,408	$ 96,308	$ 1,388,085

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

STATE OF MAINE
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS

June 30, 2003
(Expressed in Thousands)

Total fund balances for governmental funds		$ 348,674
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets that were acquired in current & prior periods are recognized as governmental fund economic resources net of accumulated depreciation.	3,026,478	
Less: Accumulated depreciation	(141,604)	2,884,874
Long term liabilities are not due and payable in the current period. Therefore, long term liabilities are not reported in the governmental fund statements. The balances at the beginning of the fiscal year were recorded as follows, as restated:		
Bonds Payable	(346,495)	
Interest Payable Related to Long term Financing	(2,883)	
Certificates of Participation and Other Financing Arrangements	(7,441)	
Compensated Absences	(33,142)	
Pension Obligation	(76,099)	(466,060)
Current year additions to compensated absences are recognized as a liability when the expense is incurred under full accrual accounting.		(1,301)
Current year bond issue proceeds are recognized as additions to long term liabilities and are not reported as revenue in the Statement of Net Assets.		(97,080)
Principal payments on bond indebtedness are recognized as reductions of long term liabilities and are not reported as expenditures in the Statement of Net Assets.		85,165
Principal payments on other financing arrangements are recognized as reductions of long term liabilities and are not reported as expenditures in the Statement of Net Assets.		3,069
Current year proceeds from other financing arrangements are recognized as additions to long term liabilities and are not reported as revenue in the Statement of Net Assets.		(8,416)
Current year reductions to interest payable are recognized as a liability when the expense is incurred under full accrual accounting.		921
Claims payable at June 30, 2003 is recognized in the Statement of Net Assets under full accrual accounting. No accrual is recorded in the governmental fund statements for interest that was not paid from current financial resources.		(15,426)
Current year reductions to pension obligations are recognized as a decrease in liability when the obligation is incurred under full accrual accounting.		9,838
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		68,467
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets, as restated.		(123,196)
Net assets of governmental activities		$ 2,689,529

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

STATE OF MAINE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,307,439	$ 186,177	$ 3	$ 91,837	$ -	$ 2,585,456
Assessments and Other Revenue	62,010	87,025	-	63,304	-	212,339
Federal Grants and Reimbursements	25,580	-	2,142,732	1,607	-	2,169,919
Service Charges	35,356	7,661	5,413	79,718	-	128,148
Investment Income	2,346	1,339	573	1,270	868	6,396
Miscellaneous Revenue	5,660	1,813	12,984	138,219	6,566	165,242
Total Revenues	2,438,391	284,015	2,161,705	375,955	7,434	5,267,500
Expenditures						
Current:						
Governmental Support & Operations	172,344	36,801	28,858	137,128	8,301	383,432
Economic Development & Workforce Training	54,292	-	108,735	19,630	25,075	207,732
Education	1,143,982	-	149,797	9,888	24,269	1,327,936
Health and Human Services	813,105	-	1,618,774	162,178	3,794	2,597,851
Business Licensing & Regulation	37	-	25	35,220	-	35,282
Natural Resources Development & Protection	67,315	44	32,749	66,528	8,712	175,348
Justice and Protection	202,653	32,149	54,056	34,183	285	323,326
Arts, Heritage & Cultural Enrichment	9,017	-	2,272	667	1,118	13,074
Transportation Safety & Development	1,603	207,172	192,542	18,036	37,129	456,482
Debt Service:						
Principal Payments	63,950	21,215	-	-	-	85,165
Interest Payments	12,953	4,004	-	-	-	16,957
Total Expenditures	2,541,251	301,385	2,187,808	483,458	108,683	5,622,585
Revenue over (under) Expenditures	(102,860)	(17,370)	(26,103)	(107,503)	(101,249)	(355,085)
Other Financing Sources (Uses):						
Transfer from Other Funds	197,119	1,854	44,398	125,164	7,470	376,005
Transfer to Other Funds	(135,000)	(22,862)	(25,867)	(106,215)	(33,883)	(323,827)
Other	-	-	-	10,546	-	10,546
Bonds and Certificates of Participation Issued	-	6,500	-	-	97,080	103,580
Net Other Finance Sources (Uses)	62,119	(14,508)	18,531	29,495	70,667	166,304
Revenues and Other Sources over (under) Expenditures and Other Uses	(40,741)	(31,878)	(7,572)	(78,008)	(30,582)	(188,781)
Fund Balances at Beginning of Year (As Restated)	20,326	78,605	20,836	296,286	121,402	537,455
Fund Balances at End of Year	$ (20,415)	$ 46,727	$ 13,264	$ 218,278	$ 90,820	$ 348,674

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

STATE OF MAINE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2003
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$	(188,781)
Amounts reported for governmental activities in the statement of activities are different because:			
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:			
Capital outlay	285,001		
Depreciation expense	(30,890)		254,111
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.			(4,509)
Current year additions to compensated absences are recognized as a liability when the expense is incurred under full-accrual accounting.			(1,301)
Current year bond issue proceeds are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Activities.			(97,080)
Principal payments on bond indebtedness are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Activities.			85,165
Principal payments on other financing arrangements are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Activities.			3,069
Current year proceeds from other financing arrangements are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Activities.			(29,736)
Current year reductions in interest payable associated with long-term debt decrease interest expense recorded under full-accrual accounting.			921
Claims payable at June 30, 2003 is recognized in the Statement of Activities under full-accrual accounting. No accrual is recorded in the governmental fund statements for claims that were not paid from current financial resources.			(15,426)
Current year reduction of pension obligations decreases the pension expense recorded under full-accrual accounting.			9,838
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.			(11,628)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities.			39,530
Changes in net assets of governmental activities		$	44,173

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


DIRIGO
MAINE

PROPRIETARY FUND FINANCIAL STATEMENTS

MAJOR FUNDS

Unemployment Compensation Fund - This fund accounts for unemployment insurance contributions from employers and the payment of unemployment benefits to eligible claimants.

NON-MAJOR FUNDS

Other *Non-Major Enterprise Funds* are used to account for operations that are financed and operated in a manner similar to private business, where the State intends to finance or recover the costs of providing goods or services to the General Public on a continuing basis primarily through user charges. The State also uses these funds where periodic determination of net income is appropriate for accountability purposes.

Non-major enterprise funds are presented beginning on page 103.

Combining fund statements for the internal service funds, whose combined totals are presented on these statements, begin on page 111.

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2003
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Assets				
Current Assets:				
Cash and Short-Term Investments	$ 2,583	$ 2,153	$ 4,736	$ 49,544
Cash with Fiscal Agent	-	-	-	161
Investments	-	1,200	1,200	36,967
Restricted Deposits and Investments	434,774	-	434,774	4,235
Inventories	-	1,366	1,366	3,808
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	11,850
Other Receivable	24,716	19,106	43,822	3,060
Due from Other Funds	18	2	20	12,554
Other Current Assets	-	387	387	941
Total Current Assets	462,091	24,214	486,305	123,120
Noncurrent Assets				
Investments	-	1,218	1,218	37,507
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	182,886
Fixed Assets - Net of Depreciation	-	72,375	72,375	87,545
Total Noncurrent Assets	-	73,593	73,593	307,938
Total Assets	$ 462,091	$ 97,807	$ 559,898	$ 431,058
Liabilities				
Current Liabilities:				
Accounts Payable	$ 2,658	$ 5,380	$ 8,038	$ 16,805
Accrued Payroll	-	388	388	1,494
Due to Other Governments	-	-	-	765
Due to Other Funds	-	7,587	7,587	2,625
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	4,427
Revenue Bonds Payable	-	-	-	11,830
Obligations Under Capital Leases	-	-	-	6,348
Claims Payable	-	-	-	65,912
Compensated Absences	-	82	82	194
Deferred Revenue	-	363	363	1,048
Other Accrued Liabilities	306	8,390	8,696	2,623
Total Current Liabilities	2,964	22,190	25,154	114,071
Long-Term Liabilities:				
Working Capital Advances Payable	-	1,000	1,000	111
Deferred Revenue	-	-	-	1,164
Certificates of Participation and Other Financing Arrangements	-	-	-	10,124
Revenue Bonds Payable	-	-	-	184,553
Obligations Under Capital Leases	-	-	-	28,568
Compensated Absences	-	370	370	1,173
Total Long-Term Liabilities	-	1,370	1,370	225,693
Total Liabilities	2,964	23,560	26,524	339,764
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	72,375	72,375	38,077
Restricted for:				
Unemployment Compensation	459,127	-	459,127	-
Other Purposes	-	-	-	50
Unrestricted	-	1,872	1,872	53,167
Total Net Assets	$ 459,127	$ 74,247	533,374	$ 91,294
Amounts reported for business-type activities in the government-wide Statement of Net Assets are different due to elimination of the State's internal business-type activities			307	
Net Assets of Business-Type Activities			$ 533,681	

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

STATE OF MAINE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

June 30, 2003
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Operating Revenues				
Charges for Services	$	$ 258,332	$ 258,332	$ 338,190
Assessments	91,916		91,916	
Miscellaneous Revenues				318
Total Operating Revenues	91,916	258,332	350,248	338,508
Operating Expenses				
General Operations		193,114	193,114	263,886
Depreciation		3,778	3,778	17,037
Claims/Fees Expense	124,452		124,452	10,396
Other Operating Expenses				343
Total Operating Expenses	124,452	196,892	321,344	291,662
Operating Income (Loss)	(32,536)	61,440	28,904	46,846
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) – net	27,412		27,412	2,130
Interest Expense				(16,083)
Other Nonoperating Revenues (Expenses) – net		(107)	(107)	1,302
Total Nonoperating Revenues (Expenses)	27,412	(107)	27,305	(12,651)
Income (Loss) Before Capital Contributions and Transfers	(5,124)	61,333	56,209	34,195
Capital Contributions and Transfers				
Capital Contributions from Other Funds		9,000	9,000	1,385
Transfers from (to) Other Funds	(611)	(56,179)	(56,790)	12,954
Total Capital Contributions and Transfers In (Out)	(611)	(47,179)	(47,790)	14,339
Change in Net Assets	(5,735)	14,154	8,419	48,534
Total Net Assets – Beginning of Year, As Restated	464,862	60,093	524,955	42,760
Total Net Assets – End of Year	$ 459,127	$ 74,247	533,374	$ 91,294
Amounts reported for business type activities in the government wide Statement of Activities are different due to elimination of the State's internal business type activities			307	
Net Assets of Business Type Activities			$ 533,681	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2003
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds: Major Employment Security	Non-Major Other Enterprise	Totals	Governmental Activities Internal Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 96,688	$ 251,033	$ 347,721	$ 333,312
Payments of Benefits	(127,478)		(127,478)	
Payments to Prize Winners		(99,876)	(99,876)	
Payments to Suppliers		(77,050)	(77,050)	(241,758)
Payments to Employees		(8,857)	(8,857)	(26,827)
Net Cash Provided (Used) by Operating Activities	(30,790)	65,250	34,460	64,727
Cash Flows from Noncapital Financing Activities				
Operating Transfers in		11,430	11,430	
Operating Transfers out	(611)	(67,609)	(68,220)	(932)
Net Cash Provided (Used) by Noncapital Financing Activities	(611)	(56,179)	(56,790)	(932)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets		(17,211)	(17,211)	(19,378)
Capital Contributions		9,000	9,000	1,385
Proceeds from Financing Arrangements				3,901
Principal and Interest Paid on Financing Arrangements				(17,150)
Proceeds from Sale of Capital Assets		(202)	(202)	1,304
Net Cash Provided (Used) by Capital Financing Activities		(8,413)	(8,413)	(29,938)
Cash Flows from Investing Activities				
Interest Revenue	27,412	98	27,510	2,130
Payments to Purchase Investments		(1,144)	(1,144)	(40,192)
Proceeds from Sale of Investments		5	5	97
Net Cash Provided (Used) by Investing Activities	27,412	(1,041)	26,371	(37,965)
Net Increase (Decrease) in Cash/Cash Equivalents	(3,989)	(383)	(4,372)	(4,108)
Cash/Cash Equivalents Beginning of Year	441,346	2,536	443,882	58,048
Cash/Cash Equivalents End of Year	$ 437,357	$ 2,153	$ 439,510	$ 53,940
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (32,536)	$ 61,440	$ 28,904	$ 46,846
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense		3,778	3,778	17,037
Decrease (Increase) in Assets				
Accounts Receivable	4,763	(8,873)	(4,110)	(5,664)
Interfund Balances	(1,036)	7,819	6,783	(555)
Inventories		1,263	1,263	352
Increase (Decrease) in Liabilities				
Accounts Payable	(1,718)	(583)	(2,301)	7,698
Accrued Payroll Expenses		(63)	(63)	150
Change in Compensated Absences		(77)	(77)	19
Other Accruals	(263)	546	283	(1,156)
Total Adjustments	1,746	3,810	5,556	17,881
Net Cash Provided (Used) by Operating Activities	$ (30,790)	$ 65,250	$ 34,460	$ 64,727

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

FIDUCIARY FUND FINANCIAL STATEMENTS

Pension (and Other Employee Benefit) Trusts – accounts for funds held by the Maine State Retirement System (MSRS), a discrete component unit included with Fiduciary Funds per GASB Statement No. 34. MSRS 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.

Other *Private-Purpose Trusts* and *Agency Funds* are used to account for private-purpose assets held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds.

Combining fund statements for fiduciary funds, whose combined totals are presented on these statements, begin on page 119.

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2003
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Cash and Short-Term Investments	$ 193,294	$ 286	$ 5,434
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	19,434	-	-
Interest and Dividends	12,995	-	-
Due from Brokers for Securities Sold	141,027	-	-
Other	-	-	1,527
Investments at Fair Value:			
Debt Securities	1,013,891	-	-
Equity Securities	1,483,546	-	-
Common/Collective Trusts	4,372,692	-	-
Other	15,713	9,897	3,246
Securities Lending Collateral	425,562	-	-
Assets Held in Trust	-	11,224	1,712,486
Fixed Assets - Net of Depreciation	1,468	-	-
Total Assets	7,679,622	21,407	1,722,693
Liabilities			
Accounts Payable	9,330	10	47
Due to Brokers for Securities Purchased	260,841	-	-
Agency Liabilities	-	-	1,721,142
Obligations Under Securities Lending	425,562	-	-
Due to Other Funds	-	-	1,489
Other Accrued Liabilities	8,644	-	15
Total Liabilities	704,377	10	1,722,693
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	6,975,245	21,397	-
Total Net Assets	$ 6,975,245	$ 21,397	$ -

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

STATE OF MAINE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

	Pension (and Other Employee Benefit Trusts)	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 136,971	$ -
State and Local Agencies	295,370	-
Investment Income:		
Net Increase (Decrease) in the Fair Value of Investments	272,385	1,144
Interest and Dividends	88,543	485
Less Investment Expense:		
Investment Activity Expense	9,240	-
Cost of Securities Lending	347	-
Net Investment Income (Loss)	783,682	1,629
Miscellaneous Revenues	-	16,845
Transfers In	-	494
Total Additions	783,682	18,968
Deductions:		
Benefits Paid to Participants or Beneficiaries	417,181	2,167
Refunds and Withdrawals	13,834	-
Administrative Expenses	9,724	-
Transfers Out	-	8,836
Total Deductions	440,739	11,003
Net Increase (Decrease)	342,943	7,965
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year, As Restated	6,632,302	13,432
End of Year	$ 6,975,245	$ 21,397

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


DIRIGO
MAINE

COMPONENT UNIT FINANCIAL STATEMENTS

Child Development Services System (CDS) – CDS maintains a coordinated service delivery system for the provision of childfind activities for children, from birth to under age six, early intervention services for eligible children, from birth to under age three, and free, appropriate and public education services for eligible children, from age three to under age six, who have a disability.

Finance Authority of Maine (FAME) – The Authority provides commercial financing and loan guarantees to Maine businesses and educational financing to Maine students and their parents. 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.

Governor Baxter School for the Deaf is a comprehensive educational organization that offers educational, residential, transitional, and outreach services to meet the needs of persons who are deaf or hard of hearing; their families, professionals, service providers, agencies and communities on a local, statewide, regional and national level.

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

Maine Educational Loan Authority (MELA) – The Authority was created to grant educational loans primarily using funds acquired through issuance of long-term bonds payable.

Maine Health and Higher Educational Facilities Authority (MHHEFA) – The Authority assists Maine health care institutions and institutions of higher education in undertaking projects involving the equipping, improvement, reconstruction, acquisition, and construction of health care and educational facilities and the refinancing of existing indebtedness. 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.

Maine Maritime Academy (MMA) – The 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.

Maine Municipal Bond Bank (MMBB) – The 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.

Maine State Housing Authority (MSHA) – The Authority is authorized to issue bonds for the purchase of notes and mortgages on single-family and multi-family 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.

Northern New England Passenger Rail Authority (NNEPRA) – The Authority initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine.

University of Maine System (UMS) The State University consists of seven campuses and a central administrative office.

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2003
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Governor Baxter School for the Deaf	Maine Community College System	Maine Educational Loan Authority
Assets					
Current Assets:					
Cash and Cash Equivalents	$ 1,893	$ 7,568	$ 509	$ 1,118	$ 2,343
Investments	720	28,498	112	14,768	-
Inventories	-	-	-	751	-
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	6,135
Notes Receivable	-	355	-	-	-
Other Receivables	111	184	17	2,734	484
Due from Other Governments	754	291	-	-	-
Due from Primary Government	456	1,800	-	432	-
Other Current Assets	39	770	9	295	99
Total Current Assets	3,973	39,466	647	20,098	9,061
Noncurrent Assets:					
Assets Held in Trust	-	-	-	-	-
Restricted Deposits and Investments	-	-	-	580	-
Investments	-	16,937	122	5,503	28,963
Receivables, Net of Current Portion:					
Loans Receivable	-	-	-	-	38,080
Notes Receivable	-	28,987	-	-	-
Other Receivables	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Fixed Assets - Net of Depreciation	680	1,997	66	79,456	-
Other Noncurrent Assets	-	-	-	-	762
Total Noncurrent Assets	680	47,921	188	85,539	67,805
Total Assets	4,653	87,387	835	105,637	76,866
Liabilities					
Current Liabilities:					
Accounts Payable	1,941	920	63	1,709	96
Accrued Payroll	283	-	211	-	-
Compensated Absences	353	-	142	-	-
Due to Other Governments	-	-	-	-	-
Amounts Held under State Loan Programs	-	43,860	-	-	-
Undistributed Grants and Administrative Funds	-	8,220	-	-	-
Allowances for Losses on Insured Commercial Loans	-	6,249	-	-	-
Notes Payable	-	51	-	85	-
Obligations under Capital Leases	6	-	-	-	-
Accrued Interest Payable	-	-	-	-	171
Deferred Revenue	160	1,677	-	923	247
Other Current Liabilities	46	182	286	7,617	-
Total Current Liabilities	2,789	61,159	702	10,334	514
Long-Term Liabilities:					
Due to Other Governments	-	-	-	-	771
Notes Payable	-	1,192	-	60	72,431
Obligations under Capital Leases	22	-	-	4,490	-
Deferred Revenue	-	-	-	-	656
Other Noncurrent Liabilities	-	-	-	-	-
Total Long-Term Liabilities	22	1,192	-	4,550	73,858
Total Liabilities	2,811	62,351	702	14,884	74,372
Net Assets					
Invested in Capital Assets, Net of Related Debt	523	1,997	66	75,400	-
Restricted	1,203	-	267	6,385	1,500
Unrestricted	116	23,039	(200)	8,968	994
Total Net Assets	$ 1,842	$ 25,036	$ 133	$ 90,753	$ 2,494

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

Maine Health and Higher Educational Facilities Authority	Maine Maritime Academy	Maine Municipal Bond Bank	Maine State Housing Authority	Northern New England Passenger Rail Authority	University of Maine System	Totals
$ 84,246	$ 955	$ 191	$ 823	$ 245	$ 9,859	$ 109,750
43,704	5,527	167,716	283,760	-	104,032	648,837
-	241	-	-	50	-	1,042
35,942	238	-	26,902	-	-	69,217
-	-	-	13	-	-	368
979	1,258	964	16,725	-	14,006	37,462
-	-	109,516	2,863	277	9,483	123,184
-	-	800	1,822	-	8,548	13,858
889	713	42,125	-	120	4,982	50,041
165,760	8,932	321,312	332,908	692	150,910	1,053,759
-	158	-	-	-	-	158
-	2,605	-	-	4,276	46,806	54,267
95,762	9,701	122,045	145,951	-	83,170	508,154
966,779	2,822	-	1,249,221	-	-	2,256,902
5,548	-	-	1,482	-	37,716	73,733
1,328	1,024	-	-	-	3,086	5,438
-	-	1,015,208	-	-	-	1,015,208
4,037	14,908	896	573	1,099	395,695	499,407
804	4,563	10,006	3,696	-	1,562	21,393
1,074,258	35,781	1,148,155	1,400,923	5,375	568,035	4,434,660
1,240,018	44,713	1,469,467	1,733,831	6,067	718,945	5,488,419
292	2,453	457	25,814	341	13,432	47,518
149	-	-	-	-	-	643
-	-	-	-	-	-	495
577	-	3,163	594	-	-	4,334
-	-	24,950	-	-	-	68,810
-	-	-	-	-	-	8,220
-	-	-	-	-	-	6,249
36,372	90	90,797	21,470	-	5,354	154,219
-	-	-	-	-	206	212
25,102	-	8,690	10,753	-	-	44,716
1,778	112	-	28,179	-	16,195	49,271
1,305	347	8,477	1,050	-	19,539	38,849
65,575	3,002	136,534	87,860	341	54,726	423,536
1,490	1,649	1,291	-	-	-	5,201
1,065,839	2,634	937,184	1,397,977	-	122,427	3,599,744
-	-	-	-	-	130	4,642
-	-	-	-	-	-	656
-	-	-	-	-	65,641	65,641
1,067,329	4,283	938,475	1,397,977	-	188,198	3,675,884
1,132,904	7,285	1,075,009	1,485,837	341	242,924	4,099,420
4,037	12,075	-	-	1,099	304,930	400,127
90,806	15,832	331,958	229,592	-	116,084	793,627
12,271	9,521	62,500	18,402	4,627	55,007	195,245
$ 107,114	$ 37,428	$ 394,458	$ 247,994	$ 5,726	$ 476,021	$ 1,388,999

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Governor Baxter School for the Deaf	Maine Community College System	Maine Educational Loan Authority
Expenses	$ 24,108	$ 23,368	$ 5,891	$ 82,459	$ 3,926
Program Revenues					
Charges for Services	3,906	3,572	55	18,605	2,949
Program Investment Income	28	858	7	141	1,300
Operating Grants and Contributions	18,891	20,222	79	20,357	
Capital Grants and Contributions				4,040	
Net Revenue (Expense)	(1,283)	1,284	(5,750)	(39,316)	323
General Revenues					
Unrestricted Investment Earnings			14	917	
Non program Specific Grants, Contributions and Appropriations	3		5,942	41,752	
Miscellaneous Income	121				
Gain (Loss) on Assets Held for Sale				(57)	
Total General Revenues	124		5,956	42,612	
Change in Net Assets	(1,159)	1,284	206	3,296	323
Net Assets, Beginning of the Year, As Restated	3,001	23,752	(73)	87,457	2,171
Net Assets, End of Year	$ 1,842	$ 25,036	$ 133	$ 90,753	$ 2,494

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

Maine Health and Higher Educational Facilities Authority	Maine Maritime Academy	Maine Municipal Bond Bank	Maine State Housing Authority	Northern New England Passenger Rail Authority	University of Maine System	Totals
$ 67,185	$ 19,704	$ 60,441	$ 201,483	$ 4,269	$ 535,024	$ 1,027,858
54,568	8,429	51,946	91,996	27	209,707	445,760
	720	14,242	18,052			35,348
8,541	1,796	1,470	107,675	3,226	148,679	330,936
19,709	3,755	21,937		399	2,055	51,895
15,633	(5,004)	29,154	16,240	(617)	(174,583)	(163,919)
179	340	288	252	81	9,099	11,170
	8,407				186,524	242,628
442	648	1,000				2,211
	(117)					(174)
621	9,278	1,288	252	81	195,623	255,835
16,254	4,274	30,442	16,492	(536)	21,040	91,916
90,860	33,154	364,016	231,502	6,262	454,981	1,297,083
$ 107,114	$ 37,428	$ 394,458	$ 247,994	$ 5,726	$ 476,021	$ 1,388,999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NOTES TO THE FINANCIAL STATEMENTS

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the State of Maine (the State) have been prepared under guidelines established by generally accepted accounting principles (GAAP) as mandated by the Governmental Accounting Standards Board (GASB).

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 it 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 if 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.

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) and the Maine Military Authority have 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 as an internal service fund in the State's financial statements.

The Maine Military Authority was created in 2001 for the purpose of operating the Maine Readiness Sustainment Maintenance Center. The Center maintains, rebuilds, repairs, stores and manufactures equipment for the United States Departments of Defense, Army, Air Force, Navy and Treasury. The Authority is included in the Federal Fund in the State's financial statements.

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:

The Child Development Services System was established for the purpose of maintaining a coordinated service delivery system for the provision of Childfind activities, early intervention services, and free, appropriate public education services for eligible children with disabilities. CDS as a reporting entity includes a State-level intermediate educational unit and 16 regional intermediate educational units.

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 Governor Baxter School for the Deaf is a comprehensive educational organization that offers educational, residential, transitional, and outreach programs while promoting deaf culture. The school offers services to meet the needs of infants, children and adults who are deaf or hard of hearing; their families, professionals, service providers, agencies and communities on a local, statewide, regional and national level.

The Maine Community College System, formerly 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 Maine Educational Loan Authority was created in 1988 to grant educational loans primarily using funds acquired through issuance of long-term bonds payable. The Governor appoints five of the Authority's seven commissioners. The Authority's fiscal year ends on December 31.

The Maine Health and Higher Educational 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, may finance student loan programs of institutions of higher education.

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 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 Housing Authority is authorized to issue bonds for the purchase of notes and mortgages on residential units, both single and multi-family, for the purpose of providing housing for persons and families of low income in the State. The Authority also acts as an 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 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.

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.

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 and a central administrative office.

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

Child Development Services System
146 State House Station
Augusta, ME 04333-0146

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

Governor Baxter School for the Deaf
Mackworth Island
Falmouth, ME 04105

Maine Community College System
131 State House Station, 323 State Street
Augusta, ME 04330-7131

Maine Educational Loan Authority
One City Center 11th Floor
Portland, ME 04101-4631

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

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

Maine Maritime Academy
Castine, ME 04420

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

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

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

Northern New England Passenger Rail Authority
75 West Commercial St., Suite 204
Portland, ME 04101

University of Maine System
107 Maine Avenue
Bangor, ME 04401-4380

Other Component Units
The following entities meet the criteria of component units but have not been included in the financial statements of the primary government. The amounts associated with these component units are not material to the State's financial statements: the Maine Port Authority, the Maine School of Science and Mathematics, the Maine Science and Technology Foundation, the Maine Technology Institute, the Maine Rural Development Authority, and the Loring Development Authority.

The Loring Development Authority (LDA) is entrusted with investigating the acquisition, development and management of the properties within the geographical boundaries of the former Loring Air Force Base. The United States Air Force transferred title to 2,805 of approximately 3,600 acres of land, associated facilities, infrastructure and personal property to the LDA. It is expected that title to the remaining acreage will be transferred to the LDA over the next 5 years. The LDA has not included these assets in their financial statements and has not prepared a financial report in accordance with GASB Statement No. 34.

The LDA meets the criteria for inclusion as a discretely presented component unit of the State of Maine due, in part, to a reserve fund restoration commitment for outstanding bonded indebtedness of the LDA. However, since the LDA does not currently have any outstanding bonded debt, they have not been included in the financial statements of the primary government.

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Public Broadcasting Corporation, the Maine Turnpike Authority, and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making the board appointments.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Government-Wide Financial Statements
The Statement of Net Assets and Statement of Activities report information on all non-fiduciary activities of the primary government and its component units. Primary government activities are distinguished between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

The *Statement of Net Assets* presents the reporting entity's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors, and the like, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often are designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The *Statement of Activities* demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements, with non-major funds being combined into a single column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

Measurement Focus and Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

As allowed by GASB Statement No. 20, the State's proprietary funds follows all GASB pronouncements and those Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins that were issued on or prior to November 30, 1989, except those that conflict with or contradict GASB pronouncements.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual, that is, 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 to be used to pay liabilities of the current period. For this purpose, the State generally considers revenues as available if they are collected within 60 days of the end of the fiscal year. Individual income, corporate income, and sales and use taxes are considered available if collected within 12 months of the end of the fiscal year. Significant revenues susceptible to accrual include: income taxes, sales and use taxes, and other taxes; federal grants; federal reimbursements; and other reimbursements for use of materials and services. Revenues from other sources are recognized when received because they are generally not measurable until received in cash. Property taxes are recognized as revenue in the year for which they are levied, provided the "available" criterion is met.

Expenditures generally are recorded when a liability is incurred. However, expenditures related to debt service and compensated absences are recorded only when payment is due and payable.

Financial Statement Presentation

The State reports the following major governmental funds:

The *General Fund* is the State's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

The *Highway Fund* accounts for the regulation, construction and maintenance of State highways and bridges and is funded by motor fuel taxes, motor vehicle license and registration fees, special State appropriations, and other charges.

The *Federal Fund* accounts for grants and other financial assistance received from the federal government, including federal block grants, that are legally restricted to expenditures for purposes specified in the grant awards or agreements.

The *Other Special Revenue Fund* accounts for specific revenue sources that are legally restricted to expenditures for specified purposes, and the related current liabilities, including some major capital projects that are not accounted for in the Highway and Federal Funds.

The State reports the following major enterprise fund:

The *Maine Employment Security Fund* accounts for contributions received from employers and unemployment compensation benefits paid to eligible unemployed workers.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. Examples include learning technology, funds for acquisition of public reserved lands, and other activities.

Capital Projects Funds account for the acquisition or construction of major capital assets and other programs financed by proceeds from bond issues.

Permanent Funds report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the government or its citizenry. An example is the Baxter State Park Fund.

Proprietary Fund Types:

Enterprise Funds report the activities for which fees are charged to external users for goods or services, such as alcoholic beverages, lottery operations, and transportation services, as well as the State's unemployment compensation program.

Internal Service Funds provide goods or services primarily to other agencies or funds of the State, rather than to the general public. These goods and services include printing and mailing services, supplies warehousing, information services, fleet management, risk management, health-related benefits, and financing for acquisition and construction of governmental facilities.

Fiduciary Fund Types:

Pension (and Other Employee Benefit) Trust Funds report those resources that are required to be held in trust for members and beneficiaries of the State's pension, death and disability benefit plans. These resources are managed by the Maine State Retirement System, which was previously reported as a discrete component unit, but is now presented with the State's fiduciary funds in accordance with GASB Statement No. 34.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments. Examples include Abandoned Property, Public Reserved Lands and Permanent School funds.

Agency Funds report assets and liabilities for deposits and investments entrusted to the State as an agent for others. Examples include amounts held for payroll withholdings, inmate and student guardianship accounts, college investment plan funds, and investments of certain discretely presented component units.

D. FISCAL YEAR-ENDS

All funds and discretely presented component units are reported using fiscal years which end on June 30, except for the Maine Educational Loan Authority and the Maine State Housing Authority, which utilize December 31 year-ends.

E. ASSETS, LIABILITIES, AND NET ASSETS/FUND BALANCE

Cash and Cash Equivalents

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 pooled balances are reported at 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 and proceeds of Certificates of Participation that have not been spent. 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 Short-Term Investments 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 their balances 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.

Assets Held in Trust
These assets include amounts held by the State in a fiduciary capacity, acting as either a trustee or an agent for individuals, organizations or other funds. The State also holds $142 million of Workers' Compensation and $20 million of Employment Security surety bonds and letters of credit which are not reflected on the financial statements.

Restricted Deposits and Investments
Restricted deposits and investments include: Learning Technology Endowment funds; unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Government Facilities Authority, a blended component unit that has been independently audited; unspent bond proceeds, and 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.

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 undistributed vaccines and food commodities at fiscal year end are reported as inventory and deferred revenue in the Federal Fund. Revenues and corresponding expenditures are recognized when the food stamps, vaccines and food commodities 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 Alcoholic Beverages Fund, which are valued 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.

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.

Interfund Transactions and Balances
Numerous transactions are made between funds to finance operations, provide services, and acquire or construct assets. To the extent that transactions between funds were not completed as of June 30, interfund receivables and payables have been recorded in the fund financial statements. Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Long-term loans made by one fund to another are classified as "Working Capital Advances Receivable" and "Working Capital Advances Payable". In the fund financial statements, advances receivable 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."

Due from/to Other Governments
Due from/to Other Governments represents amounts receivable from or payable to municipalities or the federal government. 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. Due to Other Governments are primarily amounts owed to municipalities for Municipal Revenue Sharing and the federal government for Medicaid cost recoveries from providers and Temporary Assistance for Needy Families.

Fixed Assets

Capital assets, which include land, buildings, equipment and infrastructure assets (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $10 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and proprietary fund equipment is capitalized $3 thousand or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if not purchased, at fair value as of the date of acquisition. The historical cost for some capital assets is not available. The cost of these assets, at the date of acquisition, has been estimated. No interest has been capitalized on self-constructed assets, since non-capitalization of interest does not materially affect the financial statements.

In the government-wide statements, depreciation is reported on a straight-line basis over the assets' estimated useful lives, which are 10-40 years for buildings and improvements, and 2-25 years for equipment. The State uses the modified approach for reporting its significant infrastructure assets. As long as the State's infrastructure assets are maintained and preserved at pre-determined condition levels, the costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information portion of this report.

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. Component units reflect infrastructure in improvements other than buildings and record depreciation expense on them.

Tax Refunds Payable

The amount of collected or accrued tax revenues that will be refunded is estimated and accrued as a General Fund liability.

Claims Payable

Claims payable represent workers' compensation and other claims payable, including actual claims submitted and actuarially determined claims incurred but not reported. The actuarially determined claims liability is discounted and presented at net present value.

Compensated Employee Absences

In the government-wide statements and proprietary fund financial statements, compensated absences are recorded as expenses and liabilities as they accrue. In the governmental fund financial statements, vested or accumulated leave expected to be liquidated with current available financial resources is reported as an expenditure and fund liability. In the discretely presented component units, employees' accumulated compensated absences are recorded as an expense and liability as the benefits accrue.

Deferred Revenue

In the government-wide statements and proprietary fund financial statements, deferred revenue is recognized when cash, receivables, or other assets are received prior to their being earned. In the governmental fund statements, 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. Deferred revenue reported in the General Fund is comprised of sales and income taxes. Deferred revenue in the Federal Fund is primarily for food stamps and vaccines not yet issued.

Long-Term Obligations

In the government-wide statements and proprietary fund financial statements, long-term debt and other long-term obligations are recorded as liabilities.

In the fund financial statements, governmental fund types recognize the face amount of debt issued as other financing sources.

Net Assets/Fund Balance

The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balance" on governmental fund statements.

Fund Balance Reservations

Fund balances for governmental funds are classified as either reserved or unreserved in the fund financial statements. Reserved fund balances reflect either: funds legally restricted for a specific future use or assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes of the fund.

The State has reported the following fund balance reservations:

Continuing Appropriations - indicates appropriations and encumbrances that the Legislature has specifically authorized to be carried into the next fiscal year, if unexpended.

Debt Service - indicates amounts reserved for payment of future debt service obligations.

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

Permanent Trusts – indicates assets reserved for the purpose of the permanent fund.

Other - indicates 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.

F. REVENUES AND EXPENDITURES/EXPENSES

In the government-wide Statement of Activities, revenues and expenses are segregated by activity (governmental or business-type), then further by function (e.g., governmental support & operations, education, health & human services, etc). Additionally, revenues are classified between program and general revenues. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues, rather than as program revenue. General revenues include all taxes. Certain indirect costs are included in the program expenses reported for individual functions.

In the governmental fund financial statements, revenues are reported by source. For budgetary control purposes, revenues are further classified as either “dedicated” or “undedicated.” Undedicated revenues are available to fund any activity accounted for in the fund. Dedicated revenues are, either by State law or by outside restriction (e.g., federal grants), available only for specified purposes. Unused dedicated revenues at year-end are recorded as reservations of fund balance. When both dedicated and undedicated funds are available for use, it is the State’s policy to use dedicated resources first.

In the governmental fund financial statements, expenditures are reported by function. Capital outlay expenditures for real property or infrastructure (e.g. highways) are included with expenditures by function.

NOTE 2 BUDGETING AND BUDGETARY CONTROL, AND LEGAL COMPLIANCE

In accordance with statute, the Governor presents a biennial budget for the General Fund and 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 deallocation 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. The State Budget Officer is required to use the revenue projections of the Revenue Forecasting Committee in preparing the General Fund and Highway Fund budgets.

The total General Fund appropriation for each fiscal year of the biennium in the Governor's budget submission to the Legislature may not exceed the General Fund appropriation of the previous fiscal year multiplied by one plus the average real personal income growth rate, as defined in 5 M.R.S.A. § 1665, subsection 1, plus the average forecasted inflation rate. "Average forecasted inflation rate" means the average forecasted change in the Consumer Price Index underlying the revenue projections developed by the Revenue Forecasting Committee. This appropriation limitation may be exceeded only by the amount of the additional costs or the lost federal revenue from the following exceptional circumstances: unfunded or under-funded new federal mandates; losses in federal revenues or other revenue sources; citizens' initiatives or referenda that require increased state spending; court orders or decrees that require additional state resources to comply with the orders or decrees; and sudden or significant increases in demand for existing state services that are not the result of legislative changes that increased eligibility or increased benefits. The Governor may designate exceptional circumstances that are not explicitly defined, but meet the intent of, this statute. "Exceptional circumstances" means an unforeseen condition or conditions over which the Governor and the Legislature have little or no control. Exceptional circumstances do not apply to new programs or program expansions that go beyond existing program criteria and operation.

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 balance the budget for the year ended June 30, 2003, deappropriations of $117.3 million were required for the General Fund.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded to reserve a portion of the applicable appropriation or allocation, is employed in governmental fund types. For financial statement purposes, encumbrances outstanding at June 30 are shown as reservations of fund balance. Unencumbered appropriations in the General Fund and in the Highway Fund lapse at June 30 unless, by law, they are carried forward to a subsequent year. Amounts carried forward are shown as reservations of fund balance.

The State's budget is prepared primarily on a cash basis. Sales, income, corporate and fuel taxes include a modified accrual basis adjustment to recognize revenues that are expected to be collected within 60 days of the end of the fiscal year.

The Budgetary Comparison Schedule is presented as Required Supplementary Information (RSI) in this report. Actual amounts in this schedule are presented on a budgetary basis. Because this basis differs from accounting principles generally accepted in the United States of America (GAAP), a reconciliation between the budgetary and GAAP basis is presented in the RSI.

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

The Highway Fund was decreased by $2.2 million and the Motor Transport Service Internal Service Fund was increased by $2.2 to correct amounts recorded as working capital advances in prior periods.

The Maine Governmental Facilities Authority Internal Service Fund, a blended component unit, was decreased by $30.3 million, and the Other Special Revenue Fund was increased by $30.3 million to reflect that the State reclassified the funds and accounts included in the General Bond Resolution fund.

In the entity-wide Statement of Activities, Beginning Net Assets of the Governmental Activities decreased by $2.1 million to record financing arrangements that were not previously reported, decreased by $6.7 million to correct the capitalization of software in the prior period, and decreased by $19.7 million to reflect a change in the method the State used to accrue tobacco settlement proceeds from the prior fiscal year.

In the current period, results of operations decreased by $9.6 million in the Federal Fund and increased by $9.6 million in the General Fund as the result of a change in estimated receivables and payables associated with funds overdrawn from the TANF program.

Beginning Net Assets for the discretely presented component units decreased by $73 thousand to reflect the inclusion of the Governor Baxter School for the Deaf, which was not previously reported in the financial statements of the State of Maine reporting entity.

In the Fiduciary funds financial statements, Beginning Net Assets of the Private Purpose Trusts was increased by $4 million to reflect the elimination of an accrued escheat property liability, which is no longer required as a result of clarification provided by GASB Statement Number 37.

NOTE 4 - DEFICIT FUND BALANCES/RETAINED EARNINGS

Two internal service funds showed deficit Retained Earnings for the fiscal year ended June 30, 2003. The Workers' Compensation Fund was at a deficit of $48.4 million, which reflects accruals for actuarially determined claims payable. The Property Lease Fund was at a deficit of $2.6 million, which reflects the recording of capital lease depreciation. These deficits are expected to be funded by future service charges.

The General Fund showed a deficit of $20.4 million for the fiscal year ended June 30, 2003. The deficit is, for the most part, related to an accrued liability for overdrawn federal Medicaid funds. This deficit will be funded by subsequent legislative action.

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 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 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, certificates of indebtedness, other obligations of the United States that mature not more than 36 months from the date of investment; repurchase agreements secured by obligations of the United States that mature within the succeeding 12 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, whose shares are registered under the United States Security Act of 1933, only if the investments of the company are limited to obligations of the United States or repurchase agreements secured by obligations of the United States. Although authorized to do so, the Treasurer does not participate in the securities loan market.

Investment policies of the permanent trusts are governed by 5 M.R.S.A. § 138. The Treasurer, with the approval of the Commissioner of Administrative and Financial Services, the Superintendent of Financial Institutions 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 trusts, but the identity of each trust must be maintained. The Treasurer may enter into custodial care and servicing 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 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 $8 million in lending institutions at a two percent lower-than-market rate provided the lenders pass the rate reduction on to the borrowers. $4 million of this program are earmarked for loans to agricultural enterprises, and the other $4 million are designated for commercial entities.

Maine State Retirement System (The System) makes investments in a combination of equities, fixed income securities, mutual funds, commingled mutual and index funds, 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.

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 by 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 neither collateralized nor insured.

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to the vendors. During fiscal year 2003, these disbursements, on average, exceeded $110 million per month. Until the vendor receives payment, the State retains some liability. The funds in transit were not collateralized during FY 2003 and, because they were not held by the State Treasurer, they are not included in the preceding risk categories.

The following tables categorize the deposits of the primary government and discretely presented component units at the close of fiscal year 2003:

Primary Government Deposits
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 53,277	$	$ 4,737	$ 58,014	$ 539
Cash with Fiscal Agent	-	19,006	16,774	35,780	35,780
Restricted Deposits	42,115	1,027	2,349	45,491	45,508
Total	$ 95,392	$ 20,033	$ 23,860	$ 139,285	$ 81,827

Component Unit Deposits
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 3,722	$ 87,617	$ 11,389	$ 102,728	$ 95,322
Restricted Deposits	100	4,276	47,286	51,662	51,662
Total	$ 3,822	$ 91,893	$ 58,675	$ 154,390	$ 146,984

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 includes investments that are uninsured and unregistered, with securities held by the counterparty's trust department or agent, in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty or its trust department or agent, but not in the State's name.

The following table categorizes the investments of the primary government at June 30, 2003:

Primary Government Investments
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash & Cash Equivalents	$ 41,420	$ 2,549	$ 3,214	$ 47,183
U.S. Government and Agency Obligations	106,666		8,472	115,138
Commercial Paper	23,915			23,915
Corporate Bonds and Notes		5,913	3,722	9,635
Equity Securities		9,866	32,855	42,721
Other Restricted Investments	7,072,728	3,153		7,075,881
Totals	$ 7,244,729	$ 21,481	$ 48,263	7,314,473
Unemployment Fund Deposits with US Treasury				434,774
Assets Held in Trust				1,723,709
Total Investments Primary Government				$ 9,472,956

As reported on the Statement of Net Assets and Statement of Fiduciary Net Assets

	Current Investments	Non-Current Investments	Restricted Investments	Assets Held In Trust	Short-Term Investments
Governmental activities	$ 105,274	$ 48,925	$ 16,701	$ -	$ 68,843
Business-type activities	1,200	1,218	434,774	-	-
Fiduciary	13,143	-	-	1,723,710	-
Fiduciary- Pension (1)	-	-	6,885,841	-	173,327
	$ 119,617	$ 50,143	$ 7,337,316	$ 1,723,710	$ 242,170
				Total	$ 9,472,956

(1) Represents investments of the Maine State Retirement System, a discrete component unit, included with Fiduciary Funds per GASB Statement No. 34.

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.

At the close of fiscal year 2003, investments of the discretely presented component units were:

Component Unit Investments
(Expressed in thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash and Cash Equivalents	$ 18,901	$ 84,027	$	$ 102,928
U.S. Government and Agency Obligations	255,465	208,239		463,704
Repurchase Agreements	200,657	61,688		262,345
Commercial Paper	8,670			8,670
Corporate Bonds and Notes	7,678			7,678
Equity Securities	11,623		99,276	110,899
Investment Contracts		136,961		136,961
Other	48			48
Restricted	29,888		51,061	80,949
Totals	$ 532,930	$ 490,915	$ 150,337	$1,174,182

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 and comprise approximately 32 percent of pool assets. The component units reported their participation as Cash and Cash Equivalents on their financial statements. The State has reclassified $48 million of the component units' participation as investments on the State's financials. In addition to the amounts reported, the State Treasurer's Cash Pool includes $18 million dollars, consisting of Finance Authority of Maine component unit fiduciary funds that, because of GASB Statement No. 34 reporting criteria, are not shown in the accompanying financial statements.

NOTE 6 - RECEIVABLES

Receivable balances are segregated by type, classified as current and noncurrent, and presented in the fund financial statements net of allowance for uncollectibles. The following tables disaggregate amounts considered to be uncollectible by fund and type of receivable as of the close of the fiscal year:

Primary Government Receivables
(Expressed in Thousands)

	Taxes	Accounts	Loans	Allowance for Uncollectibles	Net Receivables
Governmental Funds:					
General	$ 477,187	$ 58,469	$	$ (129,120)	$ 406,536
Highway	18,612	2,316	121	(2,935)	18,114
Federal		33,307		(261)	33,046
Other Special Revenue	6,880	66,469	11,387	(9,133)	75,603
Nonmajor Governmental					
Total Governmental Funds	502,679	160,561	11,508	(141,449)	533,299
Allowance for uncollectibles	(121,223)	(14,745)	(5,481)		
Net Receivables	$ 381,456	$ 145,816	$ 6,027		$ 533,299
Proprietary Funds:					
Employment Security	$	$ 32,319	$	$ (7,603)	$ 24,716
Nonmajor Enterprise		19,183	169	(246)	19,106
Internal Service		3,061	194,736	(1)	197,796
Total Proprietary Funds		54,563	194,905	(7,850)	241,618
Allowance for Uncollectibles		(7,603)	(247)		
Net Receivables	$	$ 46,960	$ 194,658		$ 241,618

Component Units - Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance for Uncollectibles	Net Receivables
Child Development Services System	$ 111	$	$	$	$ 111
Finance Authority of Maine	183		33,213	(3,870)	29,526
Governor Baxter School for the Deaf	17				17
Maine Educational Loan Authority	484	44,965		(750)	44,699
Maine Health & Higher Educational Facilities Authority	5,319	1,002,721	5,548	(3,012)	1,010,576
Maine Maritime Academy	2,462	3,298		(418)	5,342
Maine Municipal Bond Bank	964				964
Maine State Housing Authority	16,725	1,288,631	1,587	(12,600)	1,294,343
Maine Community College System	3,056			(322)	2,734
University of Maine System	19,474		38,163	(2,829)	54,808
Total Component Units	48,795	2,339,615	78,511	(23,801)	2,443,120
Allowance for Uncollectibles	(5,895)	(13,496)	(4,410)		
Net Receivables	$ 42,900	$ 2,326,119	$ 74,101		$ 2,443,120

NOTE 7 - INTERFUND TRANSACTIONS

Interfund receivables and payables represent amounts owed to one State fund by another, for goods sold or services received, or for borrowings to eliminate negative balances in the Treasurer's Cash Pool.

Balances due within one year are recorded as Due to/Due from Other Funds. The balances of current interfund receivables and payables as of June 30, 2003 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal Fund**	**Other Special Revenue**	**Non Major Governmental**
General	$	$ 1,468	$ 36,672	$ 2	$
Highway	22,247		10,599		
Federal	17,740		212	18,748	
Other Special Revenue	146,408	154	59,942	293	
Non Major Governmental					
Employment Security	17		1		
Non Major Enterprise	2				
Internal Service	3,516	2,952	1,849	2,627	
Total	$ 189,930	$ 4,574	$ 109,275	$ 21,670	$

Due from Other Funds	**Employment Security**	**Non Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$	$ 7,098	$ 542	$	$ 45,782
Highway			1		32,847
Federal			2		36,702
Other Special Revenue			959	1,489	209,245
Non Major Governmental					
Employment Security					18
Non Major Enterprise					2
Internal Service		489	1,121		12,554
Total	$	$ 7,587	$ 2,625	$ 1,489	$ 337,150

Not included in the table above are the following interfund loans/advances, which are not expected to be repaid within one year. Various funds owe a total of $1.1 million to the General Fund for operating capital: Alcoholic Beverages (an enterprise fund) $1 million; Department of Economic and Community Development (a special revenue fund) $25 thousand; and, Postal Printing & Supply (an internal service fund) $111 thousand.

Intra-entity receivables and payables represent amounts owed to discretely presented component units by the primary government (the State) at the end of the fiscal year. Amounts are owed for undistributed grants and appropriations, outstanding tuition fees, and undistributed accrued shared tax revenues. At the end of fiscal year 2003, receivables and related liabilities between the primary government and the discretely presented component units, disaggregated by fund and component unit, were:

Component Units - Due From/Due To
(Expressed in Thousands)

	Due From Primary Government	Due To Component Units
Primary Government:		
General Fund		
Child Development Services System	$	$ 455
University of Maine System		2,850
Special Revenue Fund		
Child Development Services System		1
University of Maine System		5,136
Maine State Housing Authority		1,413
FAME		1,800
Capital Projects Fund		
Maine Community College System		432
Maine Municipal Bond Bank		800
University of Maine System		562
Component Units:		
Child Development Services System		
General Fund	455	
Special Revenue Fund	1	
Maine Municipal Bond Bank		
Capital Projects	800	
Maine Community College System		
Capital Projects	432	
University of Maine System		
General Fund	2,850	
Special Revenue Fund	5,136	
Capital Projects	562	
FAME		
Special Revenue Fund	1,800	
Maine State Housing Authority		
Special Revenue Fund	1,822	
Total	$ 13,858	$ 13,449

Receivables and related liabilities between the primary government and the discretely presented component units do not agree because the Maine State Housing Authority has a calendar year end.

Transfers are used to 1) move revenues from the fund that statute requires to collect them to the fund that statute requires to expend them, 2) move receipts restricted to debt service from the funds collecting the receipts to the funds required to pay debt service as principal and interest payments come due, 3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations, 4) move profits from the Alcoholic Beverages Fund and the Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute. All transfers are made in accordance with statutory authority granted by the Legislature.

During fiscal year 2003, the State of Maine, as a component of the legislatively authorized budget, transferred available balances from several other funds to the unappropriated surplus of the General Fund. These transfers provided resources to balance the budget. Significant transfers during the fiscal year included: $34.5 million from the Rainy Day Fund, $43.2 million from the Fund for a Healthy Maine, $16.6 million from the Highway Fund, $14.6 million from the Maine Learning Technology Endowment, $6.5 million from the Clean Election Fund, and $3.2 million from the Maine State Housing Authority.

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Non Major Governmental**
General	$	$ 17,987	$ 3,706	$ 79,077	$ 20,821
Highway			1	1,853	
Federal	17,809	4	12,370	13,604	
Other Special Revenue	107,802	2,032	7,520		6,572
Non Major Governmental				980	6,490
Employment Security					
Non Major Enterprise	3,108			8,440	
Internal Service	6,281	2,839	2,270	1,767	
Fiduciary				494	
Total	$ 135,000	$ 22,862	$ 25,867	$ 106,215	$ 33,883

	Transferred From				
Transferred To	**Employment Security**	**Non Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$	$ 66,947	$ 407	$ 8,174	$ 197,119
Highway					1,854
Federal	611				44,398
Other Special Revenue		576		662	125,164
Non Major Governmental					7,470
Employment Security					
Non Major Enterprise					11,548
Internal Service		204	525		13,886
Fiduciary					494
Total	$611	$ 67,727	$ 932	$ 8,836	$ 401,933

NOTE 8 - CAPITAL ASSETS

The following schedule details capital asset activity of the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2003:

Primary Government - Capital Assets
(Expressed in Thousands)

	Beginning Balance	Increases and Other Additions	Decreases and Other Deletions	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 277,900	$ 29,372	$ 3,945	$ 303,327
Construction in progress	20,560	30,163		50,723
Infrastructure	2,027,179	189,609		2,216,788
Total capital assets, not being depreciated	2,325,639	249,144	3,945	2,570,838
Capital assets, being depreciated				
Buildings	392,803	25,354		418,157
Equipment	204,608	48,797	37,507	215,898
Improvements other than buildings	16,936	11	785	16,162
Total capital assets, being depreciated	614,347	74,162	38,292	650,217
Less accumulated depreciation for:				
Buildings	88,437	13,314		101,751
Equipment	126,156	52,274	37,507	140,923
Improvements other than buildings	4,916	1,347	301	5,962
Total accumulated depreciation	219,509	66,935	37,808	248,636
Total capital assets being depreciated, net	394,838	7,227	484	401,581
Governmental Activities Capital Assets, net	$ 2,720,477	$ 256,371	$ 4,429	$ 2,972,419
Business-Type Activities:		**Net Additions**	**Net Deletions**	
Capital assets, not being depreciated				
Land	$ 6,403	$ 114	$	$ 6,517
Construction in progress	1,593	18,039	__	19,632
Total capital assets, not being depreciated	7,996	18,153		26,149
Capital assets, being depreciated				
Buildings	16,378		7,632	8,746
Equipment	19,410		505	18,905
Improvements other than buildings	44,763	6,647		51,410
Total capital assets, being depreciated	80,551	6,647	8,137	79,061
Less accumulated depreciation	29,606	3,229		32,835
Total capital assets, being depreciated, net	50,945	3,418	8,137	46,226
Business Type Activities Capital Assets, net	$ 58,941	$ 21,571	$ 8,137	$ 72,375

During the fiscal year, depreciation expense was charged to the following functions in the governmental activities column of the Statement of Activities for the primary government:

Governmental Activities - Depreciation Expense
(Expressed in Thousands)

	Amount
Governmental Activities:	
Arts, Heritage and Cultural Enrichment	$ 140
Business Licensing and Regulation	538
Economic Development and Workforce Training	1,890
Education	642
Governmental Support and Operations	5,409
Health and Human Services	5,981
Justice and Protection	10,918
Natural Resources Development and Protection	8,002
Transportation Safety and Development	14,223
Total Depreciation Expense Governmental Activities	$47,743

Discretely Presented Component Units
The following table summarizes net capital assets reported by the discretely presented component units (Expressed in Thousands):

Component Unit - Capital Assets
(Expressed in Thousands)

Land	$ 14,367
Buildings	535,434
Equipment	143,993
Improvements other than buildings	47,489
Library books and materials	56,358
Construction in progress	46,061
Infrastructure	749
Total	844,451
Less accumulated depreciation	(345,044)
Capital assets, net discretely presented component units	$ 499,407

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 Statement of Fiduciary Net Assets and in the Statement of Changes in Fiduciary Net Assets. 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 benefit 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, 2003, the membership consisted of:

Active vested and nonvested members	51,848
Terminated vested participants	5,056
Retirees and benefit recipients	30,774
Total	87,678

The System's retirement programs provide retirement benefits based on members' average final compensation and creditable service. Vesting occurs upon the earning of five 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 prior ten-year requirement was reduced to five years by legislative action). 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 employee and teacher members, 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 and membership rights. 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. 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 GAAP.

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 period that cannot be longer than 31 years from July 1, 1997 but may be, and at certain times has been, shorter than that period. In 2000, the amortization period was reduced to a 19-year period from June 30, 2000. In 2003, the Legislature relengthened the period to the full extent of the then-remaining Constitutional years for the 2004-2005 biennium and reshortened the period effective July 1, 2005 to the 14 years that will then remain in the earlier shortened period.

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, and the amount of the unfunded liability. Amortization periods range from 7 years to 23 years.

In order to reduce any unfunded pension liability for State employees and teachers, the State is required to remit 32% of its General Fund unappropriated surplus to the System at year end. For fiscal 2003, this additional contribution was approximately $10.6 million. The amount will be paid by the State after year end.

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 2003 for participating entities are:

State:	
Employees[1]	7.65 8.65%
Employer[1]	12.43 37.12%
Teachers:	
Employees	7.65%
Employer	17.71%
Participating Local Entities:	
Employees[1]	3.0 8.0%
Employer[1]	1.7 6.5%

[1] Contribution rates vary depending on specific terms of plan benefits for certain classes of employees and/or, in the case of PLDs, in benefit plan options selected by a particular participating 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:

Net Pension Obligation
(Expressed in Thousands)

Annual required contribution	$252,709
Interest on net pension obligation	6,089
Adjustment to annual required contribution	(5,427)
Annual pension cost	253,371
Contributions made	263,209
Increase (decrease) in net pension obligation	(9,838)
Net pension obligation beginning of year	76,099
Net pension obligation end of year	$ 66,261

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2003	$ 253,370	103.88%	$ 66,261
2002	243,244	99.69%	76,099
2001	254,978	99.57%	75,341
2000	241,189	100.85%	74,243

The annual required contribution for the current year was determined as part of the June 30, 2003 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 cost of living. The assumptions include post retirement benefit increases of 4% per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over the amortization period then in effect under statutory and constitutional requirements. 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 4 to 16 years.

COMPONENT UNIT PENSION DESCRIPTION

The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine State Retirement System have defined benefit pension plans. All are participants in plans administered by the Maine State Retirement System. Employees of the Maine Community College System, Governor Baxter School for the Deaf, and the Northern New England Passenger Rail Authority 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

The University of Maine System and the Maine Community College System also have optional programs with the Teachers Insurance and Annuity Association - College Retirement Equities Fund (TIAA-CREF), which is a defined contribution plan. The University of Maine System 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. The Maine Community College System contributes 12.88 percent of total salaries for participating employees or 6.04 percent for Maine Educational Association employees.

The University of Maine System (UMS) also offers several defined contribution and defined benefit pension plans. Defined contribution plans include the Basic Retirement Plan and the Optional Retirement Savings Plan. Defined benefit plans include the UMS Defined Benefit Plan and the Incentive Retirement Plan.

The Finance Authority of Maine and Child Development Services have Simplified Employee Pension plans. The Maine State Housing Authority has a defined contribution plan created under the provisions of the Internal Revenue Code Section 401(a).

The Maine Health and Higher Educational Facilities Authority 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 Community College System, the Maine Maritime Academy, the Maine State Retirement System, and the Governor Baxter School for the Deaf 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, the Maine Teachers Association and employees of counties and municipalities and their instrumentalities.

The State pays 100 percent of post retirement health insurance premiums for retirees who were first employed on or before July 1, 1991. A pro rata portion, ranging from zero percent for retirees with less than five years participation to 100 percent for retirees with ten or more years of participation, is paid for eligible individuals first employed after July 1, 1991. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. 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. Effective August 1, 2003, the State contribution to retired teacher health premium was increased to 40 %.

The State had been in the process of changing funding of retiree health care benefits from a pay-as-you-go basis to an actuarial funding method. For retired State employees, the State estimated the total amount necessary to pay health insurance premiums. This amount (which averaged approximately 6.5% for the calendar years of 2001 and 2002), is generated using a contribution rate, 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 40 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. Due to budgetary constraints and difficulties accumulating sufficient resources to fund retiree health care benefits on an actuarial basis, Chapter 673 PL 2003 authorizes the State to manage the retiree health insurance fund on a cost-reimbursement basis beginning June 30, 2005.

As of June 30, 2003, there were 7,533 retired eligible State employees and 7,898 retired teachers. In fiscal year 2003, the State paid into the Retiree Health Insurance Fund $49.1 million for retired employees and $9.7 million for retired teachers. Premium charges paid were $27.6 million and $8 million, respectively. Overall Net Assets increased by $24.5 million to $74.4 million at June 30, 2003.

The most recent actuarial study, issued for the fiscal year ended July 1, 2003, estimated the liability for current and future retirees at $1.2 billion. This includes 13,945 retirees and 42,528 active employees expected to retire in the future.

POST RETIREMENT LIFE INSURANCE BENEFITS

The Maine State Retirement System provides certain life insurance benefits for retirees who, as active employees, participated in the Group Life Insurance Program for a minimum of ten years. Payments of claims are made 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, 2003, claims totaled $2.3 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 8,278 retired State employees and 5,601 retired teachers.

NOTE 11 - LONG-TERM OBLIGATIONS

Primary Government

The State records its liability for general obligation bonds in the Governmental Activities column on the Statement of Net Assets. Other long-term obligations recognized by the State include: revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit; obligations under Certificates of Participation and other financing arrangements; compensated employee absences; and, the State's net pension obligation.

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 of the primary government during fiscal year 2003 were:

Primary Government - Changes in General Obligation Bonds
(Expressed in Thousands)

	Balance July 1, 2002	Additions	Retirements	Balance June 30, 2003	Due Within One Year
General Obligation Debt:					
General Fund	$ 260,790	$ 97,080	$ 63,880	$ 293,990	$ 56,240
Special Revenue Fund	85,335		21,215	64,120	16,015
Self Liquidating	370		70	300	70
Total	$ 346,495	$ 97,080	$ 85,165	$ 358,410	$ 72,325

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2003 until maturity, are summarized in the following table:

Future Debt Service on General Obligation Bonds
(Expressed in Thousands)

Fiscal Year	Principal	Interest	Total
2004	$ 72,325	$ 15,609	$ 87,934
2005	59,560	12,207	71,767
2006	57,475	9,458	66,933
2007	44,750	6,891	51,641
2008	35,885	4,955	40,840
2009 2013	88,415	7,506	95,921
Total	$ 358,410	$ 56,626	$ 415,036

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, 2003, general obligations bonds authorized and unissued totaled $261.3 million. The Maine Governmental Facilities Authority, a blended component unit, may not issue securities in excess of $211 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State has included $196.4 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.

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, liability, or 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.

OTHER LONG-TERM OBLIGATIONS

In general, expenditures and fund liabilities are not recorded in governmental funds for long-term obligations until amounts owed are "due and payable." Fund liabilities are recorded in the proprietary funds when obligations are incurred. In the Statement of Net Assets, the State has recorded long-term obligations for its compensated employee absences and net pension obligation.

The following schedule shows the changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2003:

Primary Government - Changes in Other Long-Term Obligations
(Expressed in Thousands)

	Balance July 1, 2002	Additions	Reductions	Balance June 30, 2003	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 191,646	$ 10,978	$ 6,240	$ 196,383	$ 11,830
COP's and Other Financing Arrangements	22,626	34,054	8,022	48,658	12,297
Compensated Absences	38,323	5,118	3,974	39,467	3,851
Net Pension Obligation	76,099		9,838	66,261	
Total Governmental Activities	$ 328,694	$ 50,150	$ 28,074	$ 350,769	
Business-Type Activities:					
Compensated Absences	$ 526	$	$ 74	$ 452	$ 82
Total Business Type Activities	$ 526	$	$ 74	$ 452	$ 82

Debt service requirements (principal and interest) for all COP's and other financing arrangements of the primary government, from June 30, 2003 until maturity, are summarized in the following table:

Future Debt Service on MGFA Revenue Bonds, COP's and Other Financing Arrangements
(Expressed in Thousands)

	Governmental Funds			Internal Service Funds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2004	$ 7,870	$ 1,424	$ 9,295	$ 16,257	$ 9,403	$ 25,660
2005	8,927	1,041	9,968	15,964	9,286	25,250
2006	9,310	630	9,940	15,900	8,603	24,503
2007	3,599	264	3,863	13,490	7,973	21,463
2008	1,935	173	2,108	12,395	6,825	19,220
2009 2013	2,465	228	2,693	57,663	25,993	83,656
2014 2018				54,083	12,622	66,705
2019 2023				25,183	1,887	27,070
Total	$ 34,106	$ 3,760	$ 37,867	$ 210,935	$ 82,592	$ 293,527

SHORT TERM OBLIGATIONS

The State of Maine issued and retired $250 million in Tax Anticipation Notes and $97.1 million in Bond Anticipation Notes during fiscal year 2003. At June 30, 2003 there were no outstanding Tax Anticipation Notes nor Bond Anticipation Notes.

OBLIGATIONS UNDER CAPITAL LEASES

The State of Maine leases various assets under noncancelable leasing arrangements. Leases that constitute rental agreements are classified as operating leases; the resulting expenditures are recognized as incurred over the lease term. Leases, which are in substance purchases, are classified as capital leases.
In the government-wide and proprietary fund statements, assets and liabilities resulting from capital leases are recorded at lease inception at the lower of fair market value or the present value of the minimum lease payments. The principle portion of lease payments reduces the liability; the interest portion is expensed.

Most leases have cancellation clauses in the event that funding is not available. For reporting purposes, such cancellation clauses are not considered because the likelihood that they will be exercised is considered remote. Some lease agreements include renewal or purchase options. The effect of such options is reflected in the minimum lease payments only if it is considered reasonably assured that an option will be exercised. Because the accounting treatment for installment purchase agreements is similar, such agreements are reported with capital leases.

Leases that exist between the State and the Maine Governmental Facilities Authority (MGFA), a blended component unit, are not recorded as leases in this report. In their separately issued financial statements, MGFA records a lease receivable from the State. Although payables and receivables technically exist between these parties, when combined for government-wide reporting, they are eliminated. A long-term liability exists on the government-wide statements for the bonds issued by MGFA to construct the assets associated with the leases.

Future payments to MGFA are, therefore, not included in the schedule of lease commitments below. At June 30, 2003, property acquired under capital leases totaled $54.3 million in the internal service funds, with related accumulated depreciation of $22 million.

OBLIGATIONS UNDER OPERATING LEASES

The State is obligated under certain leases, accounted for as operating leases, in the proprietary funds. Operating leases do not give rise to property rights or lease obligations, and therefore assets and liabilities related to the lease agreements are not recorded in the State’s financial statements.

The following schedule includes the future minimum lease payments for capital leases reported in proprietary funds, and the future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year from June 30, 2003:

Future Minimum Lease Payments
Capital and Operating Leases
(Expressed in Thousands)

Fiscal Year	Capital Leases	Operating Leases
2004	$ 6,348	$ 2,299
2005	5,025	1,728
2006	4,598	1,143
2007	4,409	616
2008	4,162	530
2009 2013	14,897	1,368
2014 2018	4,373	1,160
2019 2023	747	
Total Minimum Payments	44,559	$ 8,844
Less: Amount Representing Interest	9,643	
Present Value of Future Minimum Payments	$ 34,916	

Component Units

Bonds payable of the discretely presented component units are legal obligations of the component units and are not general obligations of the State. The following table summarizes bonds outstanding for the discretely presented component units as reported in their separately issued financial statements, utilizing their respective fiscal year ends:

Component Unit Bonds Outstanding
(Expressed in Thousands)

Component Unit	Purpose	Interest Rates	Amount	Maturity Dates
Maine Health and Higher Educational	General Resolution	4.5 7.55%	$ 60,350	1988 2043
Facilities Authority	Reserve Fund	2.25 6.20%	1,000,196	1993 2032
	Taxable Reserve Fund	7.03 7.04%	41,665	1993 2016
Subtotal			1,102,211	
Finance Authority of Maine	Construction Bonds	1.0 %	1,243	2003 2025
Maine Municipal Bond Bank	General Tax Exempt Fund Group	2.0 6.50%	952,334	1993 2032
	Sewer and Water Fund Group	1.05 7.2%	74,402	1991 2028
	Special Obligation Taxable Fund Group	6.1 10.25%	1,245	1991 2009
Subtotal			1,027,981	
Maine Educational Loan Authority	Educational Loan Revenue Bonds	1.43 3.65%	72,431	2005 2032
Maine State Housing Authority	Mortgage Purchase Program	1.6 8.13%	1,389,828	2003 2037
	Housing Finance Revenue Program	4.4 6.3%	29,619	2003 2030
Subtotal			1,419,447	
Maine Maritime Academy	Revenue Bonds and Other Obligations	2.6 5.8%	2,724	2004 2023
Maine Community College System	Building Construction Bonds	8.16%	145	2005
University of Maine System	1998 Series A Revenue Bonds	3.95 5.0%	26,201	2000 2024
	2000 Series A Revenue Bonds	4.5 5.75%	36,634	2001 2030
	2002 Series A Revenue Bonds	2.0 5.375%	45,132	2002 2012
	2003 Series A Revenue Bonds	3.0 4.75%	19,814	2004 2032
Subtotal			127,781	
Total			$3,753,963	

The University of Maine System (UMS) entered into an interest rate exchange agreement to lower its borrowing costs in connection with the 2002 Series A Revenue Bonds. The agreement calls for UMS to make monthly payments based on the weighted average rate per the Bond Market Municipal Swap Index. In return, the counterparty pays UMS twice per year on a fixed rate. This is designed to give UMS the coupon rate payable by UMS to bondholders each March 1 and September 1. UMS credit risk exposure is limited to the amount of the swap's fair value at the valuation date. As of June 30, 2003, this was $3.4 million.

To mitigate credit risk, if the counterparty's credit rating falls below certain levels, UMS may require the counterparty to provide and maintain collateral in the form of cash or U.S. Treasury securities. The agreement terminates when the 2002 Series A bonds mature, on March 1, 2012.

Debt service principal maturities for outstanding bonds of the discretely presented component units, from June 30, 2003 until maturity, are summarized in the following table:

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	MHHEFA	FAME	MMBB	MELA	MSHA	MMA	MCCS	UMS	Totals
2004	$ 36,372	$ 51	$ 92,912	$	$ 21,470	$ 90	$ 85	$ 5,145	$ 156,125
2005	38,798	52	86,043		29,365	92	60	5,305	159,715
2006	40,081	52	87,931	5,310	38,170	98		5,505	177,147
2007	41,621	53	79,300		37,945	95		5,430	164,444
2008	42,734	53	78,334		40,755	100		5,700	167,676
2009 2013	227,580	275	317,809	11,615	262,185	585		56,690	876,739
2014 2018	218,630	289	190,164		298,165	775		20,075	728,098
2019 2023	198,200	303	102,670		314,460	1,015		13,945	630,593
2024 2028	169,705	115	1,990	22,500	231,015			5,235	430,560
2029 2033	84,060		250	34,000	164,815			2,900	286,025
2034 2038	1,775				935				2,710
2039 2043	2,375				100				2,475
2044 2048	280								280
Less amounts deferred or unamortized			(9,422)	(994)	(19,933)	(126)		1,851	(28,624)
Total Principal Payments	$1,102,211	$1,243	$1,027,981	$72,431	$1,419,447	$2,724	$145	$127,781	$3,753,963

NOTE 12 - SELF-INSURANCE

A. RISK MANAGEMENT

The State maintains several types of insurance plans and accounts for them in two funds. The Risk Management Division 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 some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $200 million per occurrence. The State retains $2 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 *	$200 million	$2 million	$200 million
Ocean Marine Boat Liability *	10 million	10 thousand	10 million
Loss of Software and Data *	8 million	25 thousand	8 million
Boiler and Machinery	2 million	2 million	none
General Liability Including Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability	400 thousand	400 thousand	none
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	2 million	2 million	none

* These lines of insurance have commercial excess insurance covering losses above the risk retention amount up to the per occurrence amount listed. All other insurance programs are wholly self-insured.

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 represent the estimated cost of claims as of June 30, 2003. 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 determined on an actuarial basis and 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, 2002, the present value of the claims payable for the State's self-insurance plan was estimated between $3.0 and $3.5 million. At June 30, 2003, the State has estimated the present value of the loss at $4.1 million. The actuary calculated this based on a 4.0 percent yield on investments.

Risk Management Fund
Changes in Claims Payable
(Expressed in Thousands)

	2003	2002
Liability at Beginning of Year	$3,337	$3,219
Current Year Claims and Changes in Estimates	2,505	1,529
Claims Payments	1,769	1,411
Liability at End of Year	$4,073	$3,337

As of June 30, 2003, fund assets of $16 million exceeded fund liabilities of $4.7 million by $11.3 million. The portion of this amount that may be reserved for catastrophic losses has not been 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 thousand 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 thousand. The effect of this change has not been incorporated into the estimate used to determine claims payable as of June 30, 2003.

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 $850 thousand for the fiscal year ended June 30, 2003.

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. The balance of claims liabilities is based on an actuarial study as of June 30, 2003:

Workers' Compensation Fund
Changes in Claims Payable
(Expressed in Thousands)

	2003	2002
Liability at Beginning of Year	$ 75,726	$ 75,726
Current Year Claims and Changes in Estimates	(5,260)	9,170
Claims Payments	8,627	9,170
Liability at End of Year	$ 61,839	$ 75,726

Current year claims and changes in estimates include a $13.8 million reduction in estimated outstanding claims. In prior periods, changes in the estimate of outstanding claims were not material and were reported as an increase or decrease to claims expense. The significant change in the current year estimate is partially due to a change in the June 30, 2002 estimate, which resulted in excess premiums being charged to user funds. These excess premiums have been reported as an operating transfer. Current year premium revenue and claims expense reflect actual operating activity for the fiscal year.

Based on the actuarial calculation as of June 30, 2003, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $73.4 million. The discounted amount is $61.8 million and was calculated based on a 4.0 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 1,062 confidential employees at June 30, 2003. The liability amount for this benefit cannot be determined.

NOTE 13 - JOINT VENTURES

Joint ventures are independently constituted entities generally created by two or more governments for a specific purpose. The State of Maine participates in 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 and 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 Tri-State Lotto Commission financial report for fiscal year 2003, which may be obtained from the Bureau of Alcoholic Beverages and Lottery Operations, 8 State House Station, Augusta, ME 04333-0008, includes the following selected financial information:

Tri-State Lotto Commission
(Expressed in Thousands)

Current Assets	$ 46,582
Noncurrent Assets	187,031
Total Assets	$ 233,613
Current Liabilities	$ 40,308
Long term Liabilities	160,111
Total Liabilities	200,419
Designated Prize Reserves	4,996
Unrealized Gain on Investments Held for Installment Prize Obligations	28,198
Total Net Assets	33,194
Total Liabilities and Net Assets	$ 233,613
Total Revenue	$ 77,216
Unrealized Gain on Investment Held for Installment Prize Obligations	10,356
Total Expenses	52,246
Allocation of Funds to Member States	24,970
Increase in Net Assets	$ 10,356

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20 MRSA. §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 $1.7 billion in net assets at June 30, 2003, which have been recorded in an Agency Fund on the financial statements of the State.

In 1999, the Legislature established the Maine Learning Technology Endowment to enable the full integration of appropriate learning technologies into teaching and learning for the State's elementary and secondary students. At June 30, 2003, the value of this fund, invested with the Maine State Retirement System, a discretely presented component unit, was approximately $14 million. The investment and related liability, recorded in the MSRS financial statements, have been eliminated for purposes of including MSRS as a component unit of the State of Maine, as the State has recorded the assets in a special revenue fund in its financial statements.

General Obligation Bonds of the State include $300 thousand 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 contracts for health care claims processing services with a local vendor through the State's competitive bidding process. The President and Chief Executive Officer of the company also serves as Minority Floor Leader in the Maine House of Representatives. During fiscal year 2003, the State of Maine paid $10.7 million for services under these contracts. At fiscal year end, the State accrued a total of $971 thousand as accounts payable for services provided under these contracts: $394 thousand in the General Fund, $530 thousand in the Federal Fund; and $47 thousand in the Other Special Revenue Fund.

The State of Maine pays a local company as a provider for prescription drugs through the MaineCare program. The Minority Floor Leader in the Maine House of Representatives is a member of the Board of the controlling group for this single-partner LP. During fiscal year 2003, the State paid $15.5 million to this company; $6.2 million from the General Fund and $9.3 million from the Federal Fund.

The State of Maine pays a local company as a provider for mental health and independent living services through the MaineCare program. The Executive Director of the company also serves as House Chair of the Joint Standing Committee on Appropriations and Financial Affairs in the Maine Legislature. During fiscal year 2003, the State paid $8.3 million for these services; $3.6 million from the General Fund and $4.7 million from the Federal Fund.

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.

COMPONENT UNITS

The State provided appropriations and grant monies to the following discretely presented component units: University of Maine System, $205.3 million; Child Development Services, $18.4 million; Maine Community College System, $47.5 million; Maine Municipal Bond Bank, $2.5 million; Finance Authority of Maine, $13.6 million; Maine Maritime Academy, $7.5 million; Maine State Housing Authority, $8.8 million; and the Governor Baxter School for the Deaf, $6.0 million. FAME returned $2.2 million to the State from the Underground Storage and Agriculture Marketing revolving loan funds.

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 of Maine System (System). Total gifts and income received by the System from the Foundation during the fiscal year ended June 30, 2003 was approximately $3.6 million. The reported fair market value of the Foundation's assets at June 30, 2003 was approximately $108.4 million. In May 2002, GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. GASB 39 establishes new criteria for evaluating the need to include the Foundation as a component unit of the System. The Foundation appears to meet these revised criteria and is expected to be included as a component in the future.

The Finance Authority of Maine (FAME) administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $32.5 million at June 30, 2003, as a liability in Amounts Held Under State Revolving Loan Programs in their financial statements. The state reports the asset as a receivable in the Special Revenue Fund. During fiscal year 2003, the

State expended $8 million to FAME for State revolving loan funds.

Title 20-A M.R.S.A. Chapter 419-A establishes the Maine State Grant Program as a fund under the jurisdiction of the Finance Authority of Maine. All grant revenues under this fund must be distributed by FAME to students who meet the eligibility requirements for a grant under this chapter. During fiscal year 2003, FAME paid approximately $6.5 million in grants to the University of Maine System (UMS) on behalf of eligible students. The UMS reflected these as grant revenues from the State.

The State of Maine has contributed the use of land and buildings to the Governor Baxter School for the Deaf, a discretely presented component unit, for the operations of the School. The School does not recognize contribution revenue and the corresponding lease expense related to the contributed use of the property.

The State of Maine has capitalized costs associated with Mack Point pier facilities based on monies the State expended from bond funds issued for this project. The completed Mack Point facility will be owned by and is managed by the Maine Port Authority, a component unit of the State.

As part of the Mack Point Redevelopment Project, the Authority has granted a license and operating agreement to a commercial enterprise which requires the enterprise to operate the facility and pay license fees. The fees begin one month after the redevelopment is substantially complete. Subsequent to year end, the Authority notified the operator of the substantial completion of the project. As part of the agreement with the operator, the Authority granted an option to the operator to acquire the Mack Point facility upon the payment of $16.2 million. All license fees paid over the term of the agreement will be applied to the option price.

RELATED ORGANIZATIONS

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 2003.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

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. State expenditures for landfill remediation projects totaled $704 thousand for FY 2003.

During the 2003 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects, which completed work before January 1, 2000. 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 they are 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. Consequently, the DEP expects no further expenditures for municipal landfill closures.

During the 2003 fiscal year, the State expended $704 thousand of general obligation bond funds for municipal solid waste landfill remediation projects. 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, post closure investigation and remediation activities may be necessary at landfills that will require State funds. The DEP has estimated the amount of these potential costs to be approximately $1 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 $22.5 million. This consists of approximately $13.1 million for State-owned facilities and approximately $9.4 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 2003 fiscal year, $5.24 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2003, amounts encumbered for pollution abatement projects totaled $2.74 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $9.13 million. At June 30, 2003, DEP estimated the total cost (federal, State, and local) of future projects to be $345 million.

DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY

The State has been identified as a potentially responsible party at three hazardous waste clean-up sites in Maine. These sites are located in Plymouth, Casco and Ellsworth. 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. At June 30, 2003 there were 448 sites on the long-term remediation priority list. 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.

CONSTRUCTION COMMITMENTS

A portion of the payment that is made to municipalities for General Purpose Aid to Local Schools is allocated for debt service. Although the outstanding indebtedness for school construction projects is debt of the municipalities, the State subsidizes approximately 72% of the annual payments. As of June 30, 2003, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $786.3 million.

At June 30, 2003, the Department of Transportation had contractual commitments of approximately $86.5 million for construction of various highway projects. The State's share of that amount is expected to be approximately $17.8 million. Of these amounts, $15.9 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

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 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 is approximately $114 million and will be received in ten annual payments beginning in 2008.

BAXTER COMPENSATION AUTHORITY
Chapter 439 PL 2001 established the Baxter Compensation Authority to provide monetary compensation to former students of the Baxter School for the Deaf who, while students, were subjected to abuse by a State employee or by inaction of the State. The Authority is established by the provisions of Title 5 MRSA, Chapter 601 as public instrumentality of the State, limiting any liabilities to its available resources. The Authority was initially capitalized by the legislature with $6 million, to settle cases and provide for its administrative expenses. As of June 30, 2003, the Authority had expended $2.3 million, with an additional $2.5 million in claims paid in fiscal year 2004. In Chapter 673 PL 2003, the Legislature provided an additional $6 million on a one-time basis to pay all remaining claims that may come forward. The Authority has a statutory sunset of July 1, 2007.

DISPROPORTIONATE SHARE PAYMENTS TO HOSPITALS
Aroostook Medical Center, alone, filed suit in State court demanding a payment of $660 thousand in State funds, after receiving a letter from DHS saying that they were eligible for a disproportionate share payment for FY 2000, but that the payment would not be made until final settlement. There are other hospitals in the identical situation, covering several fiscal years. The State accrued a liability of $21 million in the governmental activities in the entity-wide financial statements; $6.9 million in State funds and $14.1 million in federal funds.

DISCRETELY PRESENTED COMPONENT UNITS

NURSING HOME LOANS
The owners of certain financially troubled nursing homes, with the concurrence of The Maine Health and Higher Educational Facilities Authority (MHHEFA), have begun refinancing portions of MHHEFA's loans and advances with the U.S. Department of Housing and Urban Development (HUD). Management of MHHEFA expects that these refinancings will reduce annual debt service requirements, thereby eliminating its exposure in the Taxable Financing Reserve Fund and reducing its overall exposure. Through June 30, 2003, HUD completed refinancings for eight institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately $37.8 million. As part of the refinancing completed by HUD, MHHEFA agreed to issue 8% subordinated notes receivable to these eight institutions from its operating fund. These notes totaled $5.6 million at June 30, 2003, earn interest only to the extent that cash payments are received and are subordinate to all HUD loans. If these institutions fail to generate positive cash flow in future periods, it is likely that these notes will not be repaid.

Management of the Authority expects the owners of three other facilities, with combined amounts due the Authority of approximately $11.7 million at June 30, 2003, will complete refinancings during fiscal 2004. If the refinancings are not completed, it is likely that a number of nursing homes included in the taxable financing reserve fund resolution will have difficulty in fully meeting their debt service obligations to the Authority.

In addition to the subordinated notes receivable from the eight institutions described above, the Authority has advanced approximately $4.3 million from the operating fund as of June 30, 2003, to certain financially troubled institutions. The outstanding loans owed to the Authority total approximately $28.4 million. These advances were made to assist these institutions in meeting debt service requirements. The Authority established a $3 million reserve in its operating fund related to amounts that have been advanced or are expected to require an advance to troubled institutions.

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, 2003, loans outstanding pursuant to these authorizations are $41.5 million, less than $1 million, and less than $1 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, 2003.

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, 2003.

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
(Expressed in Thousands)

Issuer	Bonds Outstanding	Required Debt Reserve	Obligation Debt Limit	Legal Citation
Maine Health and Higher Educational Facilities Authority	$ 1,102,211	$ 83,666	no limit	22 MRSA § 2075
Finance Authority of Maine	176,257	36,441	1,075,000	10 MRSA § 1032, 1053
Loring Development Authority	-	-	100,000	5 MRSA § 13080 N
Maine Municipal Bond Bank	1,037,404	119,067	no limit	30 A MRSA § 6006
Maine Educational Loan Authority	32,115	752	50,000	20 A MRSA § 11424
Maine State Housing Authority	1,437,280	116,975	2,150,000	30 A MRSA § 4906
Total	$ 3,785,267	$ 356,901		

NOTE 16 - LITIGATION

The State of Maine, its units, and its employees are parties to numerous legal proceedings, many of which are the result of normal 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 following cases have the potential for liability in excess of $1 million. 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, the State could incur a large judgment.

Aroostook Medical Center v. Peter Walsh (TAMC I). This case is in State court. Plaintiffs are six Maine hospitals, and the claims, worth $7 - 10 million in State funds, cover four fiscal years. The litigation deals with alleged violations of federal Medicaid law by dealing with supplemental disproportionate share payments, third party liability payments offsets and reimbursements, and adjustments to the hospitals' prospective payment rates. If these hospitals prevail, the Attorney General believes that other hospitals may file similar claims.

In various lawsuits, Plaintiffs seek damages in excess of $1 million against the State or against State officials, and various notices of claim 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.

Numerous workers' compensation claims are 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, various other suits are 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 17 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On July 1, 2003, October 1, 2003, January 8, 2004 and April 1, 2004, the State issued $25.8 million, $26.1 million, $25.5 million, and $52.9 million respectively of Bond Anticipation Notes. The BAN's will mature on June 24, 2004.

On July 1, 2003 the State issued $275 million of Tax Anticipation Notes which become due on June 30, 2004.

On November 11, 2003, December 15, 2003, and March 1, 2004, the State issued Certificates of Participation in the following amounts: $1.6 million, $2.3 million, and $1.2 million. Proceeds were used to purchase, respectively, a budget management system through the State's Information Services Internal Service Fund; school buses for the Department of Education through the General Fund; and police vehicles through the Highway Fund. On December 12, 2003, the State entered into a lease purchase agreement totaling $793,200 to purchase a new ARAN vehicle for the Department of Transportation through the Highway Fund.

Chapter 20 PL 2003 amended 5 MRSA §17151 such that the unfunded liability attributable to state employees and teachers must be retired in no more than 25 years from June 30, 2003. It had previously been 19 years from June 30, 2000. The amount of the unfunded liability attributable to state employees and teachers as of July 1, 2004, as certified by the board or as that amount may be revised in accordance with the terms of the certification, must be retired in no more than 14 years from June 30, 2005.

Title 36 MRSA, Chapter 914, established the 2003 Maine Tax Amnesty Program, which was intended to encourage delinquent taxpayers to comply with the State's tax law, to enable the State Tax Assessor to identify and collect previously unreported taxes, and to accelerate collection of certain tax liabilities. The long-term goal of the program is to improve taxpayer compliance with the State's tax law.

The program applies to tax liabilities delinquent as of August 31, 2003. To be eligible for the program, a taxpayer must file a 2003 amnesty return between September 1, 2003 and November 30, 2003. Under the program, a taxpayer is absolved from criminal or civil prosecution or civil penalties plus ½ of the interest associated with the liability.

Chapter 20 PL 2003 amended 28-A MRSA to authorize the State of Maine to close the remaining State-run liquor stores and enter into an 10 year lease agreement, with two five-year renewal options, with a vendor to manage and operate wholesale liquor distribution as the State's agent. Chapter 20 included estimated revenues amounting to $125 million to be counted toward balancing the fiscal year 2004 – 2005 biennial budget. The amount payable to the State by the contractor is to be made in two installments, with the first payment of $75 million by June 30, 2004 and $50 million in fiscal year 2005. Upon the bid award, the unsuccessful bidders filed appeals, but the award was upheld by the State appeals panel that heard the complaints. The unsuccessful bidders then filed actions in Kennebec County Superior Court. The State Of Maine is in possession of a letter from the contractor stating that all interested parties have reached a settlement, making court action unlikely. While a settlement has been reached, as of May 6, 2004, the case has not been removed from the Kennebec County Superior Court. The State of Maine and the contractor intend to execute a contract for services on May 14, 2004.

COMPONENT UNITS

On April 8, 2003, the Maine State Housing Authority (MSHA) issued $23.3 million of its 2003 Series A bonds. The bonds carry interest rates ranging from 1.25% to 5.0%, with maturities from 2004 – 2033. On February 13, 2003 and March 6, 2003, MSHA redeemed, at par, $33.2 million and $42.9 million of its Mortgage Purchase Program bonds, with interest rates from 4.25% to 8.125%, and maturities from 2007 – 2032.

On July 24, 2003, Maine Health and Higher Education Facilities Authority (MHHEFA) issued $65.1 million of 2003B and 2003C Series Revenue Bonds. The bonds carry interest rates from 2.0% to 5.0%, with maturities from 2004 – 2033. The bonds are secured by loans made to institutions within the State of Maine. On August 12, 2003, MHHEFA issued $6.4 million of 2003 Taxable II Series Revenue Bonds. The bonds mature in 2014 – 2023 and carry variable interest rates. These bonds are secured by subordinated loans to various institutions and MHHEFA's operating fund.

On September 11, 2003, Maine Governmental Facilities Authority issued $18.4 million of Series 2003 Lease Rental Revenue Bonds. These bonds carry interest rates from 2.0% to 5.0%, with maturities from 2004 – 2023.


DIRIGO
MAINE

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30,2003
(Expressed in Thousands)

	General Fund				Highway Fund			
	Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
Revenues								
Taxes	$ 2,465,450	$ 2,261,417	$ 2,285,272	$ 23,855	$ 182,472	$ 187,440	$ 187,909	$ 469
Assessments and Other	61,404	66,134	62,288	(3,846)	85,758	86,174	89,728	3,554
Federal Grants	19,015	24,657	25,580	923	-	-	-	-
Service Charges	21,306	26,196	33,968	7,772	8,894	9,104	5,125	(3,979)
Income from Investments	10,014	1,889	2,346	457	3,000	1,418	1,339	(79)
Miscellaneous Revenue	5,223	4,223	5,728	1,505	-	111	1,813	1,702
Total Revenues	2,582,412	2,384,516	2,415,182	30,666	280,124	284,247	285,914	1,667
Expenditures								
Government Support and Operations	334,986	276,078	260,920	15,158	30,455	33,760	32,288	1,472
Economic Development and Workforce Training	61,167	57,317	53,878	3,439	-	-	-	-
Education	1,200,041	1,176,516	1,142,036	34,480	-	-	-	-
Health and Human Services	862,316	806,348	791,825	14,523	-	-	-	-
Business Licensing and Regulation	11	-	-	-	-	-	-	-
Natural Resources Development and Protection	72,521	72,570	67,992	4,578	45	45	45	-
Justice and Protection	206,106	211,016	204,311	6,705	31,172	32,671	32,175	496
Arts, Heritage and Cultural Enrichment	9,701	9,217	9,031	186	-	-	-	-
Transportation Safety and Development	4,598	4,360	4,328	32	227,588	297,372	237,529	59,843
Total Expenditures	2,751,447	2,613,422	2,534,321	79,101	289,260	363,848	302,037	61,811
Revenues Over (Under) Expenditures	(169,035)	(228,906)	(119,139)	109,767	(9,136)	(79,601)	(16,123)	63,478
Other Financing Sources (Uses)								
Operating Transfers Net	(33,879)	(8,133)	89,350	97,483	170	(1,740)	(18,169)	(16,429)
Other Budgeted Resources	-	-	-	-	-	-	-	-
Net Other Financing Sources (Uses)	(33,879)	(8,133)	89,350	97,483	170	(1,740)	(18,169)	(16,429)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (202,914)	$ (237,039)	$ (29,789)	$ 207,250	$ (8,966)	$ (81,341)	$ (34,292)	$ 47,049
Fund Balances at Beginning of Year (As Restated)			138,614				118,129	
Fund Balances at End of Year			$ 108,825				$ 83,837	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ 3	$ 3	$ 51,609	$ 54,167	$ 87,213	$ 33,046
-	-	-	-	78,393	79,141	63,259	(15,882)
1,834,683	2,242,185	1,899,313	(342,872)	12,961	15,412	5,164	(10,248)
629	2,147	5,413	3,266	96,341	106,343	105,158	(1,185)
-	-	573	573	3,900	4,852	2,954	(1,898)
7,956	7,915	654	(7,261)	214,120	250,742	163,146	(87,596)
1,843,268	2,252,247	1,905,956	(346,291)	457,324	510,657	426,894	(83,763)
5,878	31,290	28,390	2,900	138,978	150,309	126,669	23,640
129,826	159,138	108,573	50,565	20,895	21,681	15,230	6,451
111,317	182,678	145,377	37,301	10,704	11,962	9,356	2,606
1,385,620	1,580,145	1,444,554	135,591	243,152	272,046	216,682	55,364
21	21	9	12	39,121	48,304	34,810	13,494
29,063	48,911	33,219	15,692	84,763	98,495	65,413	33,082
45,121	80,853	55,493	25,360	35,022	41,858	30,745	11,113
2,734	3,462	2,269	1,193	895	1,343	663	680
210,275	234,640	180,048	54,592	14,726	19,798	13,529	6,269
1,919,855	2,321,138	1,997,932	323,206	588,256	665,796	513,097	152,699
(76,587)	(68,891)	(91,976)	(23,085)	(130,932)	(155,139)	(86,203)	68,936
(1,442)	(1,574)	3,706	5,280	121,313	124,861	26,549	(98,312)
-	-	-	-	-	-	-	-
(1,442)	(1,574)	3,706	5,280	121,313	124,861	26,549	(98,312)
$ (78,029)	$ (70,465)	$ (88,270)	$ (17,805)	$ (9,619)	$ (30,278)	$ (59,654)	$ (29,376)
		(12,336)				278,333	
		$ (100,606)				$ 218,679	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2003
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Fund	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 108,825	$ 83,837	$ (100,606)	$ 218,679
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	171,841	(1,588)	-	4,764
Intergovernmental Receivables	1,609	-	343,357	(28,348)
Other Receivables	21,144	(14,932)	32,694	903
Due from Other Funds	27,722	10,599	30,212	90,265
Other Assets	454	-	-	16,774
Deferred Revenues	(38,670)	(5,885)	(1,868)	(23,912)
Total Revenue Accruals/Adjustments	184,100	(11,806)	404,395	60,446
Expenditure Accruals/Adjustments:				
Accounts Payable	(110,189)	(19,089)	(228,715)	(27,893)
Due to Component Units	(3,305)	-	(4,805)	(3,545)
Bonds Issued	-	6,500	-	-
Accrued Liabilities	(20,517)	(8,141)	(8,481)	(7,739)
Tax Refunds Payable	(119,009)			
Due to Other Funds	(60,320)	(4,574)	(48,524)	(21,670)
Total Expenditure Accruals/Adjustments	(313,340)	(25,304)	(290,525)	(60,847)
Fund Balances - GAAP Basis	$ (20,415)	$ 46,727	$ 13,264	$ 218,278

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

Statutory/Budgetary Presentation

The various funds and programs within funds utilize a number of different budgetary control processes. Annual legislative appropriations and revenue estimates are provided for most "operating" funds. (Note 2 of the basic financial statements identifies the annually budgeted operating funds.)

The original executive budget and original legislative appropriations provide general purpose (unrestricted) revenue estimates in order to demonstrate compliance with constitutional provisions. Revenues restricted by law or outside grantors to a specific program are estimated at a level of detail consistent with controlling related expenditure accounts.

For programs financed from restricted revenues, spending authorization is generally contingent upon recognition of the related revenue. Reductions of spending authority occur if revenues fall short of estimates. If revenues exceed the estimate, supplemental appropriations are required before the additional resources can be spent.

The budgetary comparison schedule presented for the General Fund, the Highway Fund, the Federal Fund, and the Other Special Revenue Fund presents the original and final appropriated budgets for fiscal year 2002-2003, as well as the actual resource inflows, outflows and fund balances stated on the budgetary basis.

The original budget and related estimated revenues represent the spending authority enacted into law by the appropriation bills as of June 19, 2002, and includes encumbrances carried forward from the prior year.

Generally accepted accounting principles (GAAP) require that the final legal budget be reflected in the "final budget" column. Therefore updated revenue estimates available for appropriations as of September 13, 2003, rather than the amounts shown in the original budget, are reported.

The final appropriations budget represents original and supplemental appropriations, carry-forwards, approved transfers, and executive order reductions. Expenditures, transfers out, other financing uses, and encumbrances are combined and classified by policy area rather than being reported by character and function as shown in the GAAP statements. This policy area classification is used to better reflect organizational responsibility and to be more consistent with the budget process.

Required Supplementary Information – State Retirement Plan

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, 2003	6,085,632,834	9,007,851,422	2,922,218,588	67.6%	1,442,278,362	202.6%
June 30, 2002	5,920,475,637	8,511,834,626	2,591,358,989	69.6%	1,413,262,420	183.4%
June 30, 2001	5,844,838,370	7,997,931,582	2,153,093,212	73.1%	1,326,375,573	162.3%
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	6,706,620,132	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
2003	252,709,148	263,209,148	104.2%
2002	242,486,089	242,486,089	100.0%
2001	247,526,221	247,526,221	100.0%
2000	232,878,658	236,878,658	101.7%
1999	246,155,629	268,001,527	108.9%
1998	218,506,594	239,915,051	109.8%

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, 2003	1,701,572,665	1,463,437,856	(238,134,809)	116.3%	277,032,661	86.0%
June 30, 2002	1,692,033,523	1,377,659,381	(314,374,142)	122.8%	268,161,476	117.2%
June 30, 2001	1,544,720,492	1,427,090,054	(117,630,438)	108.2%	254,155,180	46.3%
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
2003	8,503,871	22,436,866	263.8%
2002	10,017,340	173,065,194	1727.7%
2001	17,122,717	17,122,717	100.0%
2000	13,433,467	13,433,467	100.0%
1999	23,475,495	23,475,495	100.0%
1998	27,355,304	27,355,304	100.0%

Notes to Required Supplementary Information
Pension 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, 2003, is as follows:

Funding Method

Costs are developed using the entry age normal cost method (based on a level percentage of covered payroll), except for the costs of the legislative plan, where the aggregate method is used. 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 and/or in assets when actual experience differs from the actuarial assumptions, adjust the unfunded actuarial accrued liability.

Asset Valuation Method

Assets are valued for funding purposes using a three-year moving average. Under this method, the year-end actuarial asset value equals 1/3 of the current fiscal year-end fair value, as reported in the financial statements, plus 2/3 of the “expected market value.” For purposes of this calculation, the “expected market value” is the preceding fiscal year’s actuarial asset value, adjusted for the current fiscal year’s cash flows with interest accumulated at the actuarial assumed rate of return on investments.

Amortization

The unfunded actuarial liability is amortized on a level percentage of payroll over the amortization period then in effect under statutory and constitutional requirements, which is over a 19 year closed period from June 30, 2000. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 14 years remained at June 30, 2003.

The IUUAL of PLDs are amortized over periods established for each PLD separately. During fiscal year 2003 and 2002, various PLD’s contributed approximately $13.9 million and $163 million to decrease their initial unpooled unfunded actuarial liability, respectively.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2003 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 district members, non-disabled State employee retirees and non-disabled participating local district members with retirement dates on or after July 1, 1998 – UP 1994 Tables; Active teacher members and non-disabled teacher retirees with retirement dates on or after July 1, 1998 – 85% of UP 1994 Tables; Non-disabled State employee retirees and non-disabled participating local district retirees with retirement dates before July 1, 1998 – GAM 1971 Tables; Non-disabled teacher retirees with retirement dates before July 1, 1998 – GAM 1971 Tables set back two years; All recipients of disability benefits with retirement dates before July 1, 1998 – 1964 Commissioners Disability Table; All recipients of disability benefits with retirement dates on or after July 1, 1998 – 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, 2003 and 2002, the net assets held in trust for group life insurance benefits were $39.0 million and $36.6 million, respectively. At June 30, 2003 and 2002, the plan had the following actuarially determined liabilities:

	(In millions) 2003	2002
Actuarial Liabilities:		
Active Members	$ 44.6	$ 40.3
Retired Members	42.7	42.9
Total	$ 87.3	$ 83.2

Required Supplementary Information –
Information about Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, the State has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this process, the State does not record depreciation expense nor are amounts capitalized in connection with improvements to these assets, unless the improvements expand the capacity or efficiency of an asset. Assets accounted for under the modified approach include approximately 8,712 highway miles or 17,702 lane miles of roads and approximately 2,959 bridges having a total deck area of 11.1 million square feet that the State is responsible to maintain.

In order to utilize the modified approach, the State is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate each year the annual amount to maintain and preserve the assets at the condition level established and disclosed by the State.
- Document that the assets are being preserved at, or above, the established condition level.

Roads and bridges maintained by the Department of Transportation are accounted for using the modified approach.

Roads

Measurement Scale for Highways

The Maine Department of Transportation (MDOT) uses six indicators to determine the condition of highway adequacy. The six indicators and their relative point weighting are listed in the table below.

Data Element	Point Rating (%)	Description
Pavement Condition Rating (PCR)	45	PCR is defined as the composite condition of the pavement on a roadway only, and is compiled from the severity and extent of pavement distresses such as cracking, rutting and patching. It is the key indicator used to determine the optimum time to treat a particular section of road. Points decrease as PCR decreases.
Safety	20	Statewide crash rates are used to allocate points. Locations with high rates get fewer points.
Backlog (Built v Unbuilt roadway)	15	A “Built” road is one that has been constructed to a modern standard, usually post 1950. This includes adequate drainage, base, and pavement to carry the traffic load, and adequate sight distance and width to meet current safety standards. “Unbuilt” (backlog) is defined as a roadway section that has not been built to modern standards. Yes or No (15 or 0).
Annual Average Daily Traffic divided by the hourly highway capacity (AADT/C)	10	This ratio measures how intensely a highway is utilized. As a highway facility’s AADT/C ratio increases, the average speed of vehicles on that facility tends to decrease. This decrease in average speed is evidence of reduced mobility. As congestion increases, points decrease (0-10).
Posted Speed	5	Lower speeds equal fewer points.
Paved Shoulder	5	In general, roadways with paved shoulders perform at a higher level and last longer than those without shoulders or with only gravel shoulders. Yes or No (5 or 0).
	100	

Bridges

MDOT uses four separate factors to obtain a numerical value used to indicate the ability of bridges to remain in service at the current level of usage. The numeric value is a percentage ranging from 0% to represent an entirely insufficient or deficient bridge, and 100% to represent an entirely sufficient bridge. The four indicators and their relative point weighting are listed in the table below. The composite numeric value is based on the sufficiency rating formula in the Recording and Coding Guide for Structure Inventory and Appraisal of the Nation's Bridges.

Data Element	Point Rating (%)	Description
Structural Adequacy and Safety	55	This category considers inventory rating, superstructure, substructure and culverts.
Serviceability and Functional Obsolescence	30	Serviceability and functional obsolescence that addresses the number of lanes, average daily traffic, roadway width, bridge width, deck condition, under clearances, waterway adequacy, alignment, and defense highway designation.
Essentiality for Public Use	15	This considers detour length, average daily traffic, and defense highway designation.
Special Reductions	(13)	The sufficiency rating also includes consideration of special reductions for detour length, safety features, and type of structure.

Assessed Conditions

The following table shows adequacy ratings for maintenance levels from Excellent to Poor.

Highway Adequacy Rating	Total
Excellent	80-100
Good	70-80
Fair	60-70
Poor	0-60

MDOT intends to maintain the highway system at an adequacy rating of 60 or higher for both highways and bridges. In FY 2003, MDOT achieved adequacy ratings of 77.6 for highways, and 76.0 for bridges. In FY 2002, the adequacy ratings were 76.6 for highways, and 77.0 for bridges.

Budgeted and Estimated Costs to Maintain

The following table presents the State's preservation costs for the past five fiscal years. It also shows the estimate of spending necessary to preserve and maintain the roads and bridges at, or above, a sufficiency rating of 60 for both highways and bridges (in millions). DOT did not collect estimated information in this format, prior to FY 2003.

Fiscal Year	Estimated Spending	Actual Spending
2004	$ 30	$ -
2003	36	34.3
2002	-	41.4
2001	-	29.4
2000	-	28.9
1999	-	24.5

Transportation Bonds

Chapter 38, P&S 2001, authorized $61 million for improvements to highways and bridges. Chapter 33, P&S 2003, authorized $60 million for improvements to highways and bridges. As of June 30, 2003 $28 million of bonds were issued related to Chapter 38.


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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*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the State of Maine, as of and for the year ended June 30, 2003, which collectively comprise the State of Maine's basic financial statements and have issued our report thereon dated April 28, 2004. 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 and the Maine Governmental 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 April 28, 2004.

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 03-01 through 03-09.

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 necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 03-02, 03-05 and 03-06 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 April 28, 2004.

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

April 28, 2004

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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

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, 2003. 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 basic financial statements include the operations of the following component units: the Child Development Services System, the Finance Authority of Maine, the Governor Baxter School for the Deaf, the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, the Maine Health and Higher Educational Facilities Authority, the Maine Maritime Academy, the Maine Municipal Bond Bank, the Maine State Housing Authority, the Maine State Retirement System, the Maine Community College System, the Northern New England Passenger Rail Authority, and the University of Maine System. 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, 2003. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors. The State of Maine's basic financial statements also include the operations of the Maine Military Authority, which is included in our audit. The federal awards received by the Maine Military Authority are included in the supplementary Schedule of Expenditures of Federal Awards.

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.

As described in items 03-56 and 03-61 in the accompanying schedule of findings and questioned costs, the State of Maine did not comply with requirements regarding allowability, eligibility and reporting that are applicable to its Title IV-E Adoption Assistance and Foster Care programs. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2003. The results of our auditing procedures also disclosed other 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 03-11, 03-14, 03-21, 03-22, 03-24 through 03-29, 03-32 through 03-34, 03-38, 03-49 through 03-52, 03-57, 03-58, 03-60, 03-62, 03-68, 03-69, 03-71, 03-73, 03-76 through 03-79, 03-85, 03-86, 03-89, 03-91, 03-93, 03-94, 03-96, 03-98, 03-99, 03-102, and 03-104.

Internal Control over Compliance

The management of the State of Maine is responsible for establishing and maintaining effective internal control over compliance with the 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 03-10, 03-12, 03-13, 03-15 through 03-20, 03-23, 03-30, 03-31, 03-33 through 03-48, 03-53 through 03-57, 03-59 through 03-68, 03-70 through 03-72, 03-74, 03-75, 03-77 through 03-84, 03-86 through 03-88, 03-90 through 03-92, 03-95, 03-97, 03-99 through 03-101 and 03-103.

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 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 items 03-30, 03-44, 03-56, 03-86, and 03-101 to be material weaknesses.

This report is intended solely for the information and use of management, the Legislature, 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

Gail M. Chase, CIA
State Auditor
June 18, 2004

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
U.S. Department of Agriculture					
Animal & Plant Health Inspection Service	10.025	Plant & Animal Disease, Pest Control & Animal Care	Agriculture	22,525	
Animal & Plant Health Inspection Service	10.025	Plant & Animal Disease, Pest Control & Animal Care	Conservation	10,147	
Agricultural Marketing Service	10.156	Federal-State Marketing Improvement Program	Agriculture	41,243	
Agricultural Marketing Service	10.162	Inspection Grading & Standardization	Agriculture	533,825	
Agricultural Marketing Service	10.163	Market Protection and Promotion	Agriculture	39,906	
Cooperative State Research	10.200	Grants for Agricultural Research, Special Research Grants	Agriculture	761	
Risk Management Agency	10.450	Crop Insurance	Agriculture	147,302	
Food & Nutrition Service	10.550	Food Donation	Education	3,175,504	
Food & Nutrition Service	10.557	Special Supplemental Nutrition Program for WIC	Human Services	8,698,381	
Food & Nutrition Service	10.558	Child and Adult Care Food Program	Human Services	9,261,640	**
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Human Services	272,465	
Food & Nutrition Service	10.560	State Administrative Expenses for Child Nutrition	Education	428,482	
Food & Nutrition Service	10.570	Nutrition Services Incentive	Human Services	707,724	
Food & Nutrition Service	10.572	WIC Farmer's Market Nutrition Program	Human Services	16,652	
Food & Nutrition Service	10.574	Team Nutrition Grants	Education	209,935	
Food & Nutrition Service	10.576	Senior Farmers Market Nutrition Pilot Program	Agriculture	893,900	
Forest Service	10.652	Forestry Research	Conservation	319,305	
Forest Service	10.664	Cooperative Forestry Assistance	Conservation	8,193,967	**
Forest Service	10.672	Rural Development, Forestry and Communities	Conservation	30,743	
Food & Nutrition Service	10.999	Specialty Crops-Base Grants & Value of Production Grants	Agriculture	716,531	
Food Stamp Cluster					
Food & Nutrition Service	10.551	Food Stamps	Human Services	115,972,775	**
Food & Nutrition Service	10.561	State Administrative Matching Grants for Food Stamp Program	Human Services	8,699,084	**
Child Nutrition Cluster					
Food & Nutrition Service	10.553	School Breakfast Program	Education	4,175,617	**
Food & Nutrition Service	10.555	National School Lunch Program	Education	18,802,767	**
Food & Nutrition Service	10.556	Special Milk Program for Children	Education	107,413	**
Food & Nutrition Service	10.559	Summer Food Service Program for Children	Education	812,151	**
Emergency Food Assistance Cluster					
Food & Nutrition Service	10.568	Emergency Food Assistance Program (Administrative Costs)	Agriculture	227,864	
Food & Nutrition Services	10.569	Emergency Food Assistance Program (Commodities)	Agriculture	2,390,956	
Total U.S. Department of Agriculture Federal Programs				184,909,565	
U.S. Department of Commerce					
Economic Development Administration	11.302	Economic Development: Support for Planning Organizations	Economic Devel	101,771	
Economic Development Administration	11.307	Economic Adjustment Assistance	Marine Resource	11,950	
National Oceanic & Atmospheric Administration	11.405	Anadromous Fish Conservation Act Program	Marine Resource	52,094	
National Oceanic & Atmospheric Administration	11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	139,928	
National Oceanic & Atmospheric Administration	11.417	Sea Grant Support	Marine Resource	6,072	
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	State Planning	1,681,098	
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	Marine Resource	364,924	
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	Environment	657,719	
National Oceanic & Atmospheric Administration	11.419	Coastal Zone Management Administration Awards	Conservation	3,290	
National Oceanic & Atmospheric Administration	11.420	Coastal Zone Management Estuarine Research Reserves	Conservation	14,459	
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Salmon Comm	854,175	
National Oceanic & Atmospheric Administration	11.472	Unallied Science Program	Marine Resource	399,128	
National Oceanic & Atmospheric Administration	11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	2,208,509	
National Oceanic & Atmospheric Administration	11.999	Developing a Whiting Fishery in the Gulf of Maine	Marine Resource	63,189	
National Oceanic & Atmospheric Administration	11.999	Gulf of Maine Inshore Trawl Survey	Marine Resource	89,206	
National Oceanic & Atmospheric Administration	11.999	Assess the Status - Shortnose Sturgeon in the Kennebec River	Marine Resource	56	
National Oceanic & Atmospheric Administration	11.999	Protected Resources Division (EA1330-02-CN-005)	Marine Resource	89,585	
National Oceanic & Atmospheric Administration	11.999	Protected Resources Division (NA96FL0278)	Marine Resource	147,602	
National Oceanic & Atmospheric Administration	11.999	State of Maine Large Whale Take Reduction Plan	Marine Resource	69,736	
National Oceanic & Atmospheric Administration	11.999	Gulf of Maine Ocean Quahog Assessment	Marine Resource	15,096	
National Oceanic & Atmospheric Administration	11.999	Large Whale Management Plan NFWF	Marine Resource	1,058	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Asterisks indicate audited programs.

Federal Department Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
National Oceanic & Atmospheric Administration	11.999	Large Pelagic Survey	Marine Resource	18,671	
National Oceanic & Atmospheric Administration	11.999	Seasonal Movement of Atlantic Cod in The Gulf of Maine	Marine Resource	255,478	
National Oceanic & Atmospheric Administration	11.999	GOM Abundance, Migration and Recruitment of Northern Shrimp	Marine Resource	276,718	
National Oceanic & Atmospheric Administration	11.999	Improving Size Selectively for Northern Shrimp	Marine Resource	68,361	
National Oceanic & Atmospheric Administration	11.999	Jonah Crab Survey	Marine Resource	7,107	
National Oceanic & Atmospheric Administration	11.999	Jonah Crab Tags	Marine Resource	3,437	
National Oceanic & Atmospheric Administration	11.999	Basic and Applied Scientific Research	Marine Resource	12,157	
Total U.S. Department of Commerce Federal Programs				7,612,574	
U.S. Department of Defense					
Office of the Chief of Engineers	12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment	664,913	
National Guard Bureau	12.400	Military Construction National Guard	Defense	7,234,874	**
National Guard Bureau	12.401	National Guard Military Operations & Maintenance Projects	Defense	7,798,466	**
National Guard Bureau	12.404	National Guard Civilian Youth Opportunities	Defense	165,757	
National Guard Bureau	12.999	Readiness Sustainment Maintenance Center	Defense	13,361,969	**
Total U.S. Department of Defense Federal Programs				29,225,979	
U.S. Department of Housing & Urban Development					
Community Planning & Development	14.228	Community Development Block Grants / State's Program	Economic Devel	17,156,022	**
Community Planning & Development	14.235	Supportive Housing Program	Behavioral Services	564,029	
Community Planning & Development	14.238	Shelter Plus Care	Behavioral Services	2,059,702	
Community Planning & Development	14.250	Rural Housing and Economic Development	Economic Devel	208,454	
Office of Fair Housing and Equal Opportunity	14.401	Fair Housing Assistance Program: State and Local	Human Rights	13,121	
Total U.S. Department of Housing & Urban Development Federal Programs				20,001,328	
U.S. Department of the Interior					
Fish & Wildlife Service	15.615	Cooperative Endangered Species Conservation Fund	Conservation	135,581	
Fish & Wildlife Service	15.616	Clean Vessel Act	Environment	158,156	
Fish & Wildlife Service	15.622	Sportfishing and Boating Safety Act	Transportation	131,997	
Fish & Wildlife Service	15.623	North American Wetlands Conservation Act	Inland Fisheries	764,500	
Fish & Wildlife Service	15.625	Wildlife Conservation and Restoration	Conservation	226,838	
Geological Survey	15.808	Research and Data Acquisition	Financial Services	32,217	
Geological Survey	15.810	Nat'l Cooperative Geologic Mapping Program	Conservation	69,932	
National Park Service	15.904	Historic Preservation Fund Grants-in-Aid	Historic Preserve	699,724	
National Park Service	15.916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	584,095	
Fish & Wildlife Service	15.999	Cooperative Agreement	Salmon Comm	52,359	
Fish & Wildlife Service	15.999	Atlantic Salmon Management Project	Salmon Comm	251,296	
Fish and Wildlife Cluster					
U.S. Fish & Wildlife Service	15.605	Sport Fish Restoration	Marine Resource	436,216	**
U.S. Fish & Wildlife Service	15.605	Sport Fish Restoration	Inland Fisheries	1,936,365	**
U.S. Fish & Wildlife Service	15.611	Wildlife Restoration	Inland Fisheries	2,298,099	**
Total U.S. Department of the Interior Federal Programs				7,777,375	
U.S. Department of Justice					
Drug Enforcement Administration	16.005	Public Education on Drug Abuse: Information	Public Safety	57,624	
Office of Justice Programs	16.007	State Domestic Preparedness Equipment Support Program	Defense	3,308,581	
Office of Justice Programs	16.202	Offender Reentry Program	Corrections	69,972	
Juvenile Justice & Delinquency Prevention Office	16.523	Juvenile Accountability Incentive Block Grants	Corrections	2,546,654	
Juvenile Justice & Delinquency Prevention Office	16.523	Juvenile Accountability Incentive Block Grants	Judicial	444,426	
Juvenile Justice & Delinquency Prevention Office	16.541	Juvenile Justice & Delinquency Prevention: Special Emphasis	Corrections	867,537	

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
Bureau of Justice Statistics	16.550	State Justice Statistics Program for Statistical Analysis Centers	Human Services	1,372	
Bureau of Justice Statistics	16.550	State Justice Statistics Program for Statistical Analysis Centers	Corrections	74,129	
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Public Safety	1,649,264	
Bureau of Justice Statistics	16.554	National Criminal History Improvement Program	Judicial	60,175	
Office of Justice Programs	16.560	Justice Research, Evaluation, and Development Project Grants	Public Safety	105	
Office of Justice Programs	16.564	Combined Offender DNA Index System Backlog Reduction	Public Safety	262,397	
Office of Justice Programs	16.575	Crime Victim Assistance	Human Services	2,099,297	
Office of Justice Programs	16.576	Crime Victim Compensation	Attorney General	74,750	
Office of Justice Programs	16.579	Byrne Formula Grant Program	Public Safety	2,211,598	
Office of Justice Programs	16.579	Byrne Formula Grant Program	Attorney General	548,271	
Office of Justice Programs	16.579	Byrne Formula Grant Program	Corrections	47,822	
Office of Justice Programs	16.582	Crime Victim Assistance/Discretionary Grants	Human Services	8,866	
Office of Justice Programs	16.585	Drug Court Discretionary Grant Program	Behavioral Services	47,647	
Corrections Program Office	16.586	Violent Offender Incarceration & Truth in Sentencing Grants	Corrections	1,055,329	
Office of Justice Programs	16.588	Violence Against Women Formula Grants	Public Safety	819,792	
Office of Justice Programs	16.588	Violence Against Women Formula Grants	Attorney General	49,273	
Office of Justice Programs	16.588	Violence Against Women Formula Grants	Judicial	42,086	
Bureau of Justice Assistance	16.592	Local Law Enforcement Block Grants Program	Public Safety	402,424	
Office of Justice Programs	16.593	Residential Substance Abuse Treatment for State Prisoners	Public Safety	950	
Office of Justice Programs	16.593	Residential Substance Abuse Treatment for State Prisoners	Corrections	454,881	
Bureau of Justice Assistance	16.606	State Criminal Alien Assistance Program	Corrections	72,726	
Bureau of Justice Assistance	16.607	Bulletproof Vest Partnership Program	Financial Services	6,822	
Office of Justice Programs	16.609	Community Prosecution and Project Safe Neighborhoods	Public Safety	4,575	
Office of Community Oriented Policing Services	16.710	Public Safety Partnership and Community Policing Grants	Public Safety	2,026	
Juvenile Justice & Delinquency Prevention Office	16.727	Enforcing Underage Drinking Laws Program	Behavioral Services	821,183	
Office of Justice Programs	16.730	Reduction and Prevention of Children's Exposure to Violence	Human Services	754,449	
Office of Justice Programs	16.733	National Incident Based Reporting System	Public Safety	87,879	
Office of Justice Programs	16.999	Gender Equity Project	Corrections	(16,138)	
Pass Through Federal Programs					
Office of Justice Programs (through Cumberland County, Maine)	16.588	Violence Against Women Formula Grant	Attorney General	55,767	
Total U.S. Department of Justice Federal Programs				**18,994,511**	
U.S. Department of Labor					
Bureau of Labor Statistics	17.002	Labor Force Statistics	Labor	1,304,233	
Bureau of Labor Statistics	17.005	Compensation and Working Conditions	Labor	47,217	
Employment & Training Administration	17.202	Certif. of Foreign Workers for Temp. Agricultural Employment	Labor	264,827	
Employment & Training Administration	17.225	Unemployment Insurance	Labor	166,104,440	**
Employment & Training Administration	17.235	Senior Community Service Employment Program	Human Services	473,160	
Employment & Training Administration	17.245	Trade Adjustment Assistance: Workers	Labor	5,340,479	
Employment & Training Administration	17.253	Welfare-to-Work Grants to States & Localities	Labor	813,369	
Employment & Training Administration	17.261	Employ. and Training Admin. Pilots, Demonstrations, Research	Labor	121,058	
Occupational Safety & Health Administration	17.502	Occupational Safety and Health - S. Harwood Training Grants	Labor	1,168	
Occupational Safety & Health Administration	17.504	Consultation Agreements	Labor	638,979	
Mine Safety & Health Administration	17.600	Mine Health and Safety Grants	Labor	36,947	
Asst Sec for Veterans' Emplmnt & Trng Office	17.802	Veterans' Employment Program	Labor	805,000	
Employment Services Cluster					
Employment & Training Administration	17.207	Employment Service	Labor	5,274,680	
Asst Sec for Veterans' Emplmnt & Trng Office	17.801	Disabled Veterans' Outreach Program	Labor	514,960	
Asst Sec for Veterans' Emplmnt & Trng Office	17.804	Local Veterans' Employment Representative Programs	Labor	456,322	
WIA CLUSTER					
Employment & Training Administration	17.258	WIA Adult Program	Labor	3,210,065	**
Employment & Training Administration	17.259	WIA Youth Activities	Labor	4,289,043	**
Employment & Training Administration	17.260	WIA Dislocated Workers	Labor	8,279,335	**
Total U.S. Department of Labor Federal Programs				**197,975,282**	

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
U.S. Department of Transportation					
United States Coast Guard	20.005	Boating Safety Financial Assistance	Inland Fisheries	160,387	
Federal Aviation Administration	20.106	Airport Improvement Program	Transportation	2,263,712	
Federal Highway Administration	20.205	Highway Planning and Construction	Transportation	188,254,386	**
Federal Motor Carrier Safety Administration	20.218	National Motor Carrier Safety	State	1,998	
Federal Highway Administration	20.218	National Motor Carrier Safety	Financial Services	3,685	
Federal Highway Administration	20.219	Recreational Trails Program	Conservation	708,671	
Federal Transit Administration	20.505	Federal Transit: Metropolitan Planning Grants	Transportation	387,361	
Federal Transit Administration	20.509	Formula Grants for Other Than Urbanized Areas	Transportation	2,025,034	
Federal Transit Administration	20.513	Capital Assist. Prog. for Elderly Persons & Disabled Persons	Transportation	351,409	
Federal Transit Administration	20.514	Transit Planning and Research	Transportation	412,804	
Research and Special Programs Administration	20.700	Pipeline Safety	Public Utilities	8,878	
Research and Special Programs Administration	20.714	National Pipeline Mapping System	Financial Services	10,915	
Federal Transit Cluster					
Federal Transit Administration	20.500	Federal Transit: Capital Investment Grants	Transportation	2,395,201	
Federal Transit Administration	20.507	Federal Transit: Formula Grants	Transportation	2,082,129	
Highway Safety Cluster					
National Highway Traffic Safety Administration	20.600	State and Community Highway Safety	Public Safety	946,056	
National Highway Traffic Safety Administration	20.600	State and Community Highway Safety	Human Services	202,452	
Federal Transit Administration	20.604	Safety Incentive Grants for Use of Seatbelts	Public Safety	73,871	
Total U.S. Department of Transportation Federal Programs				200,288,949	
U.S. Department of Treasury					
Treasury	21.999	Job and Growth Tax Relief	Financial Services	25,000,000	**
Total U.S. Treasury Federal Programs				25,000,000	
Equal Employment Opportunity Commission					
Equal Employment Opportunity Commission	30.002	Empl Discr - St & Loc - Fair Empl Pract Agcy. Contracts	Human Rights	244,380	
Total Equal Employment Opportunity Commission Federal Programs				244,380	
General Services Administration					
Office of the Secretary	39.003	Donation of Federal Surplus Personal Property	Financial Services	1,992,877	
Office of the Secretary	39.011	Election Reform Payments	State	633	
Total General Service Administration Federal Programs				1,993,510	
National Foundation on the Arts & the Humanities					
National Endowment for the Arts	45.024	Promotion of the Arts: Grants to Organizations and Individuals	State Museum	88,178	
National Endowment for the Arts	45.025	Promotion of the Arts: Partnership Agreements	Arts Commission	413,657	
National Endowment for the Arts	45.026	Promotion of the Arts: Leadership Initiatives	Arts Commission	135,644	
National Endowment for the Humanities	45.149	Promotion of the Humanities: Division of Preservation & Access	State Museum	101	
Office of Museum Services	45.301	Institute of Museum and Library Services	State Museum	42,188	
Office of Library Services	45.310	State Library Program	State Library	889,455	
Total National Foundation on the Arts & the Humanities Federal Programs				1,569,223	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Asterisks indicate audited programs.

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
U.S. Department of Veterans Affairs					
Veterans Benefits Administration	64.101	Burial Expenses Allowance for Veterans	Defense	51,605	
National Cemetery Administration	64.203	State Cemetery Grants	Defense	2,550,602	
Total U.S. Department of Veterans Affairs Federal Programs				2,602,207	
U.S. Environmental Protection Agency					
Office of Air & Radiation	66.032	State Indoor Radon Grants	Human Services	342,688	
Office of Air & Radiation	66.034	Special Purpose Activities Relating to the Clean Air Act	Environment	8,707	
Office of Water	66.420	Water Pollution Control: State and Local Manpower Develop.	Environment	30,257	
Office of Water	66.432	State Public Water System Supervision	Human Services	753,532	
Office of Water	66.454	Water Quality Management Planning	Environment	97,709	
Office of Water	66.461	Wetland Program Development Grants	Environment	27,845	
Office of Water	66.461	Wetland Program Development Grants	State Planning	146,821	
Office of Water	66.463	Water Quality Cooperative Agreements	Environment	205,386	
Office of Water	66.467	Wastewater Operator Training Grant Program (Tech Assistance)	Environment	7,904	
Office of Water	66.471	Small Water Systems - Training and Certification Costs	Human Services	38,822	
Office of Water	66.472	Beach Monitoring & Notification Program Development Grants	State Planning	54,697	
Office of Water	66.474	Water Protection Grants to the States	Human Services	13,666	
Office of Air & Radiation	66.500	Environmental Protection_Consolidated Research	Conservation	77,787	
Office of Administration	66.605	Performance Partnership Grants	Environment	7,048,720	**
Office of Administration	66.605	Performance Partnership Grants	Agriculture	488,074	**
Office of Administration	66.606	Surveys, Studies, Investigations and Special Purpose Grants	Environment	431,605	
Office of Environmental Information	66.608	State Information Grants	Environment	161,712	
Office of Prevention, Pesticides, Toxic Substances	66.707	TSCA Title IV State Lead Grants: Cert of Lead-Based Paint Prof.	Environment	10,001	
Office of Enforcement & Compliance Assurance	66.709	Capacity Bldg. Grants & Coop. Agreements for States & Tribes	Environment	3,166	
Office of Prevention, Pesticides, Toxic Substances	66.714	Pesticide Environmental Stewardship Regional Grants	Agriculture	8,914	
Office of Solid Waste & Emergency Response	66.802	Superfund State Site: Specific Cooperative Agreements	Environment	201,526	
Office of Solid Waste & Emergency Response	66.804	State and Tribal Underground Storage Tanks Program	Environment	3,521	
Office of Solid Waste & Emergency Response	66.805	Leaking Underground Storage Tank Trust Fund	Environment	559,942	
Office of Solid Waste & Emergency Response	66.809	Superfund State & Indian Tribe Core Program Agreements	Environment	331,449	
Office of Solid Waste & Emergency Response	66.811	Brownfield Pilots Cooperative Agreement	State Planning	37,128	
Office of Administration	66.999	EPA Challenge	Human Services	111,807	
Total U.S. Environment Agency Federal Programs				11,203,386	
Nuclear Regulatory Commission					
Office of State and Tribal Programs	77.001	Radiation Control: Training Assistance and Advisory Counseling	Human Services	13,521	
Total Nuclear Regulatory Commission Federal Programs				13,521	
U.S. Department of Energy					
Office of Energy Efficiency & Renewable Energy	81.041	State Energy Program	Economic Devel	609,895	
Office of Energy Efficiency & Renewable Energy	81.999	State Housing Oil and Propane Program	State Planning	6,344	
Total U.S. Department of Energy Federal Programs				616,239	
Federal Emergency Management Agency					
Federal Insurance and Mitigation Administration	83.012	Hazardous Materials Assistance Program	Defense	13,291	
Federal Insurance and Mitigation Administration	83.105	Community Assist. Prog: State Support Services Element	State Planning	191,569	
Federal Insurance and Mitigation Administration	83.536	Flood Mitigation Assistance	Defense	63,800	
Readiness, Response & Recovery Directorate	83.544	Public Assistance Grants	Defense	438,171	

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
Readiness, Response & Recovery Directorate	83.544	Public Assistance Grants	State Planning	28,702	
Readiness, Response & Recovery Directorate	83.544	Public Assistance Grants	Transportation	17,168	
Readiness, Response & Recovery Directorate	83.544	Public Assistance Grants	Corrections	58,587	
Federal Insurance and Mitigation Administration	83.548	Hazard Mitigation Grant	Defense	824,338	
Federal Insurance and Mitigation Administration	83.550	National Dam Safety Program	Defense	21,120	
Office of National Preparedness	83.552	Emergency Management Performance Grants	Defense	1,312,980	
Federal Insurance and Mitigation Administration	83.557	Pre-Disaster Mitigation	Defense	50,634	
Readiness, Response & Recovery Directorate	83.562	State and Local All Hazards Emergency Operations Planning	Defense	40,608	
Readiness, Response & Recovery Directorate	83.563	Emergency Operations Centers	Defense	45,187	
Readiness, Response & Recovery Directorate	83.564	Citizen Corps	Defense	46,430	
Total Federal Emergency Management Agency Federal Programs				3,152,585	

U.S. Department of Education

Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
Office of Vocational & Adult Education	84.002	Adult Education: State Grant Program	Education	2,344,558	
Office of Vocational & Adult Education	84.002	Adult Education: State Grant Program	Corrections	42,353	
Office of Vocational & Adult Education	84.002	Adult Education: State Grant Program	Behavioral Services	17,631	
Office of Elementary & Secondary Education	84.010	Title I Grants to Local Educational Agencies	Education	37,560,799	**
Office of Elementary & Secondary Education	84.011	Migrant Education: State Grant Program	Education	4,178,500	
Office of Elementary & Secondary Education	84.013	Title I Program for Neglected and Delinquent Children	Corrections	80,274	
Office of Elementary & Secondary Education	84.013	Title I Program for Neglected and Delinquent Children	Education	1,868	
Office of Vocational & Adult Education	84.048	Vocational Education: Basic Grants to States	Education	5,651,133	
Office of Vocational & Adult Education	84.048	Vocational Education: Basic Grants to States	Corrections	59,894	
Office of Special Education & Rehab. Services	84.126	Rehab. Services: Vocational Rehabilitation Grants to States	Labor	16,256,429	**
Office of Special Education & Rehab. Services	84.161	Rehab. Services: Client Assistance Program	Labor	122,459	
Office of Bilingual Educ. & Minority Languages	84.162	Immigrant Education	Education	864	
Office of Special Education & Rehab. Services	84.169	Independent Living: State Grants	Labor	295,496	
Office of Special Education & Rehab. Services	84.177	Independent Living Serv. for Older Individuals Who are Blind	Labor	188,442	
Office of Special Education & Rehab. Services	84.181	Special Ed: Grants for Infants and Families with Disabilities	Education	2,133,762	
Office of Postsecondary Education	84.185	Byrd Honors Scholarships	Education	171,750	
Office of Elementary & Secondary Education	84.186	Safe and Drug-Free Schools and Community: State Grants	Education	64,468	
Office of Elementary & Secondary Education	84.186	Safe and Drug-Free Schools and Community: State Grants	Behavioral Services	2,379,683	
Office of Elementary & Secondary Education	84.186	Safe and Drug-Free Schools and Community: State Grants	Corrections	5,894	
Office of Special Education & Rehab. Services	84.187	Supp. Employment Svcs. for Individuals w/ Severe Disabilities	Labor	199,830	
Office of Bilingual Educ. & Minority Languages	84.194	Bilingual Education Support Services	Education	10,679	
Office of Elementary & Secondary Education	84.196	Education for Homeless Children and Youth	Education	124,318	
Office of Elementary & Secondary Education	84.213	Even Start: State Educational Agencies	Education	1,037,582	
Office of Elementary & Secondary Education	84.214	Even Start: Migrant Education	Education	213,956	
Office of Educational & Research Improvements	84.215	Fund for the Improvement of Education	Education	200,863	
Office of Special Education & Rehab. Services	84.224	Assistive Technology	Education	354,129	
Office of Vocational & Adult Education	84.243	Tech-Prep Education	Education	553,420	
Office of Special Education & Rehab. Services	84.264	Rehabilitation Training: Continuing Education	Labor	40,619	
Office of Elementary & Secondary Education	84.276	Goals 2000: Education Systemic Improvement Grants	Corrections	5,336	
Office of Elementary & Secondary Education	84.281	Eisenhower Professional Development State Grants	Education	787,013	
Office of Elementary & Secondary Education	84.281	Eisenhower Professional Development State Grants	Corrections	1,194	
Office of Elementary & Secondary Education	84.287	Twenty-First Century Community Learning Centers	Education	39,312	
Office of Elementary & Secondary Education	84.298	Innovative Education Program Strategies	Education	1,909,385	
Office of Elementary & Secondary Education	84.298	Innovative Education Program Strategies	Corrections	2,044	
Office of Elementary & Secondary Education	84.314	Even Start: Statewide Family Literacy Program	Education	94,721	
Office of Elementary & Secondary Education	84.318	Technology Literacy Challenge Fund Grants	Education	1,520,701	
Office of Elementary & Secondary Education	84.318	Technology Literacy Challenge Fund Grants	Corrections	3,983	
Office of Special Education & Rehab. Services	84.323	State Program Improvement Grants for Children w/Disabilities	Education	656,994	
Office of Special Education & Rehab. Services	84.326	Improve Services and Results for Children with Disabilities	Education	475	
Office of Elementary & Secondary Education	84.330	Advanced Placement Incentive Program	Education	546,312	
Office of Vocational & Adult Education	84.331	Grants to States for Incarcerated Youth Offenders	Corrections	57,182	
Office of Elementary & Secondary Education	84.332	Comprehensive School Reform Demonstration	Education	1,184,059	
Office of Postsecondary Education	84.334	Early Awareness and Readiness for Undergrad. Programs	Education	2,687,250	
Office of Postsecondary Education	84.336	Teacher Quality Enhancement Grants	Education	1,013,318	
Office of Elementary & Secondary Education	84.338	Reading Excellence	Education	98,878	

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
Office of Elementary & Secondary Education	84.340	Class Size Reduction	Education	470,700	
Office of Elementary & Secondary Education	84.348	Title I Accountability Grants	Education	834,227	
Office of Elementary & Secondary Education	84.352	School Renovations Grants	Education	488,447	
Office of Elementary & Secondary Education	84.358	Rural Education Achievement Program	Education	193,324	
Office of Elementary & Secondary Education	84.365	English language Acquisition Grants	Education	379,922	
Office of Elementary & Secondary Education	84.367	Improving Teacher Quality State Grants	Education	11,410,276	**
Office of Elementary & Secondary Education	84.367	Improving Teacher Quality State Grants	Corrections	10,125	**
Office of Elementary & Secondary Education	84.369	Grants for State Assessments and Related Activities	Education	1,695,304	
U.S. Department of Education	84.999	Be Proud, Be Responsible	Corrections	479	
Special Education Cluster					
Office of Special Education & Rehab. Services	84.027	Special Education: Grants to States	Education	36,845,840	**
Office of Special Education & Rehab. Services	84.027	Special Education: Grants to States	Corrections	44,322	**
Office of Special Education & Rehab. Services	84.173	Special Education: Preschool Grants	Education	2,955,163	**
Total U.S. Department of Education Federal Programs				140,227,939	

National Archives & Records Administration

National Archives & Records Administration	89.001	National Archives Reference Service: Historical Research	Historical Records	29,444
Total National Archives & Records Administration				29,444

U.S. Department of Health & Human Services

Office of the Secretary	93.003	Public Health and Social Services Emergency Fund	Public Safety	34,041	
Office of the Secretary	93.003	Public Health and Social Services Emergency Fund	Human Services	719,309	
Administration on Aging	93.041	Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services	18,767	
Administration on Aging	93.042	Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman	Human Services	64,738	
Administration on Aging	93.043	Spc Prg/Agng-Ttl III, Part F-Disease Prev & Hlth Prom Ser	Human Services	110,760	
Administration on Aging	93.048	Spc Prg /Agng-Ttl IV,Trng, Discretionary Projects	Human Services	196,024	
Administration on Aging	93.051	Alzheimer's Disease Demonstration Grants	Human Services	377,322	
Administration on Aging	93.052	National Family Caregivers Support	Human Services	603,953	
Office of the Secretary	93.100	Health Disparities in Minority Health	Human Services	159,121	
Health Resources & Services Adm	93.110	Maternal and Child Health Federal Consolidated Programs	Human Services	774,506	
Health Resources & Services Adm	93.110	Maternal and Child Health Federal Consolidated Programs	Health Data	10,076	
Centers for Disease Control & Prevention	93.116	Project Grants and Coop. Agreements for Tuberculosis Control	Human Services	134,308	
Health Resources & Services Adm	93.127	Emergency Medical Services for Children	Public Safety	131,198	
Health Resources & Services Adm	93.130	Primary Care Services: Resource Coordination & Development	Human Services	204,927	
Centers for Disease Control & Prevention	93.136	Injury Prev. & Control Research & State & Comm Based Progs	Human Services	122,328	
Substance Abuse & Mental Health Service Adm	93.150	Projects for Assistance in Transition from Homelessness	Behavioral Services	292,069	
Health Resources & Services Adm	93.165	Grants for State Loan Repayment	Human Services	94,938	
Centers for Disease Control & Prevention	93.197	Childhood Lead Poisoning Prevention Projects	Human Services	243,671	
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Development and Application Program	Corrections	5,355	
Substance Abuse & Mental Health Service Adm	93.230	Consolidated Knowledge Development and Application Program	Behavioral Services	2,530,161	
Health Resources & Services Administration	93.235	Abstinence Education	Human Services	167,584	
Substance Abuse & Mental Health Service Adm	93.238	Treatment Outcomes & Perf. Pilot Studies Enhancement	Human Services	181,875	
Substance Abuse & Mental Health Service Adm	93.238	Treatment Outcomes & Perf. Pilot Studies Enhancement	Behavioral Services	71,587	
Health Resources & Services Administration	93.241	State Rural Hospital Flexibility Program	Human Services	296,939	
Substance Abuse & Mental Health Service Adm	93.243	Projects of Regional and National Significance	Judicial	80,695	
Health Resources & Services Administration	93.251	Universal Newborn Hearing Screening	Human Services	178,533	
Health Resources & Services Administration	93.256	Healthcare Access for the Uninsured	Human Services	87,495	
Health Resources & Services Administration	93.259	Rural Access to Emergency Devices	Public Safety	270,436	
Centers for Disease Control & Prevention	93.268	Immunization Grants	Human Services	7,531,721	**
National Institutes of Health	93.279	Drug Abuse Research Programs	Behavioral Services	75,355	
Centers for Disease Control & Prevention	93.283	CDC: Investigations and Tech Assistance	Education	92,293	
Centers for Disease Control & Prevention	93.283	CDC: Investigations and Tech Assistance	Human Services	6,283,151	

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

Federal Department Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
Centers for Disease Control & Prevention	93.283	CDC: Investigations and Tech Assistance	Conservation	19,162	
Centers for Disease Control & Prevention	93.283	CDC: Investigations and Tech Assistance	Labor	88	
Centers for Disease Control & Prevention	93.293	Addressing Asthma From a Public Health Perspective	Human Services	226,634	
Health Resources & Services Administration	93.301	Small Rural Hospitals Improvement	Human Services	92,250	
Administration for Children & Families	93.556	Promoting Safe and Stable Families	Human Services	963,626	
Administration for Children & Families	93.556	Promoting Safe and Stable Families	Corrections	42,901	
Administration for Children & Families	93.558	Temporary Assistance for Needy Families	Human Services	66,654,014	**
Administration for Children & Families	93.563	Child Support Enforcement	Human Services	15,554,714	**
Administration for Children & Families	93.566	Refugee and Entrant Assistance: State Administered Programs	Human Services	457,078	
Administration for Children & Families	93.569	Community Services Block Grant	Human Services	3,679,269	
Administration for Children & Families	93.571	Community Services Block Grant Discretionary Awards	Human Services	13,825	
Administration for Children & Families	93.576	Refugee and Entrant Assistance: Discretionary Grants	Education	63,343	
Administration for Children & Families	93.586	State Court Improvement Program	Judicial	114,345	
Administration for Children & Families	93.597	Grants to States for Access and Visitation Programs	Human Services	75,000	
Administration for Children & Families	93.597	Grants to States for Access and Visitation Programs	Judicial	52,584	
Administration for Children & Families	93.600	Head Start	Human Services	55,707	
Administration for Children & Families	93.601	Child Support Enforcement Demonstrations and Special Projects	Human Services	24,895	
Administration for Children & Families	93.603	Adoption Incentive Payments	Human Services	599,900	
Administration for Children & Families	93.630	Development Disabilities Basic Support and Advocacy Grants	Behavioral Services	470,712	
Administration for Children & Families	93.631	Developmental Disabilities Projects of National Significance	Behavioral Services	75,000	
Administration for Children & Families	93.643	Children's Justice Grants to States	Human Services	46,244	
Administration for Children & Families	93.645	Child Welfare Services: State Grants	Human Services	1,198,392	
Administration for Children & Families	93.645	Child Welfare Services: State Grants	Attorney General	599,696	
Administration for Children & Families	93.647	Socail Services Research and Demonstration	Human Services	86,372	
Administration for Children & Families	93.648	Child Welfare Services - Training	Human Services	26,406	
Administration for Children & Families	93.658	Foster Care: Title IV-E	Human Services	26,360,095	**
Administration for Children & Families	93.658	Foster Care: Title IV-E	Judicial	56,672	**
Administration for Children & Families	93.659	Adoption Assistance	Human Services	13,574,821	**
Administration for Children & Families	93.667	Social Services Block Grant	Human Services	21,719,762	**
Administration for Children & Families	93.667	Social Services Block Grant	Behavioral Services	1,200,151	**
Administration for Children & Families	93.667	Social Services Block Grant	Attorney General	649,409	**
Administration for Children & Families	93.669	Child Abuse and Neglect State Grants	Human Services	68,585	
Administration for Children & Families	93.671	Family Violence Prevention & Services	Human Services	733,932	
Administration for Children & Families	93.674	Chafee Foster Care Independent Living	Human Services	840,950	
Centers for Medicare and Medicaid Services	93.767	State Children's Insurance Program	Human Services	20,730,268	**
Centers for Medicare and Medicaid Services	93.768	Competitive Employment for People with Disabilities	Human Services	613,544	
Centers for Medicare and Medicaid Services	93.779	Health Care Financing Research, Demonstrations & Evaluations	Human Services	1,534,527	
Health Resources & Services Adm	93.913	Grants to States for Operation of Offices of Rural Health	Human Services	17,996	
Health Resources & Services Adm	93.917	HIV Care Formula Grants	Human Services	438,850	
Centers for Disease Control & Prevention	93.919	State Based Comp Brst & Cerv Cancer Early Detection Prog	Human Services	1,994,078	
Centers for Disease Control & Prevention	93.938	Comprehensive School Health Programs	Education	672,995	
Centers for Disease Control & Prevention	93.940	HIV Prevention Activities: Health Department Based	Human Services	2,021,814	
Centers for Disease Control & Prevention	93.941	HIV Demonstration, Research, Education	Human Services	7,981	
Centers for Disease Control & Prevention	93.944	HIV/A DS Surveillance	Human Services	88,548	
Centers for Disease Control & Prevention	93.945	Assistance Prog for Chronic Disease Prevention and Control	Human Services	1,287,674	
Health Resources & Services Adm	93.952	Improving EMS/Trauma Care in Rural Areas	Public Safety	15,770	
Substance Abuse & Mental Health Service Adm	93.958	Block Grants for Community Mental Health Services	Behavioral Services	2,373,808	
Substance Abuse & Mental Health Service Adm	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Behavioral Services	6,484,919	
Substance Abuse & Mental Health Service Adm	93.959	Block Grants for Prevention and Treatment of Substance Abuse	Human Services	71,528	
Centers for Disease Control & Prevention	93.977	Sexually Transmitted Diseases Control Grant	Human Services	299,447	
Centers for Disease Control & Prevention	93.988	Coop Agrmt for State Based Diabetes Control Programs	Human Services	392,531	
Centers for Disease Control & Prevention	93.991	Preventive Health and Health Services Block Grant	Human Services	1,197,509	
Centers for Disease Control & Prevention	93.991	Preventive Health and Health Services Block Grant	Education	26,000	
Health Resources & Services Adm	93.994	Maternal and Child Health Services Block Grant to the States	Human Services	3,296,979	
Health Resources & Services Adm	93.994	Maternal and Child Health Services Block Grant to the States	Education	145,225	
Health & Human Services	93.999	Implementation of Alcohol & Drug Abuse Data Collection System	Behavioral Services	10,126	
Health & Human Services	93.999	State Treatment Needs Assess. Studies: Alcohol & Other Drugs	Behavioral Services	69,565	
Health & Human Services	93.999	Statistics Project	Human Services	159,705	
Health & Human Services	93.999	Maine System Reform Grant Project	Behavioral Services	91,968	
Health & Human Services	93.999	BOH STD/HIV Project	Human Services	5,390	
Health & Human Services	93.999	Emer Preparedness Planning	Human Services	13,844	
Health & Human Services	93.999	BCFS Reform Policy	Human Services	15,947	
Health & Human Services	93.999	Childcare Scholarship02/03	Human Services	30,228	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Asterisks indicate audited programs.

Federal Department / Major Sub-Division	Federal Catalog Number	Program Title	State Agency	Expenditures 2003	
Health & Human Services	93.999	BCFS Reform Training	Human Services	68,254	
Health & Human Services	93.999	Career Develop Ctr 02/03	Human Services	71,676	
Health & Human Services	93.999	Surveillance Capacity	Human Services	94,583	
Aging Cluster					
Administration on Aging	93.044	Grants for Supportive Services & Senior Centers	Human Services	2,213,997	
Administration on Aging	93.045	Spc Prg/Agng-Ttl III, Part C-Nutrition Services	Human Services	3,005,732	
Administration on Aging	93.045	Special Prog for the Aging: Title III, Part C: Nutrition Service	Attorney General	64,464	
Child Care Cluster					
Administration for Children & Families	93.575	Child Care & Development Block Grant	Human Services	25,901,567	**
Administration for Children & Families	93.596	Child Care Mandatory & Matching Funds of Child Care/Dev	Human Services	8,116,172	**
Medicaid Cluster					
Office of the Secretary	93.775	State Medicaid Fraud Control Units	Attorney General	305,859	**
Centers for Medicare and Medicaid Services	93.777	State Survey and Certification of Health Care Providers	Human Services	2,776,528	**
Centers for Medicare and Medicaid Services	93.778	Medical Assistance Program (Medicaid)	Human Services	1,161,989,869	**
Centers for Medicare and Medicaid Services	93.778	Medical Assistance Program (Medicaid)	Behavioral Services	2,824,689	**
Centers for Medicare and Medicaid Services	93.778	Medical Assistance Program (Medicaid)	Attorney General	92,261	**
Total U.S. Department of Health & Human Services Federal Programs				1,430,176,185	
Corporation for National & Community Service					
Corporation for National & Community Service	94.003	State Commissions	State Planning	166,856	
Corporation for National & Community Service	94.004	Learn & Serve America: School & Community Based Programs	Education	84,163	
Corporation for National & Community Service	94.006	AmeriCorps	State Planning	787,714	
Corporation for National & Community Service	94.006	AmeriCorps	Labor	596,421	
Corporation for National & Community Service	94.007	Planning and Program Development Grants	State Planning	27,614	
Corporation for National & Community Service	94.007	Planning and Program Development Grants	Human Services	67	
Corporation for National & Community Service	94.009	Training and Technical Assistance	State Planning	97,071	
Corporation for National & Community Service	94.013	Volunteers in Service to America (VISTA)	State Planning	78,514	
Corporation for National & Community Service	94.013	Volunteers in Service to America (VISTA)	Human Services	292,418	
Total Corporation for National & Community Service Federal Programs				2,130,838	
Social Security Administration					
Disability and Income Security Program Office	96.001	Social Security: Disability Insurance	Human Services	7,822,080	**
Total Social Security Administration Federal Programs				7,822,080	
Total State Expenditures of Federal Awards				2,293,567,099	

See accompanying notes to the Schedule of Expenditures of Federal Awards.

Asterisks indicate audited programs.

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2003

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
Behavioral Services	Department of Behavioral and Developmental Services
Conservation	Department of Conservation
Corrections	Department of Corrections
Defense	Department of Defense, Veterans and Emergency Management
Economic Devel	Department of Economic and Community Development
Education	Department of Education
Environment	Department of Environmental Protection
Financial Services	Department of Administrative and Financial Services
Health Data	Maine Health Data Organization
Historic Preserve	Maine Historical 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	Judicial Branch
Labor	Department of Labor
Marine Resource	Department of Marine Resources
Public Safety	Department of Public Safety
Public Utilities	Maine Public Utilities Commission
Salmon Comm	Atlantic Sea Run Salmon Commission
State	Department of Secretary of State
State Library	Maine State Library
State Museum	Maine State Museum
State Planning	Executive Department - State Planning Office
Transportation	Department of Transportation

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2003

1. Purpose of the Schedule

The accompanying Schedule of Expenditures of Federal Awards (Schedule) is a supplementary schedule to the State's basic financial statements (BFS) 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 BFS. The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2003, with the exception of the component units identified in Note 1 to the BFS. 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 $6.8 million in expenditures, distributions, or issuances for the year ended June 30, 2003. Programs audited as major programs are in marked with asterisks in the accompanying schedule.

C. *Basis of Accounting* - The information presented in the Schedule of Expenditures of Federal Awards is presented primarily on the modified accrual basis of accounting, which is consistent with the fund financial statements. Under this basis, expenditures of federal awards are recorded in the accounting period in which the fund liability is incurred.

3. Program Information

A. Department of Education - Food Distribution Program (CFDA 10.550): The reported total of federal financial assistance represents the $3,175,504 value of food commodities distributed to various schools, institutions, and other qualifying entities. The value of inventory at June 30, 2003 was $64,504.

B. Department of Human Services - Food Stamps (CFDA 10.551): The reported total federal financial assistance of $115,972,775 represents the value of food coupons issued. The value of inventory at June 30, 2003 was $13,839,899.

C. Department of Human Services - Nutrition Program for the Elderly (CFDA 10.570): The amount reported of $524,126 represents cash in lieu of commodities expended in the Elderly Feeding Program.

D. Department of Human Services – Childhoo d Immunization Grant (CFDA 93.268): The reported total of federal financial assistance represents $2,190,250 for administrative costs and $5,341,471 for the value of vaccines disbursed. The value of inventory as of June 30, 2003 was $671,705.

E. Department of Agriculture - Emergency Food Assistance Cluster - The reported total of federal financial assistance includes administrative costs of $227,864 (CFDA 10.568) and commodities of $2,390,956 (CFDA 10.569). The value of inventory at June 30, 2003 was $1,135,527.

F. Department of Defense, Veterans and Emergency Management - National Guard Military Operations & Maintenance Projects (CF DA 12.401) and Readiness Sustainment Maintenance Center Projects (CFDA 12.999): The amount recorded as expenditures includes $284,627 and $396,065 of in-kind expenditures, respectively.

G. General Service Administration – Donation of Federal Surplus Property (CFDA 39.003): During fiscal year 2003 the state received $2,254,695 worth of federal property and disbursed $1,992,877. The value of inventory at June 30, 2003 was $649,964.

H. Department of Human Services – Temporary Assistance for Needy Families (CFDA 93.558): The amount reported as expenditures includes $5,039,253 related to unobligated balances of prior grant awards, which were reported as FY03 expenditures on the fund-level (modified accrual basis) financial statements.

I. Department of Human Services – Social Services Block Grant (CFDA 93.667): The amount reported as expenditures includes $9,111,374 as the result of a change in estimated payables in prior periods, which were reported as FY03 expenditures on the fund-level (modified accrual basis) financial statements.

J. Department of Human Services – Child Care & Development Block Grant (CFDA 93.575): The amount reported as expenditures includes $9,027,892 as the result of a change in estimated payables in prior periods, which were reported as FY03 expenditures on the fund-level (modified accrual basis) financial statements.

4. Unemployment Insurance Program

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

State Funds	$124,451,550
Federal Funds	41,652,890
Total	$166,104,440

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

Section I – Summary of Auditor's Results

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	<u>Unqualified</u>	
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:	<u>Qualified</u>	
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**
<u>Food Stamp Cluster</u>	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
<u>Child Nutrition Cluster</u>	
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
<u>Fish and Wildlife Cluster</u>	
15.605	Sport Fish Restoration
15.611	Wildlife Restoration

Section I – Summary of Auditor's Results

Identification of Major Programs (continued)

Workforce Investment Act Cluster

17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers

Special Education Cluster

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

Child Care Cluster

93.575	Child Care and Development Block Grant
93.596	Child Care Mandatory & Matching Funds - Child Care & Develop. 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)

Other Programs

10.558	Child and Adult Care Food Program
10.664	Cooperative Forestry Assistance
12.400	Military Construction, National Guard
12.401	National Guard Military Operations Maintenance (O&M) Projects
12.999	Readiness, Sustainment Maintenance Center (Loring Rebuild)
14.228	Community Development Block Grants
17.225	Unemployment Insurance
20.205	Highway Planning and Construction
21.999	Job and Growth Tax Relief
66.605	Performance Partnership Grants
84.010	Title I Grants to Local Educational Agencies
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.367	Improving Teacher Quality State Grants
93.268	Immunization Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
93.767	State Children's Insurance Program
96.001	Social Security - Disability Insurance

Section I – Summary of Auditor's Results

Dollar threshold used to distinguish between type A and type B programs **$ 6,880,701**

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 Health and Human Services • Department of Human Services, Division of Financial Services	10.558	Child and Adult Care Food Program	$31,346 $11,812	03-32 03-33
U.S. Department of Agriculture • Department of Human Services, Bureau of Family Independence	10.561	State Administrative Matching Grants for the Food Stamp Program	$4,954,830	03-34
U.S. Department of Environmental Protection • Department of Environmental Protection	66.605	Performance Partnership Grants	$145,000	03-27
U.S. Department of Education • Department of Education, Division of Special Services	84.027	Special Education Grants to States	$329,990	03-24

Section I – Summary of Auditor's Results

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Health and Human Services				
• Department of Human Services, Bureau of Health	93.268	Immunization Grants	$56,000	03-38
U.S. Department of Health and Human Services				
• Department of Human Services, Division of Financial Services	93.558	Temporary Assistance to Needy Families	$339,510	03-71
U.S. Department of Health and Human Services				
• Department of Human Services, Bureau of Child and Family Services	93.575 93.596	Child Care and Development Block Grant/ Child Care Mandatory & Matching Funds	$263,435	03-52
U.S. Department of Health and Human Services				
• Department of Human Services, Bureau of Child & Family Services	93.658 93.659	Foster Care Adoption Assistance	$1,965,556 $1,231,409 $17,790	03-61 03-61 03-62
• Department of Human Services, Bureau of Child & Family Services	93.658	Foster Care	$25,981 $612,543 $1,169,034	03-58 03-57 03-56
• Department of Human Services, Division of Financial Services	93.658	Foster Care	$730,057	03-60

Section I – Summary of Auditor's Results

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Health and Human Services • Department of Human Services, Community Services Center, Division of Financial Services	93.667	Social Services Block Grant	$4,900,000 $683,974	03-68 03-71
U.S. Department of Health and Human Services • Department of Human Services, Bureau of Medical Services • Department of Human Services, Division of Financial Services	93.778 93.778	Medical Assistance Program Medical Assistance Program	$8,700,000 $3,268,650 $18,400 $46,643	03-77 03-78 03-79 03-86
U.S. Department of Health and Human Services • Department of Administrative and Financial Services, Bureau of Information Services	Various	Various	$613,212	03-11
Social Security Administration • Department of Human Services, Division of Financial Services	96.001	Social Security-Disability Insurance	$633,282	03-91
		Total Questioned Costs	**$30,748,454**	

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

Section II – Financial Statement Findings

State of Maine

Summary of Financial Statement Findings

The State of Maine generally has good controls and processes in place to account for its operations and its financial condition. However, we have identified nine significant weaknesses in the State's controls over financial reporting. Four involve the State's ability to capture accurate and complete information from its own accounting system and from other organizations that are considered part of the State for financial reporting purposes. We also identified these four in our previous Single Audit Report.

Five of the nine weaknesses involve the State's financial administration of, or accounting for, certain federal programs. These are all programs of the Department of Human Services, which administers most of the federal funds received by the State of Maine. These findings are also reported in Section III of this report entitled Federal Award Findings, Questioned Costs and Corrective Action Plan. They are included here because of their effect on the financial statements, or because the weaknesses cited were in accounting controls that were not limited to federal programs.

We note that State of Maine management has been responsive to these findings and has, in many cases, changed policies and instituted procedures to correct the deficiencies that we have reported. Most of these remedies were put into effect after our audit period.

Financial recording and reporting errors:

Component units

Audit adjustments were necessary to properly report the financial operations of three of the thirteen organizations that are considered part of the State's reporting entity. For one, the Bureau of Accounts and Control did not include all of the entity's assets. A second entity did not follow appropriate accounting standards, and was not advised by the Bureau that it needed to do so. A third was not included in the financial statements of the State but should have been included for the statements to be materially complete.

Capital assets

Capital assets as originally reported were not complete and were understated. The Bureau of Accounts and Control relied on information provided by other agencies that did not properly reflect complete listings of, or accurate valuations for, construction in progress, land, and buildings.

Accounts payable

Amounts recorded as payable in the State's accounting system were overstated in the Federal Expenditures Fund, and understated in the General Fund, by $6 million because of a logic error in the system. The Bureau of Accounts and Control corrected the effect of the error for financial reporting purposes but has not yet corrected the error in the system.

Loans receivable

The Department of Economic and Community Development incorrectly reported economic development loans that had been repaid as loans receivable. The Department did not report other amounts still due, understated the amount that should have been shown as the allowance for uncollectible amounts due, and incorrectly recorded loan activity as expenditures and revenues.

Accounting for federal programs

The Department of Human Services did not adequately account for certain federal programs that it administers. The Department used the same account for multiple federal programs, and was not able to provide a complete and accurate list of the accounts that were used for each program. The Department did not routinely reconcile amounts reported to the federal government to the State's accounting system; when it did, the reconciliations were not consistently reviewed and documented. Draws of federal cash could not always be associated with underlying expenditures. In general, supporting documentation is not well organized or consistently maintained, and is sometimes unavailable.

As was previously reported, the Department drew federal funds for the Temporary Assistance to Needy Families program in excess of expenditures. Although it was not able to identify for which programs that money was spent, the Department worked in conjunction with the Bureau of Accounts and Control and the U.S. Department of Health and Human Services to resolve the issue. The Department was able to identify $27 million in other qualifying costs that were eligible to be charged to the program, and returned over $9 million to the federal government.

The Department did not adequately document the journal entries that were made to transfer funds from one account to another. For the Medicaid program, the Department could not adequately explain eleven of the forty journals that we examined.

The Department processed many transactions for the Medicaid program through an expenditure account, which is referred to as a "suspense account." Although the Department found this to be a way to quickly receive and disburse funds, the account is closed at the end of the fiscal year, before all transactions have cleared. The account provides the Department no effective way to research account activity, and provides only a partial record of what took place. In addition, receipts coded to the expenditure account create new, unauthorized allotment.

For the Child Support Enforcement program, the Department had not prepared all journals necessary to properly account for program activity, and had not reconciled cash balances in the program's administrative accounts. The net cash balance in the accounts was negative $9.4 million at June 30, 2003.

State of Maine
Department of Administrative and Financial Services

(03-01) Bureau of Accounts and Control

<u>Finding</u>: Component unit financial information not complete

The Bureau of Accounts and Control did not integrate complete financial information for three of the State's component units into the financial statements of the State. Based on advice from the Government Accounting Standards Board (GASB), the Bureau requested that one component unit change its method of reporting in order to comply with GASB Statement No. 34. This inadvertently resulted in some information being excluded from the audited financial statements. The Bureau was not aware that the information had been excluded. An audit adjustment was necessary to record restricted and trusteed funds, resulting in a $16.6 million increase in fiscal agent cash, a $24 million increase in expenditures, a $10.5 million increase in other financing sources and a $30 million increase in fund balance/net assets.

A second component unit did not prepare its financial statements under the new GASB Statement No. 34 reporting model, as required, and had not done so in the prior year. The Bureau did not contact the entity to advise them that the statements were not presented appropriately. Although the amounts as reported were not material to the State's financial statements, had they been prepared correctly it is likely that the amounts would have been higher. The Bureau of Accounts and Control has since contacted the entity to ensure that the statements will be prepared using the new standards.

In addition, the Bureau had not assessed financial data for certain of the smaller component units, to ensure that amounts were not material, in the aggregate, to the State's financial statements. One of these entities was subsequently included in the State's reporting entity.

<u>Recommendation</u>:

We recommend that the Bureau of Accounts and Control contact the State's component units to resolve any uncertainties, to ensure a common understanding of accounting issues, and to ensure that the information incorporated into the State's financial statements is accurate and complete. We also recommend that the Bureau assess the significance of information for the smaller entities and newly formed entities each year.

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

Contact: Douglas Cotnoir, Manager of Financial Reporting & Analysis, 626-8428

We concur with the auditor's observations and conclusions. We have revised the Guidance Package for Component Units *for the fiscal year ended June 30, 2004 to clarify the reporting requirements and standardize the format of required information. We will formally contact the referenced component units and their auditors, in conjunction with the Department of Audit, to resolve any outstanding questions or issues.*

Department of Administrative and Financial Services

(03-02) Division of Financial and Personnel Services
Bureau of Accounts and Control

<u>Finding</u>: Inadequate controls to ensure complete and accurate recording of capital assets **(Prior Year Finding)**

The Bureau of Accounts and Control did not sufficiently monitor agencies for compliance with the State's fixed asset internal control policies that are designed to ensure complete and accurate recording of the State of Maine's capital assets. Employees responsible for the oversight of their agency's capital assets did not demonstrate a comprehensive understanding of the State's policies, particularly in the areas of proper valuation of assets, the importance of performing physical inventories, capitalization of construction costs, and the timely addition and deletion of newly acquired or retired capital assets.

The Bureau utilizes a database maintained by the Department of Conservation to capitalize that Department's land for proper disclosure in the State's financial statements. The Department did not have controls in place to ensure that the database accurately depicted the value of the land that it held. Multiple land parcels purchased during fiscal year 2003 that did not have values assigned to them resulted in an understatement of the value of land by $2 million. Various other land errors resulted in an additional understatement of $1.5 million. Intangible assets were overstated by $4 million due to the double counting of land easements in the Conservation database and the State's Fixed Asset System. The identified errors were corrected for financial statement presentation.

The Bureau relied on the Division of Financial and Personnel Services to provide information to capitalize the State's construction projects in progress as of June 30, 2003. Controls were not in place to ensure a complete list of projects, resulting in the value of construction in progress being understated by $4 million. The identified errors were corrected for financial statement presentation.

The Bureau also relied on the Division of Financial and Personnel Services to provide information to capitalize the State's buildings as of June 30, 2003. Controls were not in place to ensure a complete and correctly valued list of buildings, resulting in the value of buildings being understated by $61 million. The identified errors were corrected for financial statement presentation.

Individual agencies are responsible for accounting for construction projects on their buildings. Controls are not in place to ensure that those construction costs are properly included on the State's fixed asset system. During fiscal year 2003, the value of buildings was understated by $3 million due to costs that were not included. The identified errors were corrected for financial statement presentation.

<u>Recommendation</u>:

We recommend that the Bureau of Accounts and Control monitor agencies, and provide clear and specific guidance to them, to ensure compliance with fixed asset policies and to determine whether recorded amounts appear reasonable. We also recommend that the Bureau direct each agency to follow the internal control policies established in the fixed asset manual, and direct each agency to provide complete and accurate information to the Bureau for its financial reporting.

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

Contact Person: Terry Brann, Deputy State Controller, 626-8420

We have completed a draft of the fixed assets policy to be included in the State Administrative and Accounting Manual, clarifying the reporting requirements. We have assigned a member of the Financial Reporting Team to coordinate reporting, along with a staff member to coordinate efforts around physical inventories and timely reconciliation of the fixed assets system. We have met with representatives from BGS and DFPS to establish a central point of contact for providing and reconciling fixed asset information for buildings and major construction projects statewide. Our Internal Control Division is following up with agencies to ensure that internal control policies are established and followed to ensure accurate, timely reporting of fixed assets.

(03-03) Bureau of Accounts and Control

<u>Finding</u>: Accounts payable error in the State's automated accounting system **(Prior Year Finding)**

There was an understatement of approximately $6 million in the General Fund accounts payable balance and an overstatement of approximately $6 million in the Federal Expenditures Fund accounts payable balance on the State of Maine's automated accounting system at June 30, 2003. It appears that these misstatements primarily involved previous years' activity, and that there also were minor variances in both the Highway Fund and the Special Revenue Fund.

The problem involves an error in the logic of the State's automated accounting system. Certain accounts payable transactions are not relieved after the entries have been posted to the system.

The Bureau of Accounts and Control is reviewing the program logic within the system to determine the reason for these misstatements. The Bureau has adjusted the State's financial statements to correctly reflect account balances.

Department of Administrative and Financial Services

Recommendation:

We recommend that the Bureau of Accounts and Control determine the cause of these misstatements, and adjust the two accounts payable control accounts on the State's automated accounting system.

Auditee Response/Corrective Action Plan:

Contact: Terry Brann, Deputy State Controller, 626-8420

The Bureau has analyzed the account activity and determined the cause of the misstatements. We have also posted an estimated entry during FY04 to correct the misstatement.

State of Maine
Department of Economic and Community Development

(03-04) Office of Community Development

<u>Finding</u>: Inadequate controls over accounting for loans receivable

The Department of Economic and Community Development did not have adequate controls in place to ensure accurate reporting of loans receivable. Subsidiary ledger errors included an understatement of the beginning loans receivable balance by $209,369, primarily because of the omission of four outstanding loans totaling $520,000 and the inclusion of three loans of $750,000 that had already been repaid. In addition, loan activity during the current period was recorded incorrectly, including new loans of $988,800 that were recorded as expenditures and loan repayments of $468,701 that were recorded as revenue. Further, the allowance for doubtful accounts associated with these loans was initially understated by $3.4 million, because of ineffective communication with the Bureau of Accounts and Control.

The Bureau of Accounts and Control corrected these errors for financial statement presentation based on proposed audit adjustments.

<u>Recommendation</u>:

We recommend that the Department continue to work with the Bureau of Accounts and Control to implement procedures to report loans receivable, the allowance for doubtful accounts, and other related activity in accordance with generally accepted accounting principles.

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

Contact: Orman Whitcomb, 624-9819

In the last two years the OCD has had four different people in the position of being responsible for tracking our revolving loan accounts. Also during this time we assumed the responsibility for servicing all our loans, some of which were being serviced by FAME. Even though we still have one vacant accounting position within the division, we have gone back over several years and reconstructed details of this account to where reconciliation was completed for the period ending 6/30/03. The OCD has established a system of monthly reconciliation of this account since that date. Also during this period we have provided the state controller's office with a listing of receivables as of the end of each fiscal year and identified those that might be a collection problem. The OCD has also worked with the state controller's office to charge off several old loans where we had exhausted attempts to collect the remaining balances. It is our understanding that procedures are currently in place between the DECD and the state controller's office to properly report, track and allow for problem and uncollectible loans.

State of Maine
Department of Human Services

(03-05) Division of Financial Services

<u>Finding</u>: Administration of federal funds inadequate **(Prior Year Finding)**

The Department of Human Services does not have adequate systems and procedures in place to ensure that the federal funds it administers are properly accounted for and expended in compliance with regulations.

The Department has not used the State accounting system to establish a separate account for each program; "reporting organizations" are established for individual programs but combine into a single "account organization," which controls the cash for multiple programs. The Department has not been able to provide a complete and accurate list of the accounts established and used for each program. It also does not always post transactions to the affected accounts but rather attempts to track the effect that the transactions would have had and adjust reports or other activity accordingly. This is particularly true for costs allocated through the Department's cost allocation plan. Those costs are significant as they include regional office costs and other costs that benefit multiple programs.

Furthermore, the amount of expenditures recorded in the State's accounting system does not reflect amounts reported as program expenditures in financial reports and in the Schedule of Expenditures of Federal Awards (SEFA). The accounting records do not truly reflect the sources and uses of funds. The Department does not transfer qualifying expenditures recorded elsewhere in the accounting system to the programs' accounts but transfers the federal reimbursements received, referred to as "earned revenue," to Other Special Revenue Fund accounts and uses them to "self-fund" other Department programs. The "earned revenue" amounts transferred are sometimes estimates based on budgeted amounts that may not agree with actual qualifying expenditures. This "self funding" approach makes tracing the sources and uses of funds difficult, and if proper documentation is not maintained, impossible. Because multiple people are involved and processes are not documented, no one individual fully understands how the accounts are being used. The resulting confusion has, among other things, caused the same charges to be claimed more than once for federal reimbursement. The Office of Management and Budget Common Rule requires that amounts be traceable to the entity's accounting system. An example of programs that utilized the "earned revenue" approach is the Title IV-E Foster Care and Adoption Assistance programs. In fiscal year 2003, the Department reported qualifying Title IV-E shared costs of a net $11 million for the Title IV-E Adoption Assistance and Foster Care programs, of which a majority was paid for with State funds. Once received, the federal reimbursement constituted State funds. The Department, rather than move the qualifying expenditures to the program's account where the qualifying costs were reported as spent to the federal government, the Department transferred the federal reimbursement funds out of the Federal Fund and into the Other Special Revenue Fund.

Because actual activity is not always posted, the accounting record of transaction activity and account balances is not complete nor entirely reliable. The Department does not consistently review and document its reconciliations of its accounts.

Department of Human Services

The Department has had an incomplete understanding of Cash Management Improvement Act requirements and has not complied with them. Federal cash draws cannot be readily associated with underlying expenditures.

The Department has not documented its use of accounts or the logic underlying certain established procedures. As the Department has experienced personnel turnover, its institutional memory has been adversely affected. It can no longer explain why certain procedures are followed and do not have a complete understanding of the effects of some of those procedures. Accounting personnel do not have a written manual of financial procedures to follow. New personnel must learn as they go. Because certain procedures are unique to individual programs, the loss of experienced personnel results in oversights and errors. Individual accountants have responsibility for multiple programs. The Department has had difficulty recruiting and retaining highly trained individuals. The time required to process routine transactions leaves little time to investigate or analyze unusual balances or to determine the cause of or to correct identified errors.

Management of certain programs is decentralized in regional offices. Program personnel and accountants do not always share a common understanding of how funds flow or the consequences of actions taken. Certain programs have not complied with eligibility requirements for program participation and have charged costs that are not allowable to the program.

The Department has filed federal reports that it cannot support with adequate documentation of the underlying costs. Supporting documentation is not well organized or consistently maintained. We identified some charges that were reported more than once and for more than one program. We also identified some charges that were allowable but that had not been reported for federal reimbursement. Reports frequently require revision following review by federal program personnel. The unsupported charges can result in reported expenditures being disallowed and money having to be returned or not being received.

The Department, in conjunction with the Bureau of Accounts and Control, has been taking actions to alleviate the problems detailed above. The Department created the Division of Program Accounting and Cash Management Operations, along with creating five new positions to work to correct the problems of the Department.

Recommendation:

We recommend that the Department of Human Services implement procedures that will:
- Identify program activity with specific accounts
- Establish and maintain a chart of accounts
- Document its procedures
- Record all transactions in the accounting system
- Review and reconcile account activity
- Maintain neat and orderly supporting documentation for all reports filed
- Establish standards for consistent reporting and document retention
- Ensure that accounting personnel are trained and qualified

- Comply with Cash Management Improvement Act criteria
- Request federal program cash only for that program
- Ensure that program personnel charge only allowable expenditures for eligible program participants

We further recommend that the Department make certain and document that there is legislative authority to "self fund" programs through "earned revenue." We also recommend that the Department discuss the accounting implication of this "self funding" with the Bureau of Accounts and Control.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

I agree with this finding and DHS started to implement these recommendations in FY 04. This Division has been implementing the grant sub-system within the MFASIS accounting system. The grant subsystem helps us to identify specific program activity.

The Division has recently completed compilation of processes/procedures manuals and we are continuing to revise and to update these manuals as needed.

The Division has begun conducting regular reconciliations on a limited number of accounts and will be continuing to implement reconciliations until all accounts are reviewed.

The Division has and continues to meet with the State Treasurer CMIA Coordinator to insure that CMIA is being met in all DHS cash activities.

Communications have improved between financial staff and the bureaus. All parties meet at least once a month to discuss all financial issues.

It has been mandated at all levels of DHS that program accounting must be adhered to.

(03-06) Division of Financial Services

Finding: TANF grant overdrawn **(Prior Year Finding)**

The Department of Human Services drew $9,642,875 more in cash than it reported as expending for the Temporary Assistance for Needy Families (TANF) program, from the inception of the program in 1997 through June 30, 2003. The Department was unable to demonstrate which federal or non-federal programs benefited from the funds.

It appears that in recent years most of the funds were used to pay for a disproportionate share of costs of the Bureau of Family Independence, which are distributed to multiple federal programs through a federally approved cost allocation plan. However, the Department was unable to document which programs received the benefit of the funds.

While the Department only included the appropriate share of indirect costs allocated to TANF in the federal expenditure report, it drew funds in excess of these costs.

In an effort to understand and correct the overdrawn cash from the TANF grant, the Department, in conjunction with the State's Bureau of Accounts and Control with the approval of the U. S. Department of Health and Human Services has revised the TANF program's expenditure reports. The revised reports reflect the maximum allowable transfers of TANF grant monies to other federal programs, report only allowable and supportable federal and State expenditures, and do not exceed the State maintenance of effort requirements. The Bureau of Accounts and Control revised the federal expenditure reports for federal fiscal years 2000 through 2003.

In the prior year's audit report, we questioned the cumulative overdrawn amount at that time, $18.9 million. In the current year, the Department again overdrew by $17.6 million, for a cumulative overdraw of $36.5 million; that amount less $27.2 million in additional expenditures submitted on the revised reports resulted in the Department having drawn $9,642,875 more in cash than it reported as having been expended. We note that in October 2003, the State returned the excess amount drawn to the federal government. Therefore, we do not question any costs.

Recommendation:

We recommend that the Department of Human Services continue to monitor procedures for drawing federal funds, and ensure that those funds are drawn for actual program needs. Additionally, the Department should reconcile federal cash drawn to actual reported expenditures.

Auditee Response/Corrective Action Plan:

Contact person: Mark Toulouse, 287-1869

The Department of Health and Human Services instituted a new cash draw policy in October 2003. As of that date, all federal cash draw amounts are required to be supported by MFASIS activity such as Journal vouchers, impact report activity, client payment runs, etc. The Division of Account and Cash Management Operations is currently working with the Office of the State Controller to create a consistent account reconciliation procedure for all federal accounts. Because of the various accounts and uses for the funds, the task will be time-consuming. A draft of the TANF reconciliation has been prepared for the quarter ending March 31, 2004, but is still a work in progress.

Department of Human Services

(03-07) Division of Financial Services

Finding: Journal vouchers not adequately supported **(Prior Year Finding)**

Department of Human Services personnel prepared journal vouchers that do not have adequate supporting documentation. Eleven of 40 vouchers that were tested did not have information to support the derivations of the amounts of the journals. The net value of the journals was negative $15.3 million, with an absolute value of $65.6 million.

In fiscal year 2003, the amount of journal vouchers processed in the two Medicaid program appropriation accounts exceeded $48 million dollars, with an absolute value of $598 million.

Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* states that, to be allowable under federal awards, costs must be adequately documented.

Recommendation:

We recommend that adequate support for journal vouchers be maintained.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

This was corrected in November 2003. All journal vouchers have supporting documentation to support the entries.

(03-08) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Finding: Inadequate system of internal controls over accounting for child support **(Prior Year Finding)**

The Department of Human Services has not reconciled amounts reflected in its internal information system, which is used to prepare federal reports of program activity, to State accounting records for the Child Support Enforcement Program. Problems were noted in three areas: accounts used to record the receipt and disbursement of child support collections, negative cash balances in program administrative accounts, and the federal and State shares of amounts collected on behalf of various parties.

Department of Human Services

The accounting system cash balances in accounts that were established to record the receipt and subsequent distribution of child support collections totaled $16.1 million at June 30, 2003. That balance was $14 million higher than the $2.1 million in undistributed collections reported to the federal oversight agency. Although the accounts include certain residual balances that should not be reported as undistributed collections, and timing differences account for a portion of the variance, the Department has not summarized the effect of those factors and identified the remaining variance. The Department has, however, developed a new report that allows every receipt that has not been distributed to be tracked; this will aid in the overall account reconciliation. The Department's information system, and the resulting federal reports, is believed to be reasonably accurate. The accounting system balances are believed to need adjustment. The variance may be partially accounted for as follows:

State agency accounting personnel had not prepared journal entries to distribute the federal share of collections associated with the last three months of the current fiscal year. As a result, the federal share of collections at year-end was under recorded by $4.5 million and the State share by $2.3 million;
Based on the previous audit, program income of $1.8 million was incorrectly included in the same account balances related to collections and distributions; and
The Department also had not yet posted to the accounting system a prior year audit adjustment of $3.4 million proposed by the federal oversight agency.

The Department also has not reconciled cash balances in the Child Support Enforcement program's administrative accounts. The accounting system's net cash balances in these accounts for the applicable funds totaled negative $9.4 million at June 30, 2003. The combined balance in these accounts should net to approximately zero since administrative costs should be periodically transferred to these accounts to cover actual program expenditures.

In addition, although the State's accounting system and the Departments internal computer system differed by only $17,000 for total child support collections, the amounts shown as the federal and state shares of amounts collected for TANF recipients differed by $1.8 million and $1.1 million, respectively. Reconciliation is critical because the internal system calculates the Child Support Enforcement program's award amounts, which are based on the federal share of child support collections.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, requires recipient organizations of federal funds to have internal controls in place to provide reasonable assurance of accountability of assets and the preparation of reliable financial statements and federal reports.

<u>Recommendation</u>:

To reduce the risk of material misstatement in the program's accounts, we recommend that the Department of Human Services:

1. Implement reconciliation procedures to identify the source and application of program funds;

2. Periodically reconcile the State's accounting system to the program's management information system and consider the impact of any reconciling items on the federal financial reporting process in the form of a retroactive adjustment;
3. Determine the underlying reasons for the noted differences in account balances and prepare the needed entries to better provide accurate, current and complete financial information;
4. Perform independent periodic reviews summarizing the detail of program transactions;
5. Change the accounting structure to segregate all program activity in distinct and separate cost centers to ensure that the State and federal share of child support collections are expeditiously transferred to cover the State and federal shares of program expenditures; and
6. Post the $3.4 million adjustment.

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

Contact: Mark Toulouse, 287-1869

Child support payments, when collected, are posted to a special revenue holding account (014 4610). Quarterly, incentive payments are moved to an incentive account within the same fund (014 4611). Also quarterly, based on the OCSE-34A report, the state and federal shares of these collections are moved to appropriate accounts as well (010 4610 and 014 4601 respectively). It is the Department of Health and Human Services' opinion that a portion of child support collections is appropriately retained in fund 014 because it is special revenue dedicated primarily for the purpose of operating the child enforcement program. Amounts are then periodically transferred to the federal fund for the child support admin program (013 0100) quarterly, however, amounts not used for administrative expenditures need to be returned to the special revenue account (014 4601). JV 10A 81MAT050013 accomplishes this for FY 2003 and FY 2004.

Also mentioned in this finding is the need to transfer 66% of child support collections. JV 10A 81MAT050013 also accomplishes this for FY 2003 and FY 2004. A query was done using data from the office of the State Treasurer to determine what portion of interest earnings posted to the Child Support account actually relates the Federal portion of costs reported, per the OCSA 396A reports submitted.

Point # 3 of this finding, which refers to audit finding # 47 for FY 2002 was partially satisfied by JV 10A 81 MATCSFY02. In that JV, $229,400.00 was transferred to 013 4606, bringing the total FY 02 transfer up to the allowable federal 66%.

In order to begin the process of reconciling cash balances in accounts, the Division of Accounting and Cash Management has begun loading data into the MFASIS Accounting Grant Subsystem. Currently, Bureau of Health accounts are active, and Bureau of Child & Family Services grants are being reviewed. Child support accounts are expected to be added to the system in FY 2005.

Much work has been done to bring the differences between the MFASIS and NECSES systems into agreement. The OCSE 34A and OCSE 396A reports have been modified to age undistributed collections, in order to accurately reflect the balance that should be in the undistributed account. Also, ACM personnel have access to the newly-revised disbursement control report. This report reflects all activity supported by the NECSES system, and lists MFASIS coding related to the activity. With this information, we will be able to reconcile current activity between the systems regularly. The balance variance, however, will require more extensive research, as discussed above.

Finally, the Division of Accounting and Cash Management is working with the Office of the State Controller to determine the effectiveness of creating a new Child Support report org to store the federal portion of Child Support collections.

(03-09) Department of Human Services
Bureau of Medical Services

Finding: Inadequate controls over "suspense account" **(Prior Year Finding)**

The Bureau of Medical Services uses a subsidiary account, referred to as the "suspense account," of a General Fund expenditure account to process cash receipts and disbursements from and to medical providers. Suspense accounts are generally balance sheet accounts used to temporarily hold amounts for which the ultimate disposition is uncertain. The Department's use of the expenditure account for this purpose does not provide a clear record of whether the amounts have cleared, or a record of the source and use of funds.

The Department sometimes posts clearing entries in a later period than that of the original transaction. As an operating account, the suspense/expenditure account is closed at the end of each fiscal year. Therefore, any late postings will not match with the original transactions but will offset or add to unrelated new activity. Some entries may never be cleared other than by the closing of the account at year-end. Therefore, the suspense account balance is essentially meaningless. Revenues or fund balance may be understated because all transactions, including cash receipts, are coded to expenditures. Those same receipts create allotment above what has been legislatively authorized for the period. That allotment is then available to be used to disburse additional funds. Using the suspense account also causes a delay in obtaining applicable federal funds in a timely manner, increases the likelihood of inaccurate financial reporting and requires additional manual procedures to determine and process clearing entries.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires recipient organizations of federal funds to have internal controls in place to provide reasonable assurance of accountability of assets and the preparation of reliable financial statements and federal reports.

Although the net effect of the transactions of the account was a credit to expenditures of $2.8 million, this is not reflective of the volume of activity during the year. In fiscal year 2003, 12,457 transactions were posted to the account. The Department used the account to disburse $49.9 million to providers. Medical providers returned 261 overpayments, which totaled $25.6 million, to the Bureau of Medical Services. The Department also posted 89 journals, which increased the account balance by $25.2 million.

Personnel of the Bureau of Medical Services stated that they use the account to facilitate timely payments to providers.

Recommendation:

We recommend that the Department discontinue use of the existing suspense account for making payment to providers. We further recommend that the Department establish a suspense account as a balance sheet account, use it only for appropriate activities, and clear the transactions that are posted to the account in a timely manner.

Auditee Response/Corrective Action Plan:

Contact: Robert Boschen, Director, Division of Finance & Reimbursement, Bureau of Medical Services, 287-3833

The amounts are posted to the Suspense account and used as a tracking mechanism for payments made from all State funds. At the point that the account is reconciled, monies that have been charged to a State account are accurately distributed into the appropriate federal account, based on the service area.

With the implementation of the MeCMS in October 2004, the utilization of the Suspense account will be significantly diminished.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003

Section III - Federal Award Findings and Questioned Costs

State of Maine
Department of Administrative and Financial Services

Summary of Federal Findings

Although the Department of Administrative and Financial Services does not directly administer federal programs, we report two exceptions.

The Department accumulated working capital reserves in an Internal Service Fund in excess of those allowed by federal regulations. The Fund had an excess balance of $3,607,128, of which $613,212 is attributable to federal charges.

Because personnel from the Department of Education were reassigned to the Division of Financial and Personnel Services of the Department of Administrative and Financial Services, we address the following condition to the Division:

The Department of Education did not draw funds for the Special Education program in accordance with the Cash Management Improvement Act agreement between the State of Maine and the U.S. Department of the Treasury. The Department is required to make a draw four days after disbursing funds; the funds were drawn 2.5 and 2.6 days after disbursement for the two months that we tested.

State of Maine
Department of Administrative and Financial Services

(03-10) Division of Financial and Personnel Services

Special Education – Grants to States **<u>Questioned Costs</u>:** None
<u>CFDA#:</u> 84.027
Federal Award Number: Various

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

The Department of Education did not draw federal Special Education Program funds in accordance with the Cash Management Improvement Act (CMIA) Agreement between the State and the U.S. Department of Treasury. The CMIA Agreement requires that funds from this program be drawn at least four days after the related disbursements in accordance with the average clearance funding method. For two of six months tested, program funds were drawn only 2.5 and 2.6 days after disbursements.

Department of Education personnel responsible for cash management during the audit period were subsequently reassigned to the Department of Administrative and Financial Services, therefore this recommendation is directed to both agencies.

<u>Recommendation</u>:

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

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

Contact: Diane Williamson, Chief Accountant, Department of Administrative and Financial Services, 624-7400.

The Department of Administrative and Financial Services reviewed the process for drawing Federal cash and found it proved to be accurate during fiscal year 2004. The Accounting Technician now waits until payments have been accepted to the MFASIS accounting system and the check date is posted before ordering cash. After the cash is ordered, a form entitled "Review List for Assuring Allotment is Available and Cash Is To Be Deposited 4 Days After Check Date" is completed and submitted to the Chief Accountant for review. The Chief Accountant is responsible for ensuring all steps in the process have been accomplished.

Department of Administrative and Financial Services

(03-11) Bureau of Information Services

<u>CFDA#:</u> Various **<u>Questioned Costs:</u>** $613,212
Federal Award Number: Various

<u>Finding</u>: Excess working capital reserve balance

The Department of Administrative and Financial Services has "excess reserves" reported in the cost allocation plan that was submitted to the U. S. Department of Health and Human Services (HHS) for fiscal year 2003.

The State uses Internal Service Funds to record the cost of services that are provided to other departments and agencies of the State. These costs are charged to the user departments through a rate billing process. The Department submits an annual cost allocation plan to HHS. This plan, which summarizes financial activity for the internal service funds, includes a required computation and reconciliation of retained earnings. Reserve balances are calculated and limited as prescribed by Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

For fiscal year ending June 30, 2003, the Department's Cost Allocation Plan presents an excess reserve balance of $3,607,128. Attachment C of Circular A-87, Section G(2), limits reserves to provide up to 60 days cash for normal operating purposes. The calculated reserve for the Bureau of Information Services is greater than the reserve limitation.

Circular A-87 Attachment C, Section G(4), provides that when revenues exceed costs, adjustments will be made through one of the following methods: (a) a cash refund to the federal government for the federal share of the adjustment, (b) credits to the amounts charged to the individual programs, (c) adjustments to future billing rates, or (d) adjustments to allocated central service costs. Adjustments to allocated central services will not be permitted where the total amount of the adjustment for a particular service (federal share and non-federal share) exceeds $500,000.

The Department's Cost Allocation Plan submitted for the period ending June 30, 2003, did not provide for an adjustment to address the excess reserve balance. Of the $3,607,128 excess reserve balance, we calculated that the amount of excess attributable to federal charges was $613,212.

<u>Recommendation</u>:

We recommend that the Department choose an allowed method to reduce the existing balance, and comply with Office of Management and Budget Circular A-87 in the future.

Department of Administrative and Financial Services

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

Contact: Carol Elsemore, Division of Financial and Personnel Services, 624-7383

The Department agrees that the Federal Central Services Cost Plan for June 30, 2003 presents an excess retained earnings balance of $3,607,128 for the Bureau of Information Services. We also agree that a portion of the excess retained earnings is attributable to federal funds.

We do, however, question if Questioned Costs are appropriate for the following reasons:

- *While OMB Circular A-87 does say that adjustments of billed central services will be made in one of the above listed methods, A-87 also says that, while a working capital reserve of 60 days cash expenses is considered reasonable, a working capital reserve exceeding 60 days may be approved in exceptional cases. The $3,607,128 excess retained earnings is based upon a 60 day working capital reserve.*
- *The US Department of Health and Human Services, Division of Cost Allocation has until August 2004 to review the June 30, 2003 Central Services Cost Plan. We are awaiting their disposition of the excess retained earnings. The June 30, 2002 Central Services Cost Plan reported $2,742,219 in excess retained earnings and US DHHS did not require return of the federal share of the excess. US DHHS has never requested return of the Bureau of Information Services' excess retained earnings, which is reported to them annually.*

State of Maine Public Law 2003 Chapter 673 Section ZZZ instructs the State Controller to return $500,000 of the Bureau of Information Services' excess retained earnings to the General Fund. Along with the transfer to the General Fund, all State and Federal funds will receive a proportionate share of the excess retained earnings. This transfer will occur in Fiscal Year 2005 and we estimate the total transfer to be about $1.1 million with about $265,000 of federal funds to be returned.

<u>Corrective Action Plan</u>

1. *Corrective Action Planned:*
   a. *Per Public Law 2003 Chapter 673 Section ZZZ, return excess retained earnings of estimated $1.1 million during State Fiscal Year 2005.*
   b. *Wait for the federal review of this Cost Plan in August 2004 and negotiate with the US DHHS the disposition of the Bureau of Information Services' excess retained earnings.*
2. *Anticipated completion date is September 30, 2004.*

State of Maine
Department of Behavioral and Developmental Services

Summary of Federal Findings

The Department of Behavioral and Developmental Services disbursed federal funds to subgrantees of the Social Services Block Grant program on a quarterly schedule. Federal regulations require that funds be transferred based on immediate cash needs.

The Department administers a Medicaid waiver program for individuals with mental retardation. The Department did not use standard or consistent criteria to set payment rates to different providers. Also, the Department expended $176 million for waiver expenditures, while only $169 million was approved by the federal granting agency. Although the federal agency is not concerned about the federal share of the variance, the extension of the waiver also increased costs to the General Fund share by $2 million. It is not clear that the over expenditure was the result of a policy decision.

State of Maine
Department of Behavioral and Developmental Services

(03-12) Central Office

Social Services Block Grant **<u>Questioned Costs:</u>** None
<u>CFDA#:</u> 93.667
Federal Award Number: G0201MESOSR, G0301MESOSR

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

The Department of Behavioral and Developmental Services does not have controls in place that are designed to ensure that funds are distributed to subgrantees based on their immediate cash needs. The Department distributes funds to the subgrantees of the Social Services Block Grant on a predetermined quarterly schedule and does not consider the subgrantees' immediate cash needs in the disbursement process.

According to the *Common Rule* of the Office of Management and Budget, advances in grant funds to subgrantees must conform substantially to the same standards of timing and amount that apply to cash advances by federal agencies. Title 31 CFR 205 states that both State and federal agencies "shall limit the amount of funds transferred to a State to the minimum required to meet a State's actual immediate cash needs."

The Department of Human Services does not have controls in place to ensure compliance with federal cash management requirements.

During fiscal year 2003, the Department held excessive cash for six of the 12 months. Title 31 CFR 205.33(a) states that the timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs. "Administratively feasible" was determined by the Bureau of Accounts and Control to be seven days. For these six months, the program held cash sufficient for program needs ranging from 27 days to 104 days.

<u>Recommendation</u>:

We recommend that the Department of Behavioral and Developmental Services advance funds to subgrantees based on immediate cash needs. We further recommend that the Department of Human Services monitor the program's cash needs and time draws of federal cash to comply with federal requirements. The Department should investigate any unusual cash balances that are not temporary in nature.

Auditee Response/Corrective Action Plan:

Contact: Anke Siem, Director of Accounting, 287-4277

For FY05, most contracts that are funded by the Social Services Block Grant have been executed and we will address the cash management problem as follows. For contracts that have split funding, general and federal funds, we will apportion the federal funds in a ratio (i.e., for a three month payment, 2/3 would be apportioned to the GF and 1/3 to the federal fund) and make the assumption that the federal dollars are expended first. We have contracts in place that are "fee for service," which is not an issue since the services have been performed when the money is drawn down.

For FY06, we will change contract language for all contracts to either "fee for service" or provide for a monthly draw down rather than quarterly.

(03-13) Office of Medicaid and Managed Care

Medical Assistance Program **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME2028

Finding: Inadequate controls over payment amounts

The Department of Behavioral and Developmental Services manages the Medicaid Home and Community Based Waiver for Persons with Mental Retardation. The Department has inadequate controls in place to ensure that the rates allowed for residential training are the rates paid to providers. The Department has the flexibility to set different rates for different providers for the same service; however, the criteria for determining the rates are not standard or consistent.

Two of eight claims that were tested were paid a higher amount than the approved amount, resulting in excess payments of $75. We tested 25 additional waiver claims and found no further exceptions.

The Centers for Medicare and Medicaid Services approved $169 million for waiver expenditures for fiscal year 2003, while the State's actual expenditures totaled $176 million. The federal regional office is not concerned with the federal share of this variance. However, it is not clear that the General Fund share of the over-expenditure ($2 million) was the result of a policy decision, or that it was recognized as a part of the increased cost of the Medicaid Program.

In fiscal year 2004, the Department has begun to monitor these expenditures more closely. The Department has plans to implement a standardized rate-setting tool based on assessments of actual need of the individual.

Department of Behavioral and Developmental Services

Recommendation:

We recommend that all of the reimbursement rates be reviewed at least annually and that the Department implement a standardized rate setting process. We also recommend the Department expand the use of procedure codes so that all residential training services are coded based on services required, rather than using one code for all individuals receiving these services.

Auditee Response/Corrective Action Plan:

Contacts: Jane Gallivan, 287-1861, and Debbie Couture 287-1973

As stated in the last paragraph of the findings, the Department now monitors these expenditures more closely. The Department has been awarded a federal grant from the Department of Health & Human Services, Centers for Medicare & Medicaid Services titled Money that Follows the Person grant. This grant will be used to design and implement a standardized rate setting tool based on assessments of the actual need of the individual. Implementation is expected by summer of 2005.

The Department will implement the MeCMS (Maine Claims Management System) in the fall of 2004. The present system that contains one code per service area for all members with a cap on the amount paid for that code would no longer be used. The rate-setting module of this system will contain member specific rates. Within this module, each member will have a specific rate set for each service area (procedure code) that the Department has determined the member is eligible. As a claim is processed within MeCMS, only the specific rate determined for the member (matching the Maine Care ID with the procedure code) will be processed for payment.

State of Maine
Department of Conservation

Summary of Federal Findings

Most of the funds that the Department of Conservation expended for the Cooperative Forestry Assistance program are used for subgrants or contracted services. We did not note any exceptions to the way the funds were used, but took two exceptions to the Department's oversight of the subgrantees or contractors. We noted that the Department did not secure suspension and debarment certificates from some contractors, as required by federal regulations. We also noted that the Department does not have a system in place to ensure that all subrecipients that are required to obtain a Single Audit actually do so.

State of Maine
Department of Conservation

(03-14) Bureau of Administrative Services

Cooperative Forestry Assistance **Questioned Costs:** None
CFDA#: 10.664
Federal Award Number: Various

Finding: Lack of suspension and debarment certifications

The Department of Conservation did not secure the required suspension and debarment certifications for eight contracts that required these certifications. The Department is required by 7 CFR 3017.110 to secure suspension and debarment certifications for all contracts for goods and services exceeding $25,000. The Department subsequently secured the certifications after the end of the fiscal year.

Recommendation:

We recommend that the Department secure suspension and debarment certifications for all contracts of goods and services exceeding $25,000 as part of the initial contracting process.

Auditee Response/Corrective Action Plan:

Contact: Peter Beringer, 287-8429

DOC concurs with this finding. Once it was determined that the State procurement procedures did not cover the Suspension and Debarment Certification requirement, the Department modified the Standard State Contract BP54 to include the required Suspension and Debarment Certification form AD1048. In addition the Department will secure a Suspension and Debarment Certification for all contracts for goods exceeding the $25,000 threshold. Corrective action completed 3/1/04.

(03-15) Bureau of Administrative Services

Cooperative Forestry Assistance **Questioned Costs:** None
CFDA#: 10.664
Federal Award Number: Various

Finding: Inadequate controls over subrecipient monitoring requirements

The Department of Conservation does not have a system in place to ensure that all subrecipients that annually receive $300,000 or more of federal awards obtain an audit, as required by Office of Management and Budget (OMB) Circular A-133. There are procedures in place to ensure audits of subrecipients that receive over $300,000 directly from the Department. However, some subrecipients of the Department of Conservation may receive less than $300,000 from the Department, but may receive federal funds from other agencies or directly from the federal government.

Recommendation:

We recommend that the Department of Conservation establish a means to obtain the necessary information (e.g., make inquires of the Bureau of Accounts and Control regarding total federal funding). The Department could then establish controls to ensure that all subrecipients obtain the required audits in compliance with OMB Circular A-133.

Auditee Response/Corrective Action Plan:

Contact: Will Harris, 287-2215

DOC concurs with this recommendation. The Controller's Office has agreed to supply DOC with the necessary statewide data to enable the Department to comply with the Audit Recommendation. Corrective action completed, 6/15/04.

State of Maine
Department of Defense, Veterans and Emergency Management

Summary of Federal Findings

The Department of Defense, Veterans and Emergency Management did not manage cash in accordance with federal regulations for all three of the major federal programs that we audited. Daily cash balances varied between large positive and negative balances. In addition, the Department did not obtain all required suspension and debarment certifications from contractors who received grant funds.

For two of the federal programs, the Department did not reconcile expenditure amounts that are reported to the federal government to those that are recorded in the State's accounting system. We could not be certain that all allowable amounts were reimbursed and that expenditures were not reimbursed more than once.

For one of the programs, the Department did not report complete and correct information on the federal payroll certification. In addition, fixed asset records were not complete because the Department's automated system did not recognize certain codes as representing fixed assets.

The Department has resolved or addressed all of these issues.

State of Maine
Department of Defense, Veterans and Emergency Management

(03-16) Military Bureau

Military Construction **Questioned Costs:** None
CFDA#: 12.400
Federal Award Number: DAHA 17-99-2-2001, DAHA 17-01-2-2001

Finding: Inadequate internal control over compliance with requirements for cash management and for suspension and debarment.

The Maine Department of Defense, Veterans, and Emergency Management did not have adequate controls in place to ensure compliance with provisions of the Cash Management Improvement Act. The Department had excessive cash balances for two of twelve months that were tested: an average of fifteen days' cash on hand in December and eighteen days cash on hand in March. The average balance for a third month was negative twelve days cash on hand. Daily cash balances also varied between large negative and positive amounts throughout the year. Title 31 CFR 205 Part B requires that non-federal agencies time cash draws from the U.S. Treasury to meet actual, immediate cash needs. Part B further states that draws should be as close as administratively feasible to the actual disbursement of funds. The Bureau of Accounts and Control has determined that it is administratively feasible to disburse funds within seven business days of drawing cash from the U.S. Treasury.

The Department did not obtain two of the four required suspension and debarment certifications. The Department is required by 32 CFR 25 to secure suspension and debarment certificates for all contracts for goods and services exceeding $25,000. The Department had four contracts that exceeded this threshold but only secured suspension and debarment certifications for two.

Recommendation:

We recommend that the Department take appropriate action to manage federal cash according to the provisions of the Cash Management Improvement Act. We recommend that the Department obtain the required certifications for all contracts exceeding $25,000.

Auditee Response/Corrective Action Plan:

Contact: Linda Gosselin, 626-4346 and Roberta Creamer, 626-4493

The funds for military construction were included in the regular operations and maintenance account for both army and air guard projects. The Military Bureau created a separate account and journaled all construction expenditures and revenue to the newly created account in April 2003. An advance is requested as payment vouchers are prepared and when revenue is received, payment is made. The funds should not reside in the account for more than 2 or 3 days and the account maintains a zero balance.

Department of Defense, Veterans and Emergency Management

The Federal Government generally requires Suspension and Debarment Certifications for contracts of $100,000 or more. 32 CFR Section 25 requires Suspension and Debarment Certifications for all grants utilizing National Guard Bureau funding for contracts exceeding $25,000. The Department has gone back to the beginning of FY04 and verified that all contracts are covered.

(03-17) Military Bureau

National Guard Operations and Maintenance Projects **Questioned Costs:** None
CFDA#: 12.401
Federal Award Number: DAHA 17-02-2-1000

Finding: Inadequate internal control over program requirements **(Prior Year Finding)**

The Maine Department of Defense, Veterans and Emergency Management does not have adequate controls in place to ensure compliance with various federal requirements of the National Guard Operations and Maintenance Projects Program. Of the following five exceptions, the first three were noted in the prior year's audit.

1. Cash management:
   The Department had excessive cash balances for three of the twelve months that were tested. There was an average of 11 days cash on hand in November, 16 days in December and 11 days in June. Daily cash balances also varied between large negative and large positive balances throughout the year.

   Title 31 CFR Section 205 Part B requires that non-federal agencies time draws from the U.S. Treasury to meet actual immediate cash needs. Part B further states that draws should be as close as administratively feasible to the actual disbursement of funds. The Bureau of Accounts and Control has determined this to be within seven business days of drawing cash from the U.S. Treasury.

   In addition, there is a balance of $236,727 of non-federal cash in the account for this program in the Federal Expenditures Fund. The balance apparently accumulated over several years because of the Department's practice of recording federal reimbursements in the federal account even if the original disbursement was made from other funds. The Department has proposed transferring the balance to the General Fund.

2. Grant accountability:
   The Department does not periodically reconcile expenditure amounts recognized in the State's accounting system to expenditure amounts reported to the federal government. Current procedures do not adequately ensure that all allowable expenditure amounts are reimbursed and that expenditures are not reimbursed more than once.

The National Guard Regulations publication *Grants and Cooperative Agreements* states, "It is the responsibility of the State to properly account for costs incurred under…a Cooperative Agreement."

3. Payroll certifications:
   The Department did not have adequate controls in place to ensure that the federal payroll certification was accurate. Two employees who worked for the program were not listed on the payroll certification. Three other employees' names were listed incorrectly.

   Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, requires semi-annual certifications for all employees who work solely on a single federal program, to support amounts for salaries and wages that are charged to the program.

4. Fixed assets:
   The Department's system did not recognize certain codes, which were used to report the purchase of six of twelve capital items, as representing fixed assets. This resulted in those items not being included as part of the State's fixed assets. This could also result in inaccurate inventory counts, as the same information is also used to conduct a periodic inventory of equipment.

   The Department has only recently become aware that many recent purchases were not recorded correctly on the fixed asset system.

5. Suspension and debarment certifications:
   The Department did not obtain one of eleven required suspension and debarment certifications. Title 32 CFR 25 requires that suspension and debarment certificates be secured for all contracts for goods and services exceeding $25,000. The Department includes a suspension and debarment clause in all of their own standard contracts regardless of amount; the exception that was found was a contract that was entered into in conjunction with the Bureau of General Services.

Recommendations:

1. We recommend that the Department take appropriate action to ensure that cash is managed according to the provisions of the Cash Management Improvement Act. As the Department has transferred the balance of non-federal cash to the General Fund, we make no recommendation.
2. As the Department has taken initial steps to address this issue, we recommend that the Department continue to development a system to ensure accurate financial reporting. We further recommend that the Department reconcile activity recognized in the State's accounting system to activity reported to the federal government.
3. We recommend that the Department implement a control system that ensures compliance with payroll certification requirements.

4. We recommend that the Department implement procedures to ensure proper recording of fixed assets.
5. We recommend that the Department obtain the required certifications for all contracts over $25,000.

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

Contact: Linda Gosselin, 626-4346 and Robert Creamer, 626-4493

1. *The Military Bureau implemented a "working advance" from the United States Property and Fiscal Office for National Guard funds to cover both the Army and Air force cooperative agreements on October 1, 2003. This will eliminate excessive negative balances through timely processing of invoices and seeking reimbursements on a minimum weekly basis.*

   Regarding the balance of federal cash, $231,161.69 in excess cash has been transferred to the General Fund from prior year reimbursements and was completed by February 12, 2004. A balance of $5,565.58 in prior year audit charges have never been reimbursed and, therefore, not transferred. The transaction included the following journals:

JV 15A 012448	*12/02*	*$ 79,697.85*
JV 15A 03RC0729001	*07/03*	*$149,463.84*
JV 15A 04RC0218001	*02/04*	*$ 2,000.00*
		$231,161.69

   This removal of cash on hand should eliminate excessive cash balances.

2. *Reconciling is done quarterly for Appendices 1, 3, 4, 7, and 41. We will soon expand this process for Appendix 2 and 5. The reconciling from cash to expenditures was instituted in the fall to the beginning of the fiscal year and is being done by the Department's staff accountant. This reconciliation is being done monthly for all army and air guard expenditures.*

3. *The Military Bureau has created a payroll book which has copies of all payrolls for both DFE and State Active Duty personnel working on appendix 1 to ensure that when we certify the payrolls we have all the information necessary to ensure what is reported quarterly is correct. We have gone back to the beginning of FY04 to verify correct information.*

4. *The Military Bureau was not aware that some of the state accounting system object codes failed to create "fixed asset shells" for inclusion into the fixed asset system. We have identified the object codes that do not automatically create a "fixed asset shell" and have resolved this issue, going back to the beginning of FY04 to verify that all fixed assets are included in the current year.*

5. *The Federal Government generally requires Suspension and Debarment Certifications for contracts of $100,000 or more. 32 CFR Section 25 requires Suspension and Debarment Certifications for all grants utilizing National Guard Bureau funding for contracts exceeding*

$25,000, the Department has gone back to the beginning of FY04 and verified that all contracts are covered.

(03-18) Military Bureau

Maine Readiness Sustainment Maintenance Center **Questioned Costs:** None
CFDA#: 12.999
Federal Award Number: DAHA 17-02-2-3035

Finding: Inadequate internal control over requirements for grant accountability, cash management, and suspension and debarment **(Prior Year Finding)**

The Department of Defense, Veterans and Emergency Management did not have adequate controls in place to ensure accurate financial reporting. The Department does not periodically reconcile expenditure amounts recognized in the State's accounting system to expenditure amounts reported to the federal government for the Maine Readiness Sustainment Maintenance Center grant. The Department's current procedures do not ensure that all allowable expenditure amounts are reimbursed and that expenditures are not reimbursed more than once.

The Department did not have adequate controls in place to ensure compliance with provisions of the Cash Management Improvement Act. The Department had excessive cash balances for four of the twelve months tested: an average of 18 days' cash on hand in February, 17 days' in March, 13 days in April and 15 days' in May. Daily cash balances also varied between large negative and large positive balances throughout the year.

Title 31 CFR 205 Part B requires that non-federal agencies time draws from the U.S. Treasury to meet actual immediate cash needs. Part B further states that draws should be as close as administratively feasible to the actual disbursement of funds. The Bureau of Accounts and Control has determined this to be within seven business days of drawing cash from the U.S. Treasury.

The Department did not obtain two of the four required suspension and debarment certifications. The two vendors, who had contracts with the Department for over $100,000, were verified as not being on the Suspension and Debarment List, but did not sign a certification as required by 32 CFR 25.510.

The Department has developed a certification statement that vendors must sign and return if they contract with the Department for the Maine Readiness Sustainment Maintenance Center grant funds of over $100,000. However, 32 CFR 25 requires that a certification be submitted for amounts over $25,000, not $100,000.

Department of Defense, Veterans and Emergency Management

Recommendation:

1. We recommend that the Department develop a system to ensure accurate financial reporting, and reconcile activity recognized in the State's accounting system to activity reported to the federal government.

2. We recommend that the Department take appropriate action to manage cash according to the provisions of the cash management improvement act.

3. We recommend that the Department obtain the required certifications for all contracts over $25,000.

Auditee Response/Corrective Action Plan:

*Contact**:** Robert St. Pierre, 626-4461, Vicki Umphrey, 328-4873 and Roberta Creamer, 626-4493.*

1. *The accounting staff at Maine Military Authority are verifying total expenditures against federal reimbursement on a monthly basis, and the Department's staff accountant audits the total overall federal dollars paid to Maine Military Authority every month.*

2. *The Loring account implemented a "working advance" from the United States Property and Fiscal Office for National Guard funds to cover the Readiness Sustainment Center cooperative agreements on October 1, 2003. This will eliminate large negative balances through timely processing of invoices and seeking reimbursements on a minimum weekly basis. A check for $300,346.37 was issued to the Federal Government in September 2003 to reimburse the excessive cash balance. This reduction of cash on hand should eliminate excessive cash balances.*

3. *The Federal Government generally requires Suspension and Debarment Certifications for contracts of $100,000 or more. Title 32 CFR Section 25 requires Suspension and Debarment Certifications for all grants utilizing National Guard Bureau funding for contracts exceeding $25,000. The Department has gone back to the beginning of FY04 and verified that all contracts are covered.*

State of Maine
Department of Economic and Community Development

Summary of Federal Findings

The Department of Economic and Community Development uses most of the funds that it receives for the Community Development Block Grant to award subgrants. We found that the Department drew additional federal funds for the program rather than, as required by federal regulations, first using funds that had been returned by a subrecipient. The Department also did not obtain required certifications from subrecipients, stating that they were not suspended or debarred from participating in the federal program.

State of Maine
Department of Economic and Community Development

(03-19) Office of Community Development

Community Development Block Grant **Questioned Costs:** None
CFDA#: 14.228
Federal Award Number: Various

Finding: Non-compliance with federal cash management requirements

The Department of Economic and Community Development had excess cash on hand resulting from a return of funds by a subrecipient. The Department drew additional federal funds from the U.S. Treasury before utilizing the returned cash. The Cash Management Improvement Act Agreement between the State of Maine and the U.S. Treasury states, "Each state agency shall manually track and document refunds, which shall be offset against subsequent draw downs of Federal funds. . ."

Recommendation:

We recommend that the Department of Economic and Community Development disburse returned funds before subsequent draws of federal funds are made.

Auditee Response/Corrective Action Plan:

Contact: Orman Whitcomb, 624-9819

This instance occurred when staff incorrectly assumed that the community returning the funds would be requesting them again in the near future. Unfortunately, the company involved continued to have problems getting started and the funds were not drawn down for several months. The OCD currently has established a policy of disbursing any returned funds in the next week's processing of draw downs regardless of when it is anticipated the community that had returned the funds might resubmit a draw down request.

Department of Economic and Community Development

(03-20) Office of Community Development

Community Development Block Grant **Questioned Costs:** None
CFDA#: 14.228
Federal Award Number: Various

Finding: Inadequate controls over suspension and debarment requirements

The Department of Economic and Community Development did not obtain certifications from any subrecipients stating that they were not suspended or debarred from participating in federal program and activities, as required by 24 CFR 24.510.

Recommendation:

We recommend that the Department of Economic and Community Development review current subrecipient award contracts and incorporate a certification regarding suspension and debarment certification.

Auditee Response/Corrective Action Plan:

Contact: Orman Whitcomb, 624-9819

The Department of Audit has provided information to the OCD Staff stating that they did not obtain certifications from any subrecipients stating that they were not suspended or debarred from participating in federal program and activities. While the OCD staff is aware that it must be verified that any contractor procured by a community or entity receiving CDBG funds must not be listed as a suspended or debarred entity, we were not aware that this also applied to the unit of general local government. Beginning immediately the OCD will verify that any eligible applicant is not on the federal list of suspended or debarred entities prior to initial notice of grant award and document this on the program eligibility threshold review form for each applicant.

State of Maine
Department of Education

Summary of Federal Findings

There were discrepancies in the Department of Education's inventory records of donated commodities for federal nutrition programs. Federal auditors also noted this issue in March 2002.

For the Title I program, the Department was in noncompliance with a requirement to obligate federal funds within an allowed period of availability. For the Special Education program, the Department was in noncompliance with maintenance of effort and earmarking requirements. For the Improving Teacher Quality State Grants program, the Department did not allocate funds to local education agencies as required, and did not identify awards to subrecipients as being federal funds.

State of Maine
Department of Education

(03-21) Food and Nutrition Services

Nutrition Cluster **Questioned Costs:** None
CFDA#: 10.553, 10.555, 10.556, 10.559
Federal Award Number: 4ME300301

Finding: Inadequate internal control over inventory of donated commodities

The Department of Education does not routinely review inventory records of donated commodities for accuracy. Of the 32 commodities that had an ending inventory in fiscal year 2003, 27 had physical inventory counts that did not match the inventory count maintained by the Department's computerized inventory system. The variance of $2,249 resulted in a misstatement of the ending inventory, which prevents efficient distribution of these donated commodities

Recommendation:

We recommend that the Department compare and reconcile inventory amounts recorded on warehouse records to inventory amounts in the computerized system on a regular basis. We also recommend that the Department conduct more than one physical inventory annually.

Auditee Response/Corrective Action Plan:

Contact: *Walter Beesley, Food Service Specialist, Child Nutrition Services, telephone (207) 624-6843.*

In February 2004, the Child Nutrition Services sub-team developed a policy for controlling inventory of the United States Department of Agriculture Commodity Food Distribution Program. The policy was developed to address the concerns and recommendations resulting from the audit.

The policy was approved and implemented in June 2004. A copy of this policy can be located in the Policy and Procedures Manual for Child Nutrition and is available upon request.

Implementation of corrective action and resolution of this finding were completed in fiscal year 2004.

Department of Education

(03-22) Office of Compensatory Education

Title I Grants to Local Education Agencies **Questioned Costs:** None
CFDA#: 84.010
Federal Award Number: S010A020019

Finding: Unobligated funds not returned to the federal government

The Department of Education did not return to the federal government approximately $37,000 of Title 1 funds that had not been obligated within the allowed period of availability. These funds had been granted to subrecipients during fiscal year 2002, and were returned in fiscal year 2003. According to 34 CFR 76.709(b), "the State shall return to the Federal Government any carryover funds not obligated by the end of the carryover period by the State and its subgrantees."

Because the Department has returned the funds, we do not question costs.

Recommendation:

We recommend that the Department of Education promptly return any federal funds not obligated within the period of availability.

Auditee Response/Corrective Action Plan:

Contact: Kathryn Manning, Coordinator, Office of Compensatory Education, telephone (207) 624-6705.

Funds were not obligated within the period of availability due to personnel changes at the LEA and SEA Finance levels. The Office of Compensatory Education has provided technical assistance to LEAs through site visits and meetings held at the Department of Education. This finding has been resolved and all carryover funds that were not obligated at the end of the carryover period in question have been returned to the U.S. Department of Education.

Implementation of corrective action and resolution of this finding were completed in fiscal year 2004.

Department of Education

(03-23) Division of Special Services

Special Education Grants to States **Questioned Costs:** None
CFDA#: 84.027
Federal Award Number: H027A020109A

Finding: Controls not adequate to ensure compliance with maintenance of effort requirements **(Prior Year Finding)**

The Department of Education did not have adequate controls in place to ensure that Local Educational Agencies (LEAs) complied with maintenance of effort requirements. LEAs are required to budget expenditures at a level that meets or exceeds expenditures of the prior year.

In order to ensure compliance with this requirement, 34 CFR 300.231 requires a pre-award comparison of LEA budgeted expenditures for the current grant year to the actual expenditures of the prior year. In certain circumstances, the regulations do permit allowances to be granted. The Department did compare actual expenditures of the current period to actual expenditures of the prior period, but this after-the-fact review does not allow for timely modification of the budget or granting of allowances if budgeted expenditures fall short of the prior period expenditures.

For fiscal year 2004, the Department has modified the grant application to include a comparison of current budgeted expenditures to the prior period actual expenditures. Any decrease of budgeted expenditures over actual expenditures of the prior period must include an explanation as to the cause.

Recommendation:

Because the Department has made appropriate changes, no further recommendation is necessary.

Auditee Response/Corrective Action Plan:

Contact: John Kierstead, Consultant, Exceptional Children, Office of Special Education, telephone (207) 624-6650.

This finding was resolved in fiscal year 2004. The Department modified the grant application to include a comparison of current budgeted expenditures to the prior period actual expenditures. The Department's policy is to use 34 CFR, Part 300.231-233 as the maintenance of effort requirements and ask LEAs to make the assurance that they will meet the requirements of those regulations when they file their local entitlement application. DOE implemented procedures to monitor the maintenance of effort requirement as follows:

- *generate a list of LEA expenditures for the current and previous years using end-of-year financial reports;*
- *review the list to determine if any LEA has expended less in the current year than they did in the previous year;*
- *review the list to determine if any LEAs per capita expenditures are greater than the previous year for those LEAs identified as spending less on special education than the previous year;*
- *create a list of LEAs that have been identified as not meeting the maintenance of effort requirement and whose per capita expenditures were not greater than the previous year; notify these LEAs of noncompliance with the maintenance of effort provisions of IDEA and include in the notification the expenditures for the two years and the existing discrepancy. These LEAs are asked to respond to the letter and indicate the reason for the difference using 34 CFR, Part 300.231-233. Responses are logged, recorded, and reviewed for compliance with this part. If confusion exists concerning their explanation, the LEA is notified for clarification;*
- *IDEA funds are withheld from the LEA until this department is satisfied that they have complied with the maintenance of effort requirement. IDEA funds are also withheld if the LEA is negligent in responding to the request for information regarding maintenance of effort.*

The addition of Question #4 in the local entitlement application now allows DOE to review actual expenditures with budget, review explanations when budgeted expenditures are less than actual using 34 CFR, Part 300.231-233, and follow up with the LEA when clarification is needed.

DOE will withhold IDEA, Part B funds until we are satisfied that the maintenance of effort provisions have been met and the LEA is in compliance.

Implementation of corrective action and resolution of this finding were completed in fiscal year 2004.

(03-24) Division of Special Services

Special Education Grants to States **Questioned Costs:** $329,990
CFDA#: 84.027
Federal Award Number: H027A000109

Finding: Noncompliance with earmarking requirements **(Prior Year Finding)**

The Department of Education did not comply with the earmarking requirements of the Special Education Grants to States Program for fiscal year 2001. As grant funds awarded in fiscal year 2002 and 2003 had not been fully expended as of the end of fieldwork, fiscal year 2001 was the latest year that could be tested for compliance with earmarking requirements. The Department did not satisfy the requirement for minimum amounts to be awarded to local educational agencies by $329,840 and did not satisfy the minimum capacity building expenditures by $150. We therefore question the total of $329,990.

Because the Department did not comply with earmarking requirements, the State's administrative allowance was exceeded by $329,990.

Earmarking requirements are found in 34 CFR 300.711, 300.602 and 300.623.

<u>Recommendation</u>:

We recommend that the Department comply with earmarking requirements of 34 CFR 300.

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

Contact: John Kierstead and Thomas Coulombe, Accountant, Office of Special Services, telephone (207) 624-6650.

This finding has been resolved and should not recur in future years. The Office of Special Services knew that due to the audit cycle and when grant funds were awarded, this finding would be repeated. Grant funds awarded in fiscal year 2002 and 2003 had not been fully expended as of the end of field work for 2003, and thus fiscal year 2001 was the latest year that could be tested for compliance.

The Office of Special Services has calculated the amount questioned, $329,990, for each school unit. These amounts will be designated as eligible funds when grant notifications are sent to school units in July 2004 (fiscal year 2005). School units will prepare their local entitlement application (EF-S-08) and include the amount designated in their fiscal year 2005 budget. John Kierstead, Consultant for Exceptional Children, Office of Special Education, and program staff will approve and process local entitlement grants for fiscal year 2005.

This same method was used to calculate the amount questioned for fiscal year 2001 (earmarking requirements not met for funds awarded in fiscal year 2000), and was found by the state auditor to be an appropriate method for distribution of funds to correct the error for that period of time. We do not anticipate that the audit of fiscal year 2004 will result in any further noncompliance issues with earmarking requirements when fiscal year 2002 is tested.

Implementation of corrective action has been completed. Resolution of this finding and distribution of the amount questioned will be completed in the first month of fiscal year 2005.

Department of Education

(03-25) Regional Educational Services

Improving Teacher Quality State Grants **<u>Questioned Costs</u>:** None
<u>CFDA#:</u> 84.367
Federal Award Number: S367A020018

<u>Finding</u>: Noncompliance with hold harmless provision

The Department of Education did not comply with the hold harmless provision in the No Child Left Behind Act. Title II-A, Subpart 2, Section 2121 (a)(2)(A) requires that funds for the Improving Teacher Quality Program be allocated to all local educational agencies (LEAs) by first assuring that they receive the total amounts that they received in fiscal year 2002 from the Eisenhower and Class Size Reduction Program funds. The Department should allocate 80% of the remainder of the grant based on the number of poor children and 20% on the number of students enrolled in each LEA. Department personnel allocated fiscal 2003 program funds to LEAs based entirely on poverty and enrollment data rather than first assuring they received the total amounts that they had received in fiscal year 2002.

All local educational agencies received from $19,889 more to $11,445 less than they would have received if the allocations had been calculated according to these requirements.

We note that the Department complied with the hold harmless provision when allocating LEA subgrants for fiscal year 2004.

<u>Recommendation</u>:

We recommend that the Department of Education continue to follow the procedures that ensure that Improving Teacher Quality Program funds are allocated in compliance with the hold harmless provision.

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

Contact: Valerie Seaberg, Team Leader, Regional Education Services, (207) 624-6834.

Since receiving final clarification from the U.S. Department of Education, this Department implemented the correct calculation in accordance with the procedures described in the above finding.

Implementation of corrective action and resolution of this finding were completed in fiscal year 2004.

Department of Education

(03-26) Regional Educational Services

Improving Teacher Quality State Grants **Questioned Costs:** None
CFDA#: 84.367
Federal Award Number: S367A020018, S367B020044

Finding: Federal award information not provided

The Department of Education did not identify federal awards to subrecipients, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* §400(d)(1).

Recommendation:

We recommend that the Department of Education identify federal awards as required by Circular A-133.

Auditee Response/Corrective Action Plan:

Contact: Valerie Seaberg, Team Leader, Regional Education Services, telephone (207) 624-6834.

Information required by OMB Circular A-133, Section 400(d)(1) is now included in the grant award memo sent to local education agencies advising them of their approved grant application.

Implementation of corrective action and resolution of this finding were completed in fiscal year 2004.

State of Maine
Department of Environmental Protection

Summary of Federal Findings

The Department of Environmental Protection incorrectly included payments to subrecipients of the Performance Partnership grants as part of its indirect cost base, when only direct costs may be included.

In addition, the Department did not comply with certain requirements of the same grant. The Department did not include certain federal procurement provisions, and suspension and debarment requirements, in contracts with subrecipients; the Department also did not ensure that subrecipients submitted annual audit reports and reported corrective action taken on any findings included in those reports.

State of Maine
Department of Environmental Protection

(03-27) Office of Management and Budget

Performance Partnership Grants **Questioned Costs:** $145,000
CFDA#: 66.605
Federal Award Number: BG99182900, BG99182997, BG182901

Finding: Indirect cost base incorrectly calculated

The Department of Environmental Protection's indirect cost base for fiscal year 2003 included pass-through grants to subrecipients of approximately $1 million made for the Nonpoint Source Program of Performance Partnership Grants. The Department had classified payments to subrecipients as miscellaneous professional fees rather than grant payments in the State's accounting records. Office of Management and Budget (OMB) Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments,* Attachment E, subparagraph C (2) (c) states:

> The distribution base may be (1) total direct costs (excluding capital expenditures and other items, such as pass-through funds, major subcontracts, etc.), (2) direct salaries and wages, or (3) another base which results in an equitable distribution.

Recommendation:

We recommend that the Department calculate its indirect cost base using guidance provided in OMB Circular A-87. We further recommend that the Department take care to correctly code pass-through grants.

Auditee Response/Corrective Action Plan:

Contact: George Viles, 287-7832

Discussion with the auditor helped to make it clear that the transactions should be coded as grants when with a prescribed group of local and regional public or non-profit agencies, when advances are used and when there are other similar factors. Accordingly, the indirect cost submission to USEPA for State FY05 recognizes this change. The change has also been discussed with appropriate staff in USEPA Region 1, Boston, and Washington. The change and its basis will be noted in our Performance Partnership Grant files.

Department of Environmental Protection

(03-28) Bureau of Land and Water Quality

Performance Partnership Grants **Questioned Costs:** None
CFDA#: 66.605
Federal Award Number: BG99182900, BG99182997, BG99182901

Finding: Inadequate controls over procurement provisions and suspension and debarment requirements **(Prior Year Finding)**

The Bureau of Land and Water Quality did not have procedures in place to ensure that contracts with subrecipients contain all federal procurement provisions, and suspension and debarment requirements for the Nonpoint Source Program of the Performance Partnership Grants.

Procurement provisions of the federal award and amendments include requirements for subrecipients to take affirmative steps to comply with the provisions of the Small Business in Rural Area Program and the Minority Business Enterprise/Women's Business Enterprise Program. In addition, the Grant Management Common Rule, Office of Mangement and Budget Circular A-133 (*Audits of States, Local Governments, and Non-profit Organizations*), and 49 CFR 18.35 and 18.36 contain requirements for procurement and for suspension and debarment.

Approximately $1 million in funds of the Nonpoint Source Program, which is part of the Performance Partnership Grants Program, are issued to municipal governments, soil and water districts, and 501(c)(3) organizations.

Since April 2003, contracts for the Non-Point Source Program have been revised to include all federal procurement requirements.

Recommendation:

We recommend that the Department of Environmental Protection follow procedures adopted during April 2003 to ensure that all federal procurement, and suspension and debarment requirements are included in subrecipient contracts for all grants under the Performance Partnership Grants Program.

Auditee Response/Corrective Action Plan:

Contact: Norman Marcotte, 287-7727

The required procedures have been incorporated into the grant agreements and the new and expanded Grant Administrative Guidance Document for the Non-point Source Program under the Clean Water Act, Section 319.

Department of Environmental Protection

(03-29) Bureau of Land and Water Quality

Performance Partnership Grants **Questioned Costs:** None
CFDA#: 66.605
Federal Award Number: BG99182900, BG99182997, BG99182901

Finding: Inadequate controls over subrecipient monitoring responsibilities **(Prior Year Finding)**

The Bureau of Land and Water Quality does not perform monitoring activities for subrecipients of the Nonpoint Source Program, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Bureau does not have policies in place to ensure that the subrecipients submit annual audit reports, and that management of the subrecipients have taken action on audit findings.

Approximately $1 million in funds of the Nonpoint Source Program, part of the Performance Partnership Grant Program, are issued to municipal governments, soil and water districts, and 501(c)(3) organizations.

Since April 2003, the Department has added appropriate language to all grant contracts within the Performance Partnership Grant Program; however a system is not yet in place to identify or ensure compliance.

Recommendation:

We recommend that the Department establish subrecipient monitoring procedures to ensure that required audit reports are received, and that management decisions on audit reports are issued as necessary.

Auditee Response/Corrective Action Plan:

Contact: Norman Marcotte, 287-7727

Staff administering the Clean Water Act Section 319 grants have developed a new and broad reaching Grant Administrative Guidance document for recipients and staff. Staff processes include more detailed monitoring to ensure compliance. The guidance is now being implemented.

State of Maine
Department of Human Services

Summary of Federal Findings

The Department of Human Services receives and expends over $1.5 billion annually in federal financial assistance. It administered 91 federal programs, each with its unique requirements and restrictions. Many programs are also funded, in part, with State money.

For this fiscal year, the Department of Audit examined twelve of the largest programs administered by the Department. We selected many of them for audit not only because of their size but also because we had identified problems with their administration in past years.

Of the 104 findings included in this report, 67 relate to programs of the Department of Human Services. We are required to give opinions on each program's compliance with laws and regulations that apply to it. Although we cite audit exceptions for each of the twelve programs, we are qualifying our opinion on compliance for only the Title IV-E Foster Care and Adoption Assistance programs. Both programs were cited for not restricting payments only to eligible participants, for unallowable costs and for reporting deficiencies. For several programs, the report also includes questioned costs, which are amounts that are not supported by adequate documentation, that are not in compliance with laws or that appear unreasonable. The federal government may, or may not, disallow these funds and require reimbursement from the State. We identified total questioned costs for Department of Human Services' federal programs of $29,660,252.

The Department of Human Services has initiated significant organizational and procedural changes. Current management has been very responsive to our comments and has been prompt to implement change. However, due to the timing of the reports and the implementation of recommended changes, much of the benefit of their work will not be apparent until after this fiscal year.

Following are summaries of the Department's federal audit findings, in order by federal program number.

<u>Child and Adult Care Food CFDA #10.558</u> *We question $43,158.*

Cash management for this program was inadequate: there were negative cash balances for much of the year and excessive positive balances for one month. Also, the Department used federal funds to repay $31,346 that was due to the federal government for disallowed costs. The Department did not require subrecipient organizations to report administrative costs and, consequently, could not and did not monitor compliance with earmarking limitations on those costs. This resulted in $11,812 in questioned costs.

Department of Human Services

<u>Administrative and Matching Grants for the Food Stamp Program CFDA #10.561</u> *We question $4,954,830.*

The Department did not have adequate controls over cash management for the Food Stamp program. We questioned $4.9 million because the program drew more money than it reported as having expended, but the expected balance was not in the program's account. It appeared that the cash was used for other federal or non-federal programs. There were also several reporting problems: there was no supporting data for amounts reported as claims against households or for beginning and ending balances; there were errors in amounts reported on its financial status report, including underreporting of allowable expenditures; and there was a $16,000 variance between internal and external electronic benefit payment systems. Also, payroll certifications were not obtained from five employees as required.

<u>Immunization Program CFDA #93.268</u> *We question $56,000.*

Cash management was also inadequate for the Immunization program: cash balances were negative for eight months. The Department did not comply with federal employee time and attendance documentation requirements. The Department inappropriately transferred $56,000 from its federal to a State dedicated revenue account. Although the journal that transferred the dollars indicated that it was done to allocate costs, the allocation was not an appropriate program charge. Lastly, the Department charged personnel services costs to the Immunization program for individuals who worked for multiple programs.

<u>Temporary Assistance to Needy Families CFDA #93.558</u>

The Temporary Assistance to Needy Families program did not have adequate controls over cash management and accounting for program expenditures. As was reported in last year's audit, the Department drew federal funds in excess of expenditures. Although it was not able to identify for which programs that money was spent, the Department worked in conjunction with the Bureau of Accounts and Control and the U.S. Department of Health and Human Services to resolve the issue. The Department was able to identify $27 million in other qualifying costs that were eligible to be charged to the program, and returned over $9 million to the federal government. The Department's program reports contained numerous errors: some amounts were estimates rather than actual expenditures and other entries were not adequately supported. These have since been significantly revised, and have been resubmitted. After report revision, the program satisfied the Maintenance of Effort compliance requirement; however, depending on the final disposition of a related questioned cost, the program may again be noncompliant. Also, the program did not fully comply with federal requirements to automatically verify certain eligibility and benefit amounts.

Department of Human Services

Child Support Enforcement CFDA #93.563

The Department had not prepared all journals necessary to properly account for activity of the Child Support Enforcement program and had not reconciled cash balances in the program's administrative accounts. The net cash balance in the accounts was negative $9.4 million at June 30, 2003. Also, the Department reported estimated rather than actual disbursements on federal reports for the program. The Department issued and did not follow up on a check for $1.1 million to the U.S. Department of Health and Human Services that was never cashed. Additionally, funds were transferred to another State agency for legal services but those funds were in excess of the amount of the service provided. Other noncompliance issues noted were: not obtaining required certifications from employees, not fully complying with requirements for establishing case records and enforcing medical support orders, and incorrectly reporting expenditures.

Child Care Development Block Grant CFDA #93.575 *We question $263,435.*
Child Care Mandatory and Matching Funds –
Child Care and Development Fund CFDA #93.596

The Department charged payroll costs to these two programs for employees who also worked for other programs: we therefore questioned the costs that were not properly allocated. Additionally, federal financial reports for the program included errors in amounts reported for unliquidated obligations, matching funds and earmarking expenditures. Amounts reported did not agree to the accounting system. Also, the Department did not adequately monitor program subrecipients to ensure that they complied with regulations for determining participant eligibility and/or benefit payment amounts. Cash management was not adequate: for much of the year cash fluctuated between positive and negative balances.

Title IV-E: Foster Care CFDA #93.658 *We question $4,520,961.*

As we did in the prior year, we noted significant problems within the Foster Care program. The program's internal controls were not sufficient to ensure that payments were made only to eligible participants and only for allowable costs. Information systems costs were disproportionately charged to this program, although other programs also benefited. The Department reported costs for ineligible children, reported unallowable costs and reported costs more than once. Reports for costs that are shared with the Adoption Assistance program were revised numerous times and contained many errors, which resulted in questioned costs. Data retrieval systems for client information were not adequate to enable the Department to identify eligible participants, to identify closed cases or to compute reliable rates to allocate costs. Cash management controls were inadequate to account for all federal cash drawn. The Department drew more cash than it reported as expended but the remaining account balance was negative and not positive, as would be expected.

Department of Human Services

<u>Adoption Assistance CFDA #93.659</u> *We question $1,231,409.*

The Adoption Assistance and Foster Care programs have similar control problems. We questioned $1.2 million for errors made by the Department in reporting shared costs. In addition, the Department did not change the funding source from the Foster Care program to the Adoption Assistance program, when a child was placed in an adoptive home. Certain non-recurring costs and demonstration project costs were not properly allocated and some were not included in financial reports. Other costs amounting to $94,266 were incorrectly charged to a State program. We also found that documentation supporting eligibility determinations was not retained, and that benefit payments for board and clothing were made using incorrect rates until a programming correction was made in December 2002.

<u>Social Services Block Grant CFDA #93.667</u> *We question $4,900,000.*

The Social Services Block Grant program did not have adequate controls to ensure that funds received from the Temporary Assistance to Needy Families Block Grant program were spent as required. We questioned $4.9 million because agreements with subgrantees did not note an earmarking restriction and there was no assurance that eligible recipients received the services. The Department did not obtain all required certifications asserting that contractors were not suspended or debarred. Also, cash management controls were not sufficient at either the State or subrecipient level to minimize federal cash on hand.

<u>State Children's Health Insurance Program CFDA #93.767</u>

The Department did not draw $1.7 million from the federal government to pay for the program's allocated administrative costs. Other programs appear to be subsidizing the costs. Also, the Department reported estimated rather than actual disbursements for the program on federal reports.

<u>Social Security-Disability Insurance CFDA #96.001</u> *We question $633,282.*

The Social Security Disability grant cluster was charged a disproportionate share of allocated indirect costs because of the allocation method used. We question the excess costs charged, $633,282.

<u>Medical Assistance Program (Medicaid) CFDA # 93.778</u> *We question $12,033,693.*

The Department of Human Services expended over $1.1 billion for the Medicaid program, which is the largest federal program administered by the State of Maine. Accounting for the program grows more complex as the State amends its budget, receives waivers and attempts to maximize federal participation. We took exception to the way the Department provided oversight for eligibility, maximized federal participation, charged unallowable costs, accounted for certain aspects of the program, managed cash, documented transactions, reported to the federal government, chose cases to review, transferred expenditures from one fund to another and performed security reviews.

Eligibility

The Department did not conduct annual eligibility reviews of individual recipients as required, and did not review documents such as applications, agreements and licenses that are required for providers to remain eligible participants in the program. The Department also did not meet the requirements of Medicaid Eligibility Quality Control, which include determination of the State's error rate, submission of reports regarding that rate, and submission of a sampling plan.

Maximizing federal participation

The Department increased the reimbursement rates that it charged the federal government for school-based rehabilitation services, received an additional $8.7 million in reimbursement, and never sent it to the schools or other entities that provided the services. The Office of the Inspector General of the U.S. Department of Health and Human Services has also reviewed the charges and the support for the rate increase, but has not yet issued a report. The Department of Human Services is working with the Centers for Medicare and Medicaid to resolve the issue. The Department also implemented a strategy that resulted in paying ambulance claims to municipally owned ambulance services at the Medicare rate rather than the lower Medicaid rate, which is not allowed. Both of these actions were taken in an effort to maximize federal participation.

Unallowed costs

The Department made payments to psychiatric hospitals that exceeded the limit for federal participation by approximately $3.3 million.

Accounting issues

The Department processed many transactions for the Medicaid program through an expenditure account, which is referred to as a "suspense account." Although the Department found this to be a way to quickly receive and disburse funds, the account is closed at the end of the fiscal year, before all transactions have cleared. The account provides the Department no effective way to research account activity, and provides only a partial record of what took place. In addition, receipts coded to the expenditure account create new, unauthorized allotment.

The Department did not reconcile accounts receivable records of the Bureau of Medical Services to the accounts receivable balance on the State's accounting system. In addition, there are no procedures in place to ensure collections or to routinely identify balances to be written off.

Department of Human Services

Cash management

There was a cash balance of negative $121 million in two of the principal Medicaid accounts at the end of the fiscal year. The Department expended $88 million more than it drew for the program during the year. Quarterly reports to the federal government are used to increase the amount of the grant award, but the Department routinely submitted reports late and submitted reports that did not include all allowable expenditures. Last-minute budget changes were not included on quarterly federal budget requests, and journal vouchers were not made in a timely fashion. Also, the Department reported estimated rather than actual disbursements on federal reports for the program.

Documentation

The Department did not have adequate documentation to support all of the reimbursement rates that it sets for providers of Medicaid services. In addition, there was insufficient documentation to support many of the journal vouchers that were prepared. The total amount of journal vouchers processed for the program in fiscal year 2003 had an absolute value of $598 million.

Reporting

Medicaid financial reports are submitted late, are not reconciled to the State's accounting system, and are not routinely reviewed by supervisory personnel. Because financial personnel have limited access to the accounting system's data warehouse, they estimate amounts expended by other agencies. There are no written procedures for completion of the reports, and no written chart of accounts for the program. The Department could not explain a variance of $38.4 million that resulted when we attempted to reconcile the reports to the accounting system.

The complexity of the program and its reports, and the lack of a review process, result in frequent errors.

Other

The Department's Surveillance and Review Unit used a sampling method to identify cases for review for only seven percent of the cases that it opened in 2003. The sampling method is required by program regulations.

The Department temporarily transferred State expenditures to the Federal Expenditure Fund, artificially creating allotment, to be able to make payments on a timely basis. The entries temporarily overcharged federal funds and triggered a draw of federal cash.

The Department does not have a program for conducting periodic risk analyses and system security reviews for each computerized information system, as required. A risk analysis was conducted this year, but there are no controls in place to ensure that the analysis will be repeated as required.

Department of Human Services

Deficiencies affecting other federal programs *We question $1,023,484.*

The Department did not comply with prescribed methods of allocating costs to federal programs. Certain expenditures were charged as both direct and allocated costs. We questioned $683,974 in duplicate charges to the Social Services Block Grant program and $339,510 in duplicate charges to the Temporary Assistance to Needy Families program.

State of Maine
Department of Human Services

(03-30) Division of Financial Services

CFDA#: N/A **Questioned Costs:** None
Federal Award Number: N/A

Finding: Administration of federal funds inadequate **(Prior Year Finding)**

The Department of Human Services does not have adequate systems and procedures in place to ensure that the federal funds it administers are properly accounted for and expended in compliance with regulations.

The Department has not used the State accounting system to establish a separate account for each program; “reporting organizations” are established for individual programs but combine into a single “account organization,” which controls the cash for multiple programs. The Department has not been able to provide a complete and accurate list of the accounts established and used for each program. It also does not always post transactions to the affected accounts but rather attempts to track the effect that the transactions would have had and adjust reports or other activity accordingly. This is particularly true for costs allocated through the Department’s cost allocation plan. Those costs are significant as they include regional office costs and other costs that benefit multiple programs.

Furthermore, the amount of expenditures recorded in the State’s accounting system does not reflect amounts reported as program expenditures in financial reports and in the Schedule of Expenditures of Federal Awards (SEFA). The accounting records do not truly reflect the sources and uses of funds. The Department does not transfer qualifying expenditures recorded elsewhere in the accounting system to the programs’ accounts but transfers the federal reimbursements received, referred to as “earned revenue,” to Other Special Revenue Fund accounts and uses them to “self-fund” other Department programs. The “earned revenue” amounts transferred are sometimes estimates based on budgeted amounts that may not agree with actual qualifying expenditures. This “self funding” approach makes tracing the sources and uses of funds difficult, and if proper documentation is not maintained, impossible. Because multiple people are involved and processes are not documented, no one individual fully understands how the accounts are being used. The resulting confusion has, among other things, caused the same charges being claimed more than once for federal reimbursement. The Office of Management and Budget Common Rule requires that amounts be traceable to the entity’s accounting system. An example of programs that utilized the “earned revenue” approach is the Title IV-E Foster Care and Adoption Assistance Programs. In fiscal year 2003, the Department reported qualifying Title IV-E shared costs of a net $11 million for the Title IV-E Adoption Assistance and Foster Care Programs, of which a majority was paid for with State funds. Once received, the federal reimbursement constituted State funds. The Department, rather than move the qualifying expenditures to the program’s account where the qualifying costs were reported as spent to the federal government, transferred the federal reimbursement funds out of the Federal Fund and into the Other Special Revenue Fund.

Because actual activity is not always posted, the accounting record of transaction activity and account balances is not complete nor entirely reliable. The Department does not consistently review and document its reconciliations of its accounts.

The Department has had an incomplete understanding of Cash Management Improvement Act requirements and has not complied with them. Federal cash draws cannot be readily associated with underlying expenditures.

The Department has not documented its use of accounts or the logic underlying certain established procedures. As the Department has experienced personnel turnover, its institutional memory has been adversely affected. The Department can no longer explain why certain procedures are followed and does not have a complete understanding of the effects of some of those procedures. Accounting personnel do not have a written manual of financial procedures to follow. New personnel must learn as they go. Because certain procedures are unique to individual programs, the loss of experienced personnel results in oversights and errors. Individual accountants have responsibility for multiple programs. The Department has had difficulty recruiting and retaining highly trained individuals. The time required to process routine transactions leaves little time to investigate or analyze unusual balances or to determine the cause of or to correct identified errors.

Management of certain programs is decentralized in regional offices. Program personnel and accountants do not always share a common understanding of how funds flow or the consequences of actions taken. Certain programs have not complied with eligibility requirements for program participation and have charged costs that are not allowable to the program.

The Department has filed federal reports that it cannot support with adequate documentation of the underlying costs. Supporting documentation is not well organized or consistently maintained. We identified some charges that were reported more than once and for more than one program. We also identified some charges that were allowable but that had not been reported for federal reimbursement. Reports frequently require revision following review by federal program personnel. The unsupported charges can result in reported expenditures being disallowed and money having to be returned or not being received.

The Department, in conjunction with the Bureau of Accounts and Control, has been taking actions to alleviate the problems detailed above. The Department created the Division of Program Accounting and Cash Management Operation, along with creating five new positions to work to correct the problems of the Department.

Recommendation:

We recommend that the Department of Human Services implement procedures that will:

- Identify program activity with specific accounts
- Establish and maintain a chart of accounts
- Document its procedures

- Record all transactions in the accounting system
- Review and reconcile account activity
- Maintain neat and orderly supporting documentation for all reports filed
- Establish standards for consistent reporting and document retention
- Ensure that accounting personnel are trained and qualified
- Comply with Cash Management Improvement Act criteria
- Request federal program cash only for that program
- Ensure that program personnel charge only allowable expenditures for eligible program participants

We further recommend that the Department make certain and document that there is legislative authority to "self fund" programs through "earned revenue." We also recommend that the Department discuss the accounting implication of this "self funding" with the Bureau of Accounts and Control.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

I agree with this finding and DHS started to implement these recommendations in FY 04. This Division has been implementing the grant sub-system within the MFASIS accounting system. The grant subsystem helps us to identify specific program activity.

The Division has recently completed compilation of processes/procedures manuals and we are continuing to revise and to update these manuals as needed.

The Division has begun conducting regular reconciliations on a limited number of accounts and will be continuing to implement reconciliations until all accounts are reviewed.

The Division has and continues to meet with the State Treasurer CMIA Coordinator to insure that CMIA is being met in all DHS cash activities.

Communications have improved between financial staff and the bureaus. All parties meet at least once a month to discuss all financial issues.

It has been mandated at all levels of DHS that program accounting must be adhered to.

Department of Human Services

(03-31)   Division of Financial Services

Child and Adult Care Food Program **Questioned Costs:** None
CFDA#: 10.558
Federal Award Number: 4ME300302

Finding: Inadequate internal control over, and non-compliance with, cash management requirements

The Department of Human Services did not have adequate internal controls in place to ensure appropriate and consistent cash management for the Child and Adult Care Food Program.

Cash balances of the program's federal fund were negative for the first eight months of the fiscal year. Negative balances ranged from $154,000 to $401,000. Disbursements that caused these negative balances were funded either by other federal programs or by the General Fund.

For one month, federal cash held by the state was excessive. Title 31 CFR 205.33(a) states that the timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for program costs. Administratively feasible was determined by the Bureau of Accounts and Control to be seven days. In this instance, the program held cash sufficient for nine days.

Recommendation:

We recommend that the Department monitor the program's cash needs, and time draws of federal cash to be in compliance with federal requirements. The Department should investigate any unusual cash balances that are not temporary in nature and not allow routine use of cash belonging to other funds or programs. We recommend that the Department document its cash management policies and maintain supporting documentation for its actions.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Health and Human Services agrees with this finding. The lack of staffing that may have caused the draws to be unacceptably postponed has begun to be addressed in FY 2004. Three managing staff accountants have been added to the Division of Accounting and Cash Management Operations, and each has a Senior Staff Accountant, Staff Accountant, and Account Clerk under his/her supervision. In FY 2005, the Division is near completion of the hiring process.

The Division of Accounting and Cash Management Operations instituted a new cash draw policy in October 2003. As of that date, all federal cash draw amounts are required to be supported by MFASIS activity such as Journal vouchers, impact report activity, client payment runs, etc.

Division employees have also met with Tim Rodriguez, State of Maine CMIA Coordinator, for training and guidance. As a result, timing of certain draws for expenditures, personnel costs, administration allocations, etc. has been adjusted.

Currently, draws for the Child and Adult Care Food Program are done as follows:
Expenditure draws are requested per the invoice summary sheets provided by program personnel on a consistent basis. Invoices reconciled to the summary sheets are then processed two days later, once the cash transfer has been confirmed on the TAMI and MFASIS systems.

(03-32) Division of Financial Services

Child and Adult Care Food Program **Questioned Costs:** $31,346
CFDA#: 10.558
Federal Award Number: 4ME300302

Finding: Federal funds used to reimburse federal government

In October 2002, the Division of Financial Services of the Department of Human Services charged the Child and Adult Care Food Program federal account $31,346 to reimburse the U.S. Department of Agriculture for $30,945 in unsupported meal reimbursement expenses applicable to federal fiscal year 2000. This change also included $401 in interest. As a result, federal funds were drawn by the State to pay back the federal government. Disallowed program costs should be paid from the General Fund or from Other Special Revenue Funds and cannot be charged to federal accounts.

Recommendation:

We recommend that the Department journal the charge to a non-federal account and return $31,346 to the federal government or reduce its next cash draw down by that amount. Additional interest may also be due. We recommend that the Department take particular care when coding prior period expenditures.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Health and Human Services (Federal) does not close/review program grant earnings until after the Federal period has closed. In FFY 2003, for instance, the program accountant was not notified until February 2004 that variances between funds earned and drawn *existed for the period ended September 30, 2003. At that time, a negative draw was initiated on March 1, 2004, with the assistance of Julie Larkin, our Federal liaison for the program.*

The Child and Adult Care Food Program does not have a state side to its program. As a result, it is unable to reimburse previous years' overdraws from non-federal funds. The Department of Health and Human Services (state) will research the addition of a state side to this program in its Fiscal Year 2006-2007 biennium budget.

(03-33) Division of Financial Services

Child and Adult Care Food Program **Questioned Costs**: $11,812
CFDA#: 10.558
Federal Award Number: 4ME300302

Finding: Inadequate internal control over earmarking requirements

The Department of Human Services does not have adequate safeguards in place to ensure that sponsoring organizations of service centers comply with the Child and Adult Care Food Program's earmarking requirements.

The Department did not require the program's 32 sponsoring organizations to report their administrative costs until July of 2003, and has not monitored the costs reported to verify compliance with the earmarking requirements.

Four of the 32 organizations did not comply with the applicable earmarking requirements. Excess administrative costs ranged from $142 (3%) to $7,180 (103%) of the amount allowed. We question the excess amounts ($142, $919, $3,571, and $7,180) charged by the four noncompliant sponsoring organizations.

Title 7 CFR 226.16(b)(1) states, "for sponsoring organizations of centers, the portion of the administrative costs to be charged to the Program...may not exceed 15% of the meal reimbursements estimated or actually earned during the budget year."

Recommendation:

We recommend that the Department of Human Services monitor subrecipients to ensure compliance with earmarking requirements.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

The Department of Health and Human Services agrees with this finding. Child and Adult Nutrition Program employees have begun reviewing the administrative expenses for the agencies in question. It is our belief that the amounts cited for these agencies were not amounts in excess of the 15% Federal cap on administrative expenses, but a reporting error. In reality, most of the centers are barely able to cover meals and related costs with the per-meal reimbursement they receive from the CACFP. Our opinion that the amounts in question are posting errors rather than actual overages is based on that fact. The CACFP accountant has recently been promoted to another agency prior to completion of this analysis. Once our office is able to fill the vacant position, this administrative expenditure review will resume. If the analysis leads to over payments, we will recover the funds from the agencies cited in this finding.

Since July, 2003, Child and Adult Nutrition employees have actively monitored administrative costs among those agencies that fall within the Federal regulations. A summary of prior-year earnings is provided to each CACFP Specialist annually as a basis for determining the 15% cap for all new agreements (a copy of these calculations is available upon request); Through this procedure, the Child and Adult Nutrition Program is now complying with Federal regulations concerning the administrative expenditure cap.

(03-34) Bureau of Family Independence

Administrative and Matching Grants for the Food Stamp Program
CFDA#: 10.561 **Questioned Costs:** $4,954,830
Federal Award Number: 2003IS2514

Finding: Inadequate internal controls over federal draws, cash management and program accounting

The Department of Human Services did not have adequately designed control procedures to minimize the amount of time elapsing between the receipt of federal cash and the associated expenditures. We note that cash draws for the Food Stamps Program of $13,039,528 exceeded reported expenditures by $4,954,830 for the year ending June 30, 2003. There was no indication that a significant deficit cash balance existed at the beginning of the year that would account for the excess. We question the excess drawn because the account used for the program, as well as for other programs, shows a cash balance of only $1.6 million as of June 30, 2003. The excess funds drawn appear to have been used for other programs.

Recommendation:

We recommend that the Department establish procedures to track program cash balances within the State's accounting system and ensure that federal cash draws are made only for expenditures of the Food Stamp Program.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Human Services instituted a new cash draw policy in October 2003. As of that date, all federal cash draw amounts are required to be supported by MFASIS activity such as Journal vouchers, impact report activity, client payment runs, etc. In order to successfully reconcile cash balances in accounts, the Division of Accounting and Cash Management has begun loading grant information into the MFASIS Accounting Grant Subsystem. Currently, Bureau of Health accounts are active, and Bureau of Child & Family Services grants are being reviewed. Food Stamp accounts are expected to be added to the system in FY 2005. The Division is also working with the Office of the State Controller to create a consistent account reconciliation procedure for all federal accounts. Because of the various accounts and uses for the funds, the task will be time-consuming. Also, the Division of Accounting and Cash Management is working to create a spreadsheet listing all federal grants by CFDA # and the balance of that grant per Federal agency.

(03-35) Bureau of Family Independence

Administrative and Matching Grants for the Food Stamp Program **Questioned Costs:** None
CFDA#: 10.561
Federal Award Number: 2003IS2514

Finding: Inadequate controls to ensure compliance with reconciliation requirements of the Food and Nutrition Service

The Department of Human Services was unable to reconcile issuances reported from its Automated Client Eligibility System to amounts posted in the U.S. Treasury Payment System. The Food Stamp Program's contractor for electronic benefit transfers (EBT) identified variances of $16,317 at year-end, but the Department was unable to determine what the variances represented.

Food and Nutrition Serviced guidance requires that the State reconcile the three systems: amounts in the contractor's system must be supported by amounts originating from the Department's system and must agree with amounts posted in the U.S. Treasury Payment System.

Recommendation:

We recommend that the Department develop reconciliation procedures that identify the cause and nature of any variances between the systems.

Auditee Response/Corrective Action Plan:

Contact: Mike O'Connor, 287-6932 and Mark Toulouse, 287-1869

The Department of Human Services agrees with this finding. The variances cited were a result of ACES programming errors, some of which have been corrected now. As a result, the Food Stamps Program is now able to reconcile EPPIC, ACES, and ASAP on a weekly basis. Some programming adjustments are still required of the ACES system, however, and are being researched by BFI programming staff. In order to satisfy current requirements, Food Stamp program employees have developed a system where EPPIC data is downloaded to an ACCESS database file and broken down as applicable The Department of Health and Human Services has been working diligently to improve the output offered by the ACES system. While the data in the ACES system is correct, the Bureau of Family Independence continues to define/assess our needs regarding reports and documentation output from the system.

(03-36) Bureau of Family Independence

Administrative and Matching Grants for the Food Stamp Program **Questioned Costs:** None
CFDA#: 10.561
Federal Award Number: 2003IS2514

Finding: Inadequate controls over federal reporting requirements

A federal review by Food and Nutrition Services representatives determined that the Department of Human Services is unable to provide supporting data for totals reported on the FNS 209 – Status of Claims Against Households Report. Household claim balances remain unverifiable.

The Department does not have support from its Automated Client Eligibility System (ACES), which was implemented in 2003, for the beginning and ending balances indicated on the FNS 209 report and is unable to verify the accuracy of the collections and established claims data.

Recommendation:

We recommend that the Department implement the necessary programmatic changes to ACES to allow for complete, accurate and timely FNS 209 reports, which are supported by case records.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Human Services has been working diligently to improve the output offered by the ACES system. While the data in the ACES system is correct, the Bureau of Family Independence continues to define/assess our needs regarding reports and documentation output from the system.

(03-37) Division of Financial Services

Administrative and Matching Grants for the Food Stamp Program **Questioned Costs:** None
CFDA#: 10.561
Federal Award Number: 2003IS2514

Finding: Inadequate controls over reporting financial and program data **(Prior Year Finding)**

The Department of Human Services does not have adequate controls in place to prevent or detect errors in reporting Food Stamp expenditures on the Financial Status Report (SF-269). The Department reported $523,250 in incorrectly calculated expenditures, $109,319 in over reported expenditures, and did not report allowable expenditures of $737,907. We do not question costs, as the net result is an understatement of expenditures of $105,338.

The majority of these errors were caused by employee turnover and the inconsistent application of procedures used by the Department in the preparation of the financial reports. In many instances, the Department was unable to provide supporting documentation for questioned expenditures.

Recommendation:

To reasonably ensure accurate financial reporting, we recommend that the Department establish written procedures to be followed when preparing the SF-269 and maintain supporting documentation for audit purposes.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Human Services agrees that the quarterly Food Stamp 269 reports were reported inconsistently. A consistent account structure was not adhered to when preparing the *report and adequate backup was not maintained to support the expenditures reported. The Division of Accounting and Cash Management has worked on documenting that report structure, and updating/correcting the Excel spreadsheet used to compile the financial data for submission. In subsequent reports filed, expenditures reported are supported by MFASIS activity, and proper backup is maintained. It is expected that the backup Excel spreadsheet will be corrected in Fiscal Year 2005. The Department of Health and Human Services recently worked to document procedures done by all financial personnel. Because of turnover, however, some tasks have not yet been documented. As the Division of Accounting and Cash Management becomes fully-staffed in Fiscal Year 2005, documentation regarding the Food Stamps 269 report will be updated.*

(03-38) Bureau of Health

Immunization Program **Questioned Costs:** $56,000
CFDA#: 93.268
Federal Award Number: H23/CCH122558-01-5

Finding: Improper transfer of federal funds

The Department of Human Services transferred $56,000 from the Immunization Program federal account to its non-federal account to prevent the unspent funds from reducing the amount of the subsequent grant award.

Although the explanation written on the December 31, 2002, journal entry indicated that the transfer was "to adjust part of EPSDT charges that should have been allocated to the direct assistance vaccines for the 6/30/02 quarter," personnel at the Department indicated that the journal was done to reduce the amount of the unobligated balance in the federal account at the end of the grant period. Any unobligated balance at the end of a grant period reduces the amount of the subsequent grant award. Neither program nor accounting personnel realized that the transfer was not appropriate.

Both the federal and non-federal accounts are within the Federal Expenditures Fund. The non-federal account is used by the program to record donations of non-federal funds that are used to purchase additional vaccines for the program. The account did not incur any charges for which a transfer would have been appropriate and the Department could not provide any supporting documentation for the transfer.

Recommendation:

We recommend that the Department process journal entries for only appropriate grant purposes and retain supporting documentation for the actions taken.

Department of Human Services

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

Contact: Elizabeth Hanley, 287-1861

New processes have been put into place requiring program managers to provide supporting documentation showing that costs are allowable per the federally approved grant budget. This documentation is then attached to any journal entries requested and processed.

(03-39) Bureau of Health

Immunization Program **<u>Questioned Costs:</u>** None
<u>CFDA#:</u> 93.268
Federal Award Number: H23/CCH122558-01-5

<u>Finding</u>: Controls insufficient to ensure compliance with standards for support of salaries and wages **(Prior Year Finding)**

The allocation of time for employees working on multiple activities is not properly supported by personnel activity reports as required. Employees working solely on the Immunization Program do not prepare the semi-annual certifications that are required for employees who work only on one program. 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 agency. They must reflect an after the fact distribution of the actual activity of each employee.
>
> Where employees are expected to work solely on a single Federal award or 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.

The Electronic Time and Attendance Management System now being used by the Department has the capability of recording personnel activity compliance with both the allocation and certification requirements of OMB Circular A-87. The Immunization Program of the Department of Human Services is not currently utilizing this capability. We also note that, for all programs, the electronic Time and Attendance Management System will default to budgeted hours and charge hours on that basis unless the setting is changed to charge costs based on actual hours.

Recommendation:

We recommend that the Department of Human Services' Bureau of Health comply with the relevant cost principles for employees who work on multiple activities as well as those who work solely on one activity or cost objective.

Auditee Response/Corrective Action Plan:

Contact: Annette Tibbetts, 287-3172

DHS agrees with this finding. Immunization will be set up on the State's Time and Attendance Management System for FY 2005. The result will be compliance with both the allocation and certification requirements of OMB Circular A-87.

(03-40) Division of Financial Services

Immunization Program **Questioned Costs:** None
CFDA#: 93.268
Federal Award Number: H23/CCH122558-01-5

Finding: Untimely reimbursement

The Department of Human Services did not make a timely reimbursement to the Immunization Program for $337,211 in costs of several personnel who also worked for the Early Prevention Screening Detection and Treatment Program. We note that, had the costs been reimbursed timely, some of the reimbursed funds would have been reflected in the unobligated balance at the end of a grant period. Any unobligated balance then reduces the amount of the subsequent grant award.

During the fiscal year that ends on June 30, 2003, the Immunization Program was reimbursed for the quarters ending June and September 30, 2002. For the remainder of the fiscal year the Immunization Program incurred costs totaling $337,211. The Department reimbursed the program for those costs on March 12, 2004. We therefore do not question the costs.

Recommendation:

We recommend that Immunization grant funds be expended only for the purposes of the Immunization grant. If, through an allocation process, grant funds are expended in support of another program, we recommend timely reimbursement.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

DHS agrees with this audit finding and recommendation.

(03-41) Bureau of Family Independence

Temporary Assistance for Needy Families **Questioned Costs:** None
CFDA#: 93.558
Federal Award Number: G-0301 METANF

Finding: Noncompliance with Income Eligibility and Verification System requirements

The Department of Human Services is not fully complying with the requirements of 45 CFR 205.55, which require states to have automated systems for the exchange of information between federally-assisted benefit programs to assist with establishing or verifying eligibility and benefit amounts. State agencies are required to request information from the Income Eligibility and Verification System (IEVS) for all program applicants at the first opportunity and then at specified intervals thereafter.

The Department has automated systems for some, but not all, of the information exchanges required. There were three areas in which procedures did not fully comply with IEVS requirements:

- Unearned income
- Wages,
- Social Security Administration Beneficiary Earnings Exchange Records (BEERS)

The Department did not corroborate unearned income information with the Internal Revenue Service as required, although it did verify unearned income with the Social Security Administration. Program personnel have requested that a system interface to the Internal Revenue Service be completed to allow the data exchange but the work has not yet been completed.

Department personnel have automated access to wage information from the Maine Employment Security Commission but Eligibility Specialists reported not using that information to verify wages because the data is not believed to be useful (as it is not current).

The Department has implemented an Automated Client Eligibility System (ACES) Manual Interface Request that can be used to verify Social Security Administration BEERS information. Three of the five Eligibility Specialists who we interviewed did not know that it was available, and, therefore, none of the five had used it.

Department of Human Services

We note that a state may apply for and receive permission to obtain and use income and eligibility information from an alternate source or sources. The alternate source must be as timely, complete and useful as the prescribed sources. Program personnel reported various other means of verifying information, but those methods were not approved. The consistency of application and the effectiveness of the alternate methods are uncertain.

According to 45 CFR 264.10 and 264.11, the State may be penalized up to two percent of the State Family Assistance Grant for failure to participate in IEVS.

We also noted that exception reports that were generated from the information exchanges were not always researched. The Department had not researched or resolved three of 25 data differences that we tested.

We also noted that in September of 2002 the Department implemented a new eligibility system while retaining some elements in an older system. Program Eligibility Specialists now determine eligibility for multiple programs rather than only one or two. A number of Eligibility Specialist positions are vacant. The system and personnel changes have resulted in some inconsistencies in understanding as to what information is available and how it is to be accessed. The Department is developing a written training manual to document its procedures.

Recommendation:

We recommend that the Department of Human Services:

1. complete the changes in systems that will allow for automated information exchanges,
2. provide supplemental training to program staff as to what information is to be verified and from which sources,
3. ensure that appropriate action is taken to clear exception reports, and
4. document supervisory review of the exception reports and complete its training and procedural guide.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

The Bureau continues to work on completing the systems changes that will automate information exchanges and the on-line procedural guide that can be used as a training tool. Additionally, the Bureau will provide updated instructions to staff concerning IVES requirements.

Department of Human Services

(03-42) Bureau of Family Independence

Temporary Assistance for Needy Families **Questioned Costs:** None
CFDA#: 93.558
Federal Award Number: G-0301 METANF

Finding: Inaccurate data reporting on ACF-199 and ACF-209 quarterly performance reports

On multiple occasions, the Department of Human Services has submitted inaccurate data in the Temporary Assistance for Needy Families performance reports. The errors appear to be associated with compilation of data from the newly implemented Automated Client Eligibility System. Title 45 CFR 262.1 indicates that the federal government can impose a penalty of four percent of the adjusted State Family Assistance Grant for each quarter a state fails to submit an accurate, complete or timely report.

Recommendation:

We recommend that the Department continue efforts to identify and correct the errors that are causing inaccurate data to be included in the program's quarterly performance reports.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

The Bureau continues to work with its federal partners to produce accurate TANF and SSP-MOE Quarterly Data Reports.

(03-43) Division of Financial Services

Temporary Assistance of Needy Families **Questioned Costs:** None
CFDA#: 93.558
Federal Award Number: G-0201 METANF, G-0301 METANF

Finding: Inadequate control procedures to ensure accurate reporting of program expenditures **(Prior Year Finding)**

The Department of Human Services submits quarterly federal expenditure reports (ACF-196) for the Temporary Assistance for Needy Families (TANF) block grant to the federal grantor agency. The reports as originally submitted by the Department included significant errors, inconsistencies, and unsupported adjustments. These errors resulted from the Department's lack of control procedures to ensure proper reporting of program expenditures. As a result, the Department of Administrative and Financial Services' Bureau of Accounts and Control amended the ACF-196 reports for federal fiscal years 2000 through 2003. The amended reports along with the ACF-196 report for quarter ending March 31, 2004 were submitted to the Department of Health and Human Services in May 2004. Problems identified in the originally submitted ACF-196 reports are detailed below.

1. The reporting method used by the program accountant to compile the ACF-196 expenditures led to inconsistencies in the reported expenditure amounts for each quarter. Expenditures were counted twice in some quarters, or not reported at all. While these errors prevent meaningful ongoing analysis, the cumulative report at the end of the fiscal year was reasonably correct
2. The original reported amounts for the quarter ending June 30, 2003 were based on estimates, while all amounts reported in columns (A) through (D) are required to be actual expenditures or obligations. A revised report was submitted by the Department on October 3, 2003, based on actual expenditures.
3. Expenditures for Child Care and Other Supportive Services were reported as assistance payments. Assistance payments, per 45 CFR 260.31(a)(3), should include supportive services such as transportation and childcare provided to families who are not employed. Our tests showed that some supportive services were recorded as assistance payments although they were paid on behalf of TANF clients who were employed.
4. The program accountant incorrectly reported child support collections instead of the applicable disbursement of those collections as federal TANF expenditures and State Maintenance of Effort (MOE). In addition, child support disbursements to TANF clients known as GAP payments were also incorrectly reported as federal TANF expenditures. GAP payments to TANF clients are unallowable as federal TANF expenditures but can be reported as state MOE. Total child support collections and GAP payments reported incorrectly as federal TANF expenditures was $9,253,569. After adjusting for the reporting errors, the State did not meet the MOE requirements for federal fiscal years 2001, 2002, and 2003. The shortfalls were $35,000, $2.9 million, and $1 million respectively. These errors have been corrected on the amended ACF-196 reports submitted by the State's Bureau of Accounts and Control; therefore, these costs are not questioned.
5. The Department transferred, through four journal entries, expenditures totaling $1,015,000 from the program's ASPIRE account to the Basic Assistance account. The written explanation for the journals was that they were were done to free up allotment in the ASPIRE account to allow for additional ASPIRE expenditures. The expenditures were, however, correctly reported on the ACF-196 report. Although these transfers did not violate any federal grant restrictions, they circumvented the State's budgetary controls: that is, the Department did not obtain approval from the Bureau of the Budget. Title 5 M.R.S.A. §1662 states:

    > The Department of Administrative and Financial Services, through the Bureau of Budget, has the duty and authority…to examine and recommend for approval any changes in the work program and quarterly allotments of any department or agency of the state government during the fiscal year.

6. The Department prepared a journal voucher that appeared to transfer $2 million in expenditures from various non-TANF State accounts into the TANF federal account. These apparent expenditures were reported in the ACF-196 report for the quarter ending September 30, 2003. The support provided for the transfers showed that the amounts were based on encumbrances and not actual expenditures. The entire $2 million was not actually spent as of the end of the quarter. Additionally, contracts associated with the $2 million journal were reviewed and found not to be allowable under the TANF State Plan. These amounts were not included in the amended ACF-196 reports submitted by the Bureau of Accounts and Control; therefore, these costs are not questioned.
7. The Department included material adjustments to amounts reported as expended. Supporting documentation could not be provided for the adjustments, and they did not agree with the State's accounting records. These unsupported adjustments were not included in the amended ACF-196 reports submitted by the Bureau of Accounts and Control.
8. The Department reported amounts expended by the Social Services Block Grant (SSBG) and the Child Care Development Fund (CCDF) as amounts transferred to these programs, but did not actually transfer the reported amounts. In federal fiscal year 2002, CCDF transfers were understated on the ACF-196 report by $2,382,171. In federal fiscal year 2003, CCDF transfers were overstated on the ACF-196 report by $1,041,290 and SSBG was overstated on the ACF-196 report by $1,875,000. As noted previously, the ACF-196 Financial Reports have been revised by the Bureau of Accounts and Control subsequent to our audit period.

OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires recipient organizations of federal funds to have internal controls in place to provide reasonable assurance of accountability of assets and the preparation of reliable financial statements and federal reports. Additionally, Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* states that, to be allowable under federal awards, costs must be adequately documented.

Recommendation:

We recommend that :
1. Cumulatively reported expenditures be correctly completed,
2. the Department report only actual and allowable expenditures on the ACF-196 Financial Report and that they be reported in the appropriate category,
3. any transferred funds between Basic Assistance and ASPIRE be accomplished in accordance with State statute,
4. supporting documentation for all journal vouchers and adjustments captured in the ACF-196 be maintained, and
5. the Department reconcile all reported amounts to the State's accounting system.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869 and Rose Masure, 287-2826

Department of Human Services

1. *The Department of Human Services agrees that the quarterly TANF 196 reports were reported inconsistently. It is our opinion, however, that the errors were not caused because the reports were prepared in a cumulative fashion, but because a consistent account structure was not adhered to when preparing the TANF MOE report, which represents the backup for the 196 report. The Division of Accounting and Cash Management has worked on documenting that report structure. It is our opinion, however, that cumulative reporting, with adequate support documentation, is a strong check for previous errors. When doing a cumulative report query and subtotaling by quarter, variances can be investigated and corrected.*

2. *The Department of Human Services agrees that the quarter ending 06/30/2003 report was incorrectly reported using estimated figures. The program accountant was out on medical leave for several weeks, and proper cross-training did not exist in the Division for a co-worker to file the report in her absence. The Division of Accounting & Cash Management Operations is in the process of creating "bureau teams" of accounting individuals with sufficient cross-training to allow co-workers to cover for each other in emergencies.*

3. *The staff of the Division of Technical Systems is in the process of developing a report that will report expenditures in the appropriate categories.*

4. *The Department of Human Services agrees with this finding. Similarly to section 1 above, it is our belief that adherence to a consistent account structure will alleviate these problems. Once completed, the corrected TANF MOE documentation will be periodically updated.*

5. *The Department of Human Services does not agree with this finding. Both the TANF and ASPIRE Programs, while accounted for under separate Approp orgs, are the same program, funded by the same Federal Award, CFDA # 93.558. As a result, charges from one can be transferred to the other as required. It was not the intention of the program managers to create allotment in one account from the other, though the program accountant incorrectly described the journal as such. Instead, it was the intention of program personnel to properly distinguish ASPIRE expenditures from TANF. ASPIRE expenses, unlike those tracked in the TANF approp org, are intended to reflect aid to persons actively pursuing employment or labor training to assist in the employment process. In the Fiscal Year 2006-2007 budget, the Division of Accounting and Cash Management is researching either combining the two accounts or increasing appropriation in the ASPIRE account, to avoid future misunderstandings regarding TANF/ASPIRE activity.*

6. *The Department of Human Services agrees that only actual expenses can be reported on the quarterly TANF 196 report. Beginning with the December 2003 quarterly report, MFASIS supporting documentation is used to report allowable expenditures and is maintained with the report.*

Department of Human Services

(03-44) Division of Financial Services

Temporary Assistance of Needy Families **Questioned Costs:** None
CFDA#: 93.558
Federal Award Number: G-0001 METANF, G-0101 METANF, G-0201 METANF, G-0301 METANF

Finding: TANF grant overdrawn **(Prior Year Finding)**

From the inception of the program in 1997 through June 30, 2003, the Department of Human Services drew $9,642,875 more in cash than it reported as expended. The Department was unable to demonstrate which federal or non-federal programs benefited from the federal funds received.

It appears that in recent years most of the funds were used to pay for a disproportionate share of costs of the Bureau of Family Independence which are distributed to multiple federal programs through a federally approved cost allocation plan. However, the Department was unable to document which programs benefited from the allocated funds.

While the Department only included the appropriate share of indirect costs allocated to TANF in the federal expenditure report, it drew funds in excess of these costs.

In an effort to understand and correct the overdrawn cash from the TANF Grant, the Department, in conjunction with the Bureau of Accounts and Control and with the approval of the U. S. Department of Health and Human Services has revised the TANF Program's expenditure reports. The revised reports reflect the maximum allowable transfers of TANF grant monies to other federal programs, report only allowable and supportable federal and State expenditures, and do not exceed the State maintenance of effort requirements. The Bureau of Accounts and Control revised the federal expenditure reports for federal fiscal years 2000 through 2003.

In the prior year audit report, we questioned the cumulative overdrawn amount at that time of $18.9 million. In the current year, the Department again overdrew by $17.6 million, resulting in a cumulative overdraw of $36.5 million. That amount less $27.2 million in additional expenditures submitted on the revised reports resulted in the Department drawing $9,642,875 more in cash than it reported as expended. We note that in October of 2003 the State returned the funds drawn in excess to the federal government. Therefore, we do not question any costs.

Recommendation:

We recommend that the Department of Human Services continue to monitor procedures for drawing federal funds and ensure that those funds are drawn for actual program needs.

Additionally, the Department should reconcile federal cash drawn to actual reported expenditures.

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

Contact: Mark Toulouse, 287-1869

The Department of Health and Human Services instituted a new cash draw policy in October 2003. As of that date, all federal cash draw amounts are required to be supported by MFASIS activity such as Journal vouchers, impact report activity, client payment runs, etc. The Division of Account and Cash Management Operations is currently working with the Office of the State Controller to create a consistent account reconciliation procedure for all federal accounts. Because of the various accounts and uses for the funds, the task will be time-consuming. A draft of the TANF reconciliation has been prepared for the quarter ending March 31, 2004, but is still a work in progress.

(03-45) Division of Financial Services

Temporary Assistance to Needy Families, Foster Care, Medicaid **<u>Questioned Costs:</u>** None
<u>CFDA#:</u> 93.558, 93.658. 93.778
Federal Award Number: Various

<u>Finding</u>: Cash management and accounting records inadequate **(Prior Year Finding)**

The Department of Human Services is not in compliance with the Cash Management Improvement Act Agreement, which establishes provisions for individual programs to draw federal funds, and 31 CFR 205.17(e), which requires a State to maintain records supporting implementation of the Agreement. Also, the Department's accounting procedures do not comply with 45 CFR 92.20, which promulgates standards for financial management systems. The Department has poor accountability over its federal funds because of the non-compliance and lack of cash controls.

We tested three programs for which compliance with the Agreement was material to the program.

<u>Temporary Assistance to Needy Families (TANF) CFDA #93.558</u>
Basic Assistance
The Agreement specifies an average clearance method for TANF payments to clients. The State has established an average clearance pattern of two days. Of the five TANF Basic Assistance draws that we reviewed, one was deposited five days early, one was deposited two days late, and one was for disbursements in August 2001 for which a draw had never been made. In April 2003, the Department began using an Electronic Benefit Transfer system for benefit payments.

Two draws subsequent to the conversion to this system were reviewed and found to be in compliance with the Agreement.

Aspire
Methods used to determine the amount of funds needed for payments associated with Aspire activities are inadequate to ensure compliance with the Agreement. The Department does receive a report that indicates the amount of cash necessary for upcoming ASPIRE payments. Two draws were reviewed and it was found that the Department drew funds based on several sources of information: B909 impact reports, MACWIS payment reports, and unsupported estimates of expenditures. It is unclear that the amounts drawn were necessary to cover only allowable payments to clients.

Indirect Allocated
The Agreement specifies a proportionate share method for TANF allocated costs. Funds are to be drawn down once a quarter according to each approved indirect cost allocation plan. The amount of each draw is to be determined by applying an approved indirect cost rate to the appropriate direct costs for the prior quarter. The Department is not in compliance with this method: the Department drew cash for allocated costs bi-weekly or as cash needs required. The two draws we reviewed lacked supporting documentation. Additionally, the Department did not draw funds for indirect costs by applying an approved indirect cost rate to the appropriate direct costs of the prior quarter.

Direct Allocated
The Agreement specifies bi-weekly draw downs for Direct Administrative Costs. The State must draw down personal services bi-weekly for deposit on the average day of clearance of the State payroll (one day). A review of the deposit dates for funds drawn revealed that the Department drew funds sporadically, not always bi-weekly. Of two cash receipt transactions we reviewed, one was processed to correct an error from December 2000 and one was a negative amount being utilized to transfer funds to another account.

Foster Care CFDA #93.658
The Agreement specifies an average clearance method for payments to service providers. The State has established an average clearance pattern of four days. We reviewed one draw which covered several foster care weekly payrolls. The difference between the average clearance date for each of the payrolls and the date of the draw ranged from 15 days late to 12 days early.

The Agreement specifies prorated draws for Direct Administrative Costs. The Department does not draw down the 1/6th or 1/7th of the quarterly grant award for administrative costs, but processes a quarterly journal voucher to transfer administrative cash to the supporting accounts for the allowable amount of allocated costs for the Foster Care Program.

Deficiencies in the design of the accounting structure were noted. Due to the commingling of Foster Care, Adoption Assistance, and Independent Living Program funds with Title IV-E shared funds, excessive cash may be drawn down from the Foster Care Program to provide for the immediate cash needs of the other programs.

Department of Human Services

<u>*Medicaid CFDA #93.778*</u>
Payments to Providers
The agreement specifies an average clearance method for payments to providers. The State has established an average clearance pattern of four days. We reviewed the draw procedures for one Medicaid cycle and found the draw was performed in compliance with prescribed procedures. However, as noted in finding #03-81, for the fiscal year as a whole, the Medicaid Program had an excessive negative cash balance.

Administrative Costs
The Agreement specifies the bi-weekly draw down method for administrative costs. The Department prorated draws for administrative costs based on the quarterly grant awards for administrative costs.

We note that subsequent to fiscal year 2003, the following actions will be taken to improve cash management and accounting functions of the Department.

- The Director of the Financial Services Division will review the new Cash Management Improvement Act Agreement that is effective July 1, 2003, as well as audit concerns, with responsible staff members.

- The Department is putting a new financial management staff in place to improve the accounting functions of the department. Until the staff is in place and properly trained, staff from the Department of Administrative and Financial Services, Bureau of Accounts and Control, are monitoring cash draw activity. New procedures were put into place, effective October 1, 2003, to improve control over cash draws in the interim.

<u>Recommendation</u>:

We recommend that the Department of Human Services:

1. improve grant accounting systems so that program managers and accountants are able to minimize the number of days between payment and the subsequent drawing down of funds,
2. perform routine cash balance examinations to ensure that State and federal resources are being used efficiently, that no excess cash is on hand, and that no other resources are being used when federal cash is not drawn and deposited promptly,
3. revise practices to provide for the separate accounting of Foster Care, Adoption Assistance, Independent Living, and Title IV-E shared funds, and
4. maintain documentation to support federal cash draws.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

The Department of Human Services instituted a new cash draw policy in October 2003. As of that date, all federal cash draw amounts are required to be supported by MFASIS activity such as Journal vouchers, impact report activity, client payment runs, etc.

Division employees have also met with Tim Rodriguez, State of Maine CMIA Coordinator, for training and guidance. As a result, timing of certain draws for expenditures, personnel costs, administration allocations, etc. have been adjusted.

The Division of Account and Cash Management Operations is currently working with the Office of the State Controller to create a consistent account reconciliation procedure for all federal accounts. Because of the various accounts and uses for the funds, the task will be time-consuming. A draft of the TANF reconciliation has been prepared for the quarter ending March 31, 2004, but is still a work in progress.

(03-46) Bureau of Family Independence
Division of Support Enforcement and Recovery
Division of Financial Services

Child Support Enforcement **Questioned Costs:** None
CFDA#: 93.563
Federal Award Number: 0204ME4004, 0304ME4004

Finding: Inadequate system of internal controls over accounting for child support **(Prior Year Finding)**

The Department of Human Services has not reconciled amounts reflected in its internal information system, which is used to prepare federal reports of program activity, to State accounting records for the Child Support Enforcement Program. Problems were noted in three areas: accounts used to record the receipt and disbursement of child support collections, negative cash balances in program administrative accounts, and the federal and State shares of amounts collected on behalf of various parties.

The accounting system cash balances in accounts that were established to record the receipt and subsequent distribution of child support collections totaled $16.1 million at June 30, 2003. That balance was $14 million higher than the $2.1 million in undistributed collections reported to the federal oversight agency. Although the accounts include certain residual balances that should not be reported as undistributed collections, and timing differences account for a portion of the variance, the Department has not summarized the effect of those factors and identified the remaining variance. The Department has, however, developed a new report that allows every receipt that has not been distributed to be tracked; this will aid in the overall account reconciliation. The Department's information system, and the resulting federal reports, is believed to be reasonably accurate. The accounting system balances are believed to need adjustment. The variance may be partially accounted for as follows:

1. State agency accounting personnel had not prepared journal entries to distribute the federal share of collections associated with the last three months of the current fiscal year. As a result, the federal share of collections at year-end was under recorded by $4.5 million and the State share by $2.3 million;
2. Based on the previous audit, program income of $1.8 million was incorrectly included in the same account balances related to collections and distributions; and
3. The Department also had not yet posted to the accounting system a prior year audit adjustment of $3.4 million proposed by the federal oversight agency.

The Department also has not reconciled cash balances in the Child Support Enforcement program's administrative accounts. The accounting system's net cash balances in these accounts for the applicable funds totaled negative $9.4 million at June 30, 2003. The combined balance in these accounts should net to approximately zero since administrative costs should be periodically transferred to these accounts to cover actual program expenditures.

In addition, although the State's accounting system and the Departments internal computer system differed by only $17,000 for total child support collections, the amounts shown as the federal and state shares of amounts collected for TANF recipients differed by $1.8 million and $1.1 million, respectively. Reconciliation is critical because the internal system calculates the Child Support Enforcement program's award amounts, which are based on the federal share of child support collections.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires recipient organizations of federal funds to have internal controls in place to provide reasonable assurance of accountability of assets and the preparation of reliable financial statements and federal reports.

Recommendation:

To reduce the risk of material misstatement in the program's accounts, we recommend that the Department of Human Services:

1. Implement reconciliation procedures to identify the source and application of program funds;
2. Periodically reconcile the State's accounting system to the program's management information system and consider the impact of any reconciling items on the federal financial reporting process in the form of a retroactive adjustment;
3. Determine the underlying reasons for the noted differences in account balances and prepare the needed entries to better provide accurate, current and complete financial information;

4. Perform independent periodic reviews summarizing the detail of program transactions;
5. Change the accounting structure to segregate all program activity in distinct and separate cost centers to ensure that the State and federal share of child support collections are expeditiously transferred to cover the State and federal shares of program expenditures; and
6. Post the $3.4 million adjustment.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

Child support payments, when collected, are posted to a special revenue holding account (014 4610). Quarterly, incentive payments are moved to and incentive account within the same fund (014 4611). Also quarterly, based on the OCSE-34A report, the state and federal shares of these collections are moved to appropriate accounts as well (010 4610 and 014 4601 respectively). It is the Department of Health and Human Services' opinion that a portion of child support collections is appropriately retained in fund 014 because it is special revenue dedicated primarily for the purpose of operating the child enforcement program. Amounts are then periodically transferred to the federal fund for the child support admin program (013 0100). Quarterly, however, amounts not used for administrative expenditures need to be returned to the special revenue account (014 4601). JV 10A 81MAT050013 accomplishes this for FY 2003 and FY 2004.

Also mentioned in this finding is the need to transfer 66% of child support collections. JV 10A 81MAT050013 also accomplishes this for FY 2003 and FY 2004. A query was done using data from the office of the State Treasurer to determine what portion of interest earnings posted to the Child Support account actually relates the the Federal portion of costs reported, per the OCSA 396A reports submitted.

Point # 3 of this finding, which refers to audit finding # 47 for FY 2002 was partially satisfied by JV 10A 81 MATCSFY02. In that JV, $229,400.00 was transferred to 013 4606, bringing the total FY 02 transfer up to the allowable federal 66%.

In order to begin the process of reconciling cash balances in accounts, the Division of Accounting and Cash Management has begun loading data into the MFASIS Accounting Grant Subsystem. Currently, Bureau of Health accounts are active, and Bureau of Child & Family Services grants are being reviewed. Child support accounts are expected to be added to the system in FY 2005.

Much work has been done to bring the differences between the MFASIS and NECSES systems into agreement. The OCSE 34A and OCSE 396A reports have been modified to age undistributed collections, in order to accurately reflect the balance that should be in the undistributed account. Also, ACM personnel have access to the newly-revised disbursement control report. This report reflects all activity supported by the NECSES system, and lists MFASIS coding related to the activity. With this information, we will be able to reconcile *current activity between the systems regularly. The balance variance, however, will require more extensive research, as discussed above.*

Finally, the Division of Accounting and Cash Management is working with the Office of the State Controller to determine the effectiveness of creating a new Child Support report org to store the federal portion of Child Support collections.

(03-47) Division of Financial Services

Child Support Enforcement **Questioned Costs:** None
CFDA#: 93.563
Federal Award Number: 0204ME4004, 0304ME4004

Finding: Funds transferred in excess of program use **(Prior Year Finding)**

The Department of Human Services provided $1,016,968 in federal Child Support Enforcement funds to the Department of the Attorney General for legal services, but reported only $907,014 as expended. The amount that was transferred to the Attorney General was in excess of the actual costs of legal services that were provided and allocated to federal grants. We do not question costs of $109,954, the difference between the amounts that were transferred and the amounts that were expended for the program, as the Department corrected the excess transferred following receipt of our audit finding.

Recommendation:

We recommend that the Department of Human Services transfer federal funds to the Department of the Attorney General only for allocable services related to the program.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

This finding was corrected by JV 10A 81MAT050011. FY2003 DSER transfers to the AG's Office were reconciled to DHS cost allocation schedule 3, which uses actual OGA expenditures from the MFASIS system. The journal moved $109,954.22 to the federal DSER account. Because the Department does not draw down from the Federal grant award, no funds were returned. The classification of the funds to the federal fund, however, earmarks them as belonging to the cognizant agency."

Department of Human Services

(03-48) Division of Financial Services

Child Support Enforcement **Questioned Costs:** None
CFDA#: 93.563
Federal Award Number: 0204ME4004, 0304ME4004

Finding: Check for $1.1 million never cashed

The Department of Human Services issued a check to the U.S. Department of Health and Human Services for $1,103,568 that was never cashed.

In May of 2001, representatives of Health and Human Services identified a balance of $1,103,568 in funds remaining in the State's IV-D collections account, within the Other Special Revenue Fund. This amount was deemed to be the federal share of unreported child support collections that exceeded administrative expenditures for the period October 1, 1996 through March 31, 2001. On August 16, 2001, the State of Maine issued a check (#1122701399) for that amount to the U.S. Department of Health and Human Services' Office of Child Support Enforcement (OCSE) to settle the amount due. We found related correspondence from the federal regional office of Administration for Children and Families, in which they commented that they considered the matter closed.

In October of 2003, the State's Unclaimed Property Division notified the Department of Human Services that the check was outstanding. There is no indication that the Department took action to investigate. The State transferred the $1.1 million to its Abandoned Property Fund and subsequently transferred it to the General Fund as part of the normal process for outstanding State checks. We note that, shortly after the check was issued, federal operations were disrupted by the events of September 11, 2001.

As of April of 2004, we determined that this check was still outstanding. We examined the account balance, as of June 30, 2003, to determine whether the State should reissue the check. Analysis of grant expenditures compared to collections showed a balance of $267,077 owed to the State. Therefore, it appears that another payment of $1.1 million is not necessary.

Recommendation:

We recommend that the Department periodically check the status of any outstanding checks that it has issued and take appropriate action to effect resolution. We also recommend that the $1.1 million be restored to the Child Support account by the Abandoned Property Fund.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

DHS agrees that this uncashed check should have been investigated once the Division of Financial Services had been contacted by the Office of the State Treasurer. The reconciliation has been updated confirming that the current balance reflects an overpayment to the cognizant agency, confirming that this check does not need to be re-issued. DHS will be working with the Abandoned Property Fund Division to resolve this issue.

(03-49) Division of Financial Services

Child Support Enforcement **Questioned Costs:** None
CFDA#: 93.563
Federal Award Number: 0204ME4004, 0304ME4004

Finding: Federal financial reporting errors

Department of Human Services incorrectly reported expenditures of the Child Support Enforcement Program, as follows.

1. The Department overstated total program costs by $187,345 for the quarter ended September 30, 2002.
2. Due to an accounting error, the Department of Human Services subtracted only $2,017 in costs of central governmental services distributed through the statewide central service cost allocation plan instead of $20,017. As a result, total costs claimed on the quarterly expenditure report were overstated for the quarter ended December 31, 2002.
3. Training expenditures of $2,602 reported to the federal government could not be traced to the accounting records.

The reporting errors overstated the use of federal child support collections, which understated the balance of the federal share of collections held by the State. Therefore, we do not question the costs but recommend that the balance be adjusted.

Recommendation:

We recommend that the Department of Human Services report accurate and complete financial data to the federal grantor agency, and make the necessary adjustments to the next quarterly expenditure report.

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

Contact: Mark Toulouse, 287-1869

We agree with this audit finding. While a lack of personnel and cross-training may have led to these errors, they could have been avoided with proper proofing of the reports prior to submission. Currently, data on all reports submitted is supported by MFASIS activity, and data is reviewed prior to submission. During FY05, we will be reviewing all previously filed reports and correcting if necessary.

(03-50) Division of Financial Services

Child Support Enforcement **<u>Questioned Costs:</u>** None
<u>CFDA#:</u> 93.563
Federal Award Number: 0204ME4004, 0304ME4004

<u>Finding</u>: Noncompliance with semi-annual certification requirement

Employees working solely on the Child Support Enforcement Program do not prepare the semi-annual certifications that are required for employees who work on only one program.

The Office of Management and Budget's Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states:

> Where employees are expected to work solely on a single Federal award or 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.

The position of the Department of Human Services is that an electronic Time and Attendance Management System, in which employees enter their time and the benefiting program, meets the certification requirement. The electronic time sheets are forwarded to a supervisor for review and approval.

The State's electronic timesheet system has the capability of meeting the certification requirement. However, employees do not record their time to specific programs, but rather to various functional areas, such as the Division of Support Enforcement and Recovery or central office. Since the federal program is not identified, we believe that the certification requirements have not been met.

We also note that, for all programs, the electronic Time and Attendance Management System will default to budgeted hours and charge hours on that basis unless the setting is changed to charge costs based on actual hours input.

Recommendation:

We recommend that the Department of Human Services require employees to prepare semi-annual certifications, use the electronic timesheet to charge time to specific programs, or develop an alternative process that satisfies the requirement of Circular A-87. We also recommend that the Department set the time and attendance system to charge costs based on actual hours worked.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, 287-1869

This audit finding will be corrected beginning with the payroll period beginning August 1, 2004. With information provided by the Division of Support Enforcement and Recovery, we will activate the MS-TAMS project/task functionality for those DSER employees working exclusively on the program. As they submit their electronic timesheets, which are reviewed and approved by supervisory management, their hours worked will be electronically assigned to the DSER account, and the CFDA # 93.563 will be displayed. Once this functionality is activated, the list of persons working exclusively on the program will be periodically reviewed and updated.

A certification letter will be drafted and submitted covering the period up to July 31, 2004.

(03-51) Division of Support Enforcement & Recovery

Child Support Enforcement **Questioned Costs:** None
CFDA#: 93.563
Federal Award Number: 0204ME4004, 0304ME4004

Finding: Noncompliance with requirements for establishment of case records and enforcement of medical support obligations

The Department of Human Services did not fully comply with requirements to establish case records and to enforce medical support obligations of the Child Support Enforcement Program.

In two of the 25 paternity establishment cases reviewed, the case record was not established within 20 days of receipt of referral or application, as required by 45 CFR 303.2(b). For one case, the record was established one day late, for the other, the record was established 26 days late.

In three of the 25 medical support obligation cases reviewed, the Department did not take the necessary steps to enforce the health insurance coverage required by the support orders, in accordance with 45 CFR 303.31(a)(7).

We examined internal controls and found them to be in place and operating effectively. These instances of noncompliance appear to be isolated.

Recommendation:

We recommend that the Department establish all case records within the required time frame and fully enforce medical support obligations.

Auditee Response/Corrective Action Plan:

Contact: Steve Hussey, 287-2886

The Division of Support Enforcement & Recovery recognizes the requirement to establish case records within 20 days of receipt of a referral or application and did so in 92% of the cases reviewed. Staffing shortages experienced during the period and at present has necessitated that staff be allocated to perform functions that will best serve the families that depend upon child support services for their financial well being. We are constantly reviewing our performance and will continue to strive to meet all program requirements.

The Division also recognizes the federal requirement to take steps to enforce health insurance coverage when it is required and not obtained. Again, we monitor our performance and did comply with this requirement in 88% of the cases and we will continue to strive to become 100% compliant, recognizing that limited resources create the need to prioritize operations in order to best meet the needs of the children and families served by the program.

Department of Human Services

(03-52) Bureau of Child & Family Services

1. Child Care Development Block Grant **Questioned Costs:** $263,435

2. Child Care Mandatory and Matching
   Funds of the Child Care and Development Fund

CFDA#: 93.575. 93.596

Federal Award Number: 0201 ME CCD
0301 ME CCD

Finding: Unallowable payroll expenditures **(Prior Year Finding)**

Five employees, whose salaries and fringe benefits were charged to the Child Care Development Block Grant and/or the Child Care Mandatory and Matching Funds of the Child Care and Development Fund, performed job duties that related to several federal programs and/or State funded activities. The Department of Human Services did not allocate those costs to the applicable program areas. Therefore, we question $ 263,435 in payroll expenditures.

Further, the Department does not require employees to sign a semi-annual certification if an employee works solely on a specific federal program.

According to the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State and Local Governments,* Attachment A, costs may be charged to a federal program only to the extent of the benefit received by a cost objective. The Circular further requires that a distribution of the salaries and wages of employees who work on multiple programs be supported by personnel activity reports or equivalent documentation, signed by the employee. In addition, when employees are expected to work solely on a single federal program, the charges for their salaries and wages are to be supported by periodic certifications to that effect. These certifications must be prepared at least semi-annually and must be signed by the employee's supervisor.

The position of the Department of Human Services is that an electronic Time and Attendance Management System, in which employees enter their time and the benefiting program, meets the certification requirement. The electronic time sheets are forwarded to a supervisor for review and approval.

The State's electronic timesheet system has the capability of meeting the certification requirement. However, employees do not record their time to specific programs, but rather to various functional areas. Since the federal programs are not identified, we believe that the certification requirements have not been met.

Recommendation:

We recommend that the Department of Human Services require employees to prepare semi-annual certifications, use the electronic timesheet to charge time to specific programs, create personnel activity reports, or develop another process that satisfies the certification requirements of Circular A-87.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

P.L. Chapter 20, Section B-1, page 229, signed into law on March 27, 2003, authorized the transfer of six state-funded positions to three federal Block Grants.
P.L. Chapter 51, Section A-1, page 13, signed into law on April 18, 2003, authorized the transfer of the six state-funded positions to the three federal Block Grants to be retroactive to FY2003. When the journal vouchers were completed to implement the retroactive transfer of expenses, the journal vouchers were done solely against the Child Care Development Fund.

Three of the six positions transferred were to be 100% funded through the Child Care Development Fund; one of the positions was to be funded exclusively through the Community Services Block Grant; two of the positions were to be funded through the Social Services Block Grant and cost allocated between grants and programs. We agree that three positions should not have been charged exclusively to CCDF.

We agree that employees funded exclusively through CCDF were not required to sign a semi-annual certification that they work solely within the federal program. Beginning in FY2005, all employees that are expected to work solely on a single federal program will complete semi-annual certifications to that effect.

Department of Human Services

(03-53) Bureau of Child & Family Services

1. Child Care Development Block Grant **<u>Questioned Costs</u>**: None

2. Child Care Mandatory and Matching
   Funds of the Child Care and Development Fund

<u>CFDA#:</u> 93.575, 93.596
Federal Award Number: 0201 ME CCD
0301 ME CCD

<u>Finding</u>: Inefficient monitoring did not ensure assessment by subrecipients **(Prior Year Finding)**

The Department of Human Services does not adequately monitor to ensure that subrecipients properly assess eligibility and determine benefit levels. The Department performs on-site monitoring visits of providers (subrecipients) that provide childcare services. As part of these on-site monitoring visits, the Department has identified certain providers that are not complying with regulations for determining eligibility and/or the calculation of the proper benefit level of payment.

Out of 14 on-site reviews examined, seven providers had significant problems: clients were ineligible, eligibility was not properly supported, and benefit calculations were incorrect or unsupported. Contract payments to these seven providers during fiscal year 2003 totaled $ 5.8 million. Department personnel stated that, in certain instances, the provider's files do not contain the sufficient documentation to support eligibility or the proper benefit level of payment. As a result, ineligible individuals may be receiving benefits and eligible individuals may be receiving an incorrectly calculated benefit.

<u>Recommendation</u>:

We recommend that the Department:

1. Develop standardized procedures for providers to use when determining eligibility and performing benefit calculations,
2. Provide training sessions on eligibility and benefit determination for providers, and
3. Notify providers, in writing, about eligibility issues and benefit calculation errors. The notification should state that:
   a) ineligible clients should be immediately terminated from the program, or
   b) if eligibility issues exist, then those issues must be resolved within a specified time frame. If the eligibility issues are not resolved, then those clients should also be terminated from the program.

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

Contact: Jeannette Talbot, 287-5037

As of FY2002, all the childcare voucher contracts were using a Department-developed Microsoft Access database for service eligibility and service reporting. The database determines the eligibility and fee to be paid by the client based on income information provided by the client on the Department's childcare service application form. That information is forwarded monthly.

As of FY2003, all the childcare slot contracts were using a similar database for service eligibility and service reporting. The database determines the eligibility and fee to be paid by the client based on income information provided by the client on the Department's childcare service application form. That information is forwarded monthly.

The Department has upgraded these databases to an Oracle platform and is working on getting them web-based to allow the Department to monitor the information on an ongoing basis, and to verify public assistance and child welfare status with the Department's ACES system client registry file. The new reporting system will reject ineligible clients so that agencies cannot charge the Department contract for services to those clients. The projected conversion date for the change is January 1, 2005.

The Community Services Center Contract Unit staff have recently completed 2 day training sessions for childcare contractors in Portland, Augusta, and Bangor during the last two weeks of May. One day of the training was dedicated to eligibility determination.

(03-54) Division of Financial Services

1. Child Care Development Block Grant — **<u>Questioned Costs</u>**: None

2. Child Care Mandatory and Matching
   Funds of the Child Care and Development Fund

<u>CFDA#:</u> 93.575, 93.596
Federal Award Number: 0201 ME CCD
0301 ME CCD

<u>Finding</u>: Federal financial reports not properly prepared **(Prior Year Finding)**

The Department of Human Services did not correctly report unliquidated obligations, State matching funds, and earmarking expenditures for the Child Care Development Block Grant. The Department also incorrectly reported transfers to the grant from the Temporary Assistance to Needy Families (TANF) Program. States must submit a quarterly financial report to federal officials. Expenditures must be reported cumulatively for the federal fiscal year and each fiscal year's expenditure report must be separate. Therefore, multiple reports may be required if awards from more than one fiscal year are expended in a given quarter.

The Department records revenue and expenditure transactions in the same accounts, regardless of which federal grant year the transactions should be applied to. Additionally, the Department does not use the State accounting system's federal grant module to track revenue and expenditure transactions by a federal grant year. As a result, expenditures can be incorrectly reported on the quarterly federal reports.

The Department's Division of Financial Services does not have a chart of accounts to indicate which accounts are used to record grant and program transactions. As a result, the Department inconsistently uses accounts to record revenue and expenditure transactions.

We examined the ACF-696 federal reports for the quarters ending September 30, 2002, and June 30, 2003, and identified four areas where data was incorrectly reported. The report for September 30, 2002, was the final quarter of the 2002 federal fiscal year; the report for June 30, 2003 was the end of our audit period.

1. We found that the Department recorded TANF transfers of $6.3 million on the September 30, 2002 report while $8.7 million was recorded on the State's accounting system for that period. On the June 30, 2003 report, $7.9 million was recorded as transferred while $8.9 million was recorded on the State's accounting system. We also noted that TANF transfers have been incorrectly reported on prior years' ACF-696 reports.

   The Department, in conjunction with the State's Bureau of Accounts and Control, and with the approval of the Department of Health and Human Services, has revised the TANF Program's federal expenditure reports to reflect the maximum allowable transfers of TANF grant monies to other federal programs, including CCDF. The Bureau of Accounts and Control revised the federal expenditure reports for federal fiscal years 2000 through 2003. Therefore, the changes in the amount of TANF transfers to CCDF should also be reflected on the ACF-696 federal report.

   Further, the amount of direct services' expenditures reported on the ACF-696 federal report correlates directly with the amount of TANF transfers reported. Therefore, if the amount of available funds (TANF) is revised, then the amount of direct services' expenditures reported should also reflect a corresponding change.

   Also, the cumulative amount of obligated federal funds that have not been liquidated for the fiscal year should be based on the amount of encumbrances carried on the Bureau of Accounts and Control records for any given period. The Department reports the difference between the grant award amount and TANF transfers, less cumulative expenditures, as the obligated balance. There is no relationship between this balance and the amount of the encumbrances carried on the State's accounting system.

2. Per the federal instructions for completing the ACF-696 report, States should use cumulative expenditures (up to the Federal Medical Assistance Percentage rate) when reporting the State match portion for the Child Care Development Fund grant.

   For the periods ending September 30, 2002, and June 30, 2003, the Department was applying the rate to total federal expenditures in order to calculate the State match portion of the grant. However, Department personnel were not comparing the amount of actual State match expenditures to the amount reported on the ACF-696 report.

   For federal fiscal year 2002, actual State match expenditures exceeded the amount reported on the ACF-696 report.

3. The CCDBG grant requires a minimum expenditure level ("earmarking") for certain categories. States are required to report cumulative expenditures when completing the earmarking sections of the report.

For the period ending September 30, 2002, the Department did not record the actual expenditures on the ACF-696 report but instead used the earmarking minimum amounts. Actual expenditures and federal earmark amounts for the period ending September 30, 2002, are as follows:

	ACF-696 report	Accounting system	Over (under)
School-age	$ 69,072	$ 432,101	$ (363,029)
Infant / Toddler	$ 389,561	$ 1,490,318	$ (1,100,757)
Quality Expansion	$ 672,664	$ 1,288,311	$ (615,647)
Discretionary before earmark	$ 794,809	$ 1,005,565	$ (210,756)

For the period ending June 30, 2003, the Department correctly reported actual earmarking expenditures on the ACF-696 report.

<u>Recommendation</u>:

We recommend that the Department:

1. revise the ACF-696 federal financial reports for prior periods to correctly report expenditures and TANF transfers,
2. review accounting procedures and incorporate the State accounting system's federal grant module, in order to account for grant transactions by federal grant year,
3. maintain a chart of accounts (both State and federal) that will be used to record grant and program transactions,
4. base the amount recorded on the ACF-696 report of obligated, unliquidated federal funds on the amount of federal encumbrances on the State's accounting system,
5. compare the amount of the actual State match expenditures to the amount recorded on the ACF-696 federal report, to ensure that actual match expenditures are greater than or equal to the amount reported,
6. record only actual earmarked expenditures on the ACF-696 federal report.

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

Contact: Elizabeth Hanley, 287-1861

(1) The prior years TANF reports were completed in June 2004, now revised ACF 696 reports can be prepared incorporating the correct transfer amounts.

(2) The Child Care Development Block Grant is being created in the MFASIS federal grant module and will be completed by September 2004.

(3) The Federal grant sub system will be used to maintain state and federal accounts for a specific grant/program.

(4) Reporting of the TANF Program now requires that the Managing Staff Accountant furnish a copy of the TANF report showing actual monies reported.

(5) The annual Federal Status Report does report any federal funds that have been liquidated for the fiscal year, although these reported amounts have not been encumbered.

(6) The policy of calculating an imputed state match amount has been revised. Starting in FY 05, actual State match expenditures will be reported on the ACF-696 report.

(7) The policy of reporting required earmark expenditures has been revised. Starting in FY 05, actual earmark expenditures will be reported on the ACF-696 report.

(03-55) Division of Financial Services

1. Child Care Development Block Grant **<u>Questioned Costs:</u>** None

2. Child Care Mandatory and Matching
Funds of the Child Care and Development Fund

<u>CFDA#</u>: 93.575, 93.596
Federal Award Number: 0201 ME CCD
0301 ME CCD

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

The Department of Human Services did not have adequate cash management procedures in place for disbursement of federal funds. For those months tested, the average number of days that cash was on hand ranged from 2 days to a negative 16.5 days. For the six different periods of time that were tested, the cash balance ranged from $1,051,988 to negative $2,605,943.

In addition, for the month of January 2003, each business day showed a negative cash balance. The cash balances ranged from negative $699,674 to negative $2,605,943. The average number of days that cash was on hand in January 2003 was negative 16.47.

For those days with a negative cash balance, the Department was using federal receipts from other programs to fund the payment of Child Care Development Fund vouchers. Carrying a negative balance does not reflect proper cash management practices and could jeopardize the State's cash position.

Per discussion with Department personnel, the Department changed its method for drawing federal funds in January 2003. For the months tested after January 2003, the average number of days with negative cash on hand, ranged from negative 1.42 days to negative .96 days.

Recommendation:

We recommend that the agency improve cash management procedures.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

Individuals within the department have met with the State Treasurer CMIA Coordinator to ensure that all CMIA procedures are followed. In addition, all financial services personnel have participated in at least one CMIA workshop.

A draw is requested only when there are corresponding expenditures to document the justification. As of July 2004, the staff are regularly reviewing and reconciling all cash draws and cash balances.

(03-56) Bureau of Child and Family Services

Foster Care - Title IV-E **Questioned Costs:** $1,169,034
CFDA#: 93.658
Federal Award Number: 0301ME1401

Finding: Payments made to ineligible recipients **(Prior Year Finding)**

The Department of Human Services has inadequate controls in place to ensure that payments of the Title IV-E Foster Care Program are made only to eligible recipients. In fiscal year 2003, the program expended approximately $21 million in federal funds and $10.7 million in State funds for foster care maintenance assistance payments, consisting primarily of board and care payments.

Title 45 CFR 1356 and the Social Security Act state that Foster Care benefits may be made on behalf of a child only if all program eligibility requirements are met. Further, compliance with general cost principles of Office of Management and Budget Circular A-87 requires that governmental units administer federal funds in a manner consistent with program objectives, and the terms and conditions of the award.

We examined 60 cases. Of those, seventeen (28 percent) were ineligible for either part or all of the review period. The results of this test, and of expanded testing, are described below.

- Seven of the 17 cases were noncompliant because the children became adoption assistance clients prior to fiscal year 2003. An examination of all children that became adoption assistance clients prior to fiscal year 2003 and therefore ineligible to obtain federal Foster Care funding resulted in questioned costs of $642,026. (For test results and additional questioned costs associated with children that became Adoption Assistance clients during the 2003 fiscal year, see 03-62).

- Four of the 17 cases were noncompliant because the children had reached the age of emancipation, would not graduate by age 19, or were living independently. An examination of all cases of children whose birthdates indicated that they would not meet the age requirements of this program resulted in questioned costs of $211,333.

- One of the 17 ineligible cases was noncompliant because the child was living with his or her biological mother and had never been placed in foster care. Benefits paid on behalf of this child were charged to the federal Foster Care Program through a reimbursable report intended to capture federally allowable contractual daycare and transportation costs that were originally charged to the State. The total federal share of costs charged to the Foster Care Program through these reports was $612,139. Expanded testing on these contractual reports revealed that $19,252 was charged to the federal Foster Care Program on behalf of ineligible children, out of a total sample of $20,994 (a dollar error rate of 92 percent). We estimate likely questioned costs, when considering the controls and methodology over the compilation of this report (see 03-57), along with the results of our test, to be $563,168 (92 percent of $612,139).

- The remaining five of the 17 ineligible cases were noncompliant due to income levels, or lack of documentation of income levels. These five resulted in known questioned costs of $39,189 of a sample of $1,337,696 (a dollar error rate of three percent). Likely questioned costs for noncompliance with the income requirements of the Title IV-E Foster Care Program were estimated to be $628,402 (three percent of $20,946,732).

In addition, 63 benefit payments were recorded as expenditures of the State's General Fund. These benefit payments were claimed and paid for with federal funds through the Department's reporting process for the Title IV-E Programs. Of those, seven were on behalf of ineligible recipients resulting in additional questioned costs of $19,313.

Furthermore, costs were claimed on behalf of ineligible children through Maine Automated Child Welfare Information System reports generated in an effort to maximize federal reimbursement to the Title IV-E Foster Care Program. A lack of understanding of the information contained in these reimbursement reports caused the Department to claim costs on behalf of ineligible children in three of the four quarterly expenditure reports that we examined, for total questioned costs of $237,921. We note that the Department correctly completed the report for the fourth quarter. The Department intends to correct the errors associated with the first three quarters in the expenditure report for quarter ending September 30, 2003. Because the corrected report will not be submitted until after the period under audit, and because the Department frequently revises expenditure reports, we question the costs associated with these ineligible children.

Eligibility determinations for the program are somewhat decentralized. Financial resource specialists of the Division of Regional OMB Operations, charged with determining Title IV-E eligibility, do not have access to information in the automated system regarding child placement, living arrangements, reasonable efforts, and other data that would cause changes in the eligibility status of a client. Personnel at the Bureau of Child and Family Services have that information but seem to be less knowledgeable about eligibility requirements.

We question $1,169,034, the federal share of payments made on behalf of children who are ineligible to participate in the Foster Care Program. Total known and likely questioned costs are $2,302,163.

Recommendation:

We recommend that the Department implement review procedures, to include examination of supporting documentation maintained by the Department and a review of eligibility data contained in the automated system, to provide assurance that program Title IV-E requirements have been met.

Auditee Response/Corrective Action Plan:

Contact: Bob Blanchard, 287-5060

In September 2003 a DROMBO Quality Assurance Reviewer was assigned to an ongoing random sample review of cases to verify client eligibility to receive Title IV-E funding. Also in March 2004, The Bureau of Child and Family Services underwent a full desk review of all cases prior to the 2004 Federal Audit of the Title IV-E program and corrected any children who we decided were ineligible using a very conservative interpretation of the federal eligibility requirements. The Bureau of Child and Family Services passed the federal program review in April of 2004. A revised ACF IV-E report was filed for the quarter ending March 31, 2004 where prior pervious claims were adjusted to reflect a correction in the eligibility data.

Department of Human Services

(03-57) Bureau of Child and Family Services

Foster Care - Title IV-E **Questioned Costs:** $612,543
CFDA#: 93.658
Federal Award Number: 0301ME1401

Finding: Lack of controls over federal financial reporting **(Prior Year Finding)**

The Department of Human Services does not have adequate controls over financial reporting for the Title IV-E Foster Care Program.

The Department, in addition to reporting direct program charges that are recorded in the Foster Care Program accounts within the State's accounting system, tries to maximize federal reimbursement by using Maine Automated Child Welfare Information System (MACWIS) reports to identify other qualifying expenses originally paid from non-federal funds. There are four separate reports generated through the system and used by the Department to maximize federal reimbursement. We found that the Department does not have controls in place to ensure that these reports include only allowable costs.

We found that some of the same costs were reported in the MACWIS Gap report and the MAXIMUS Gap report. We question $323,440, the amount that was over reported.

We found that the Contractual Transportation and Daycare report is not programmed to include only expenditures of eligible Foster Care children or allowable program costs. Testing for eligibility revealed a 92 percent dollar error rate.

The Transportation and Daycare Gap report also included costs claimed on behalf of ineligible children. Because of a misunderstanding of the information contained in this report, the Department inadvertently claimed costs for ineligible children. The Department intends to correct this error in the expenditure report for the quarter ended September 30, 2003.

Because there are inaccuracies in the automated application of federal participation rates during the year, the Department chooses not to use those rates for payments calculated by the automated system, but aggregates both State and federal accounts and then applies the appropriate funding rate when preparing the financial report. This method of reporting caused costs to be claimed on behalf of ineligible children. The Department does not reconcile or adjust for inconsistencies between expenditures reported to the federal government and those recorded in the State's accounting system. Neither the accounting system, nor the reports can be relied upon.

The questioned costs associated with the Contractual Transportation and Daycare report and the Transportation and Daycare Gap report are found in finding #03-56, as are questioned costs resulting from the Department's method of applying participation rates as described above.

Furthermore, the Department understated the reported federal share of child support collections that were collected on behalf of children in the Title IV-E Foster Care Program. The federal share of these collections is offset against program expenditures in the quarterly financial reports. This caused the federal government to not receive $289,103 in child support collections. Department personnel indicated that information flows from two different sources, and that timing differences are the likely cause of the difference. However, we were not provided with a reconciliation to support that position. We therefore question $289,103.

Recommendation:

We recommend that the Department review the programming for the MACWIS reports generated to maximize federal reimbursement and ensure that the reports only include allowable costs. We also recommend the Department ensure that expenditure amounts recorded in the State accounting system accurately reflect expenditures incurred by the program during the year, and that the costs reported to the federal government are reconciled to the accounting system. Additionally, we recommend the Department implement review and reconciliation practices.

Auditee Response/Corrective Action Plan:

Contacts: Dana Hall, 287-1889 and Elizabeth Hanley, 287-1861

The first report, which this Auditor indicated, was a MACWIS report generated to maximize federal reimbursement, is actually run from WELFRE and not from MACWIS. The Bureau of Child and Family Services has recommended that Financial Services staff no longer use this report. The Bureau of Child and Family Services has reviewed the programming for the three MACWIS reports and as of the March 2004 Quarter had revised the programs as recommended. During FY 04, a policy was implemented stating that major accounts and all federal status reports are to be reconciled to the accounting system. This process will continue to be fine tuned during FY 05.

(03-58) Bureau of Child and Family Services

Foster Care - Title IV-E **Questioned Costs:** $25,981
CFDA#: 93.658
Federal Award Number: 0301ME1401

Finding: Unallowable costs claimed **(Prior Year Finding)**

The Department of Human Services charged unallowable costs to the Title IV-E Foster Care Program. We tested transportation and daycare payments that were directly charged to the program and found that five of the 12 items selected for examination were unallowable costs. Of $6,790 in payments that were tested, $2,322 was unallowable, a dollar error rate of 34 percent.

We estimate the total likely questioned costs to be $31,151 (34 percent of the total of $91,076 charged for transportation and daycare).

We identified unallowed costs for three of the 29 vendors that we examined. Two of the vendors were placement facilities that offered services that are not chargeable to the Title IV-E Foster Care Program; and one vendor was the biological parent of an eligible foster care child. Federal payments totaling $19,626 for one of the two placement facilities is questioned as part of this finding. The payment to the remaining placement facility ($59,562) was also made on behalf of an ineligible child; therefore, those costs are questioned as part of $211,333 questioned in 03-56. We also question $4,033 in costs claimed on behalf of the biological parent while that parent was not accompanied by the foster child.

Recommendation:

We recommend that the Department ensure that the costs charged to the Title IV-E Foster Care Program are only for allowable purposes.

Auditee Response/Corrective Action Plan:

Contact: Bob Blanchard, 287-5060

In October of 2003 the program creating the reporting data set was changed to exclude adjustments made by the MACWIS Gap process from the MAXIMUS Gap report.

The program use to create the report data set for the Transportation Daycare report was also corrected for the quarter ending September 30, 2003.

(03-59) Division of Financial Services

Foster Care - Title IV-E **Questioned Costs:** None
CFDA#: 93.658
Federal Award Number: 0001ME1401, 0101ME1401, 0201ME1401, 0301ME1401

Finding: Foster Care grant overdrawn **(Prior Year Finding)**

The Department of Human Services drew $6.6 million more in federal cash than it reported as expended for the Foster Care program. It appears that the Department either used the excess Foster Care cash for other programs or did not report all program expenditures. Rather than a $6.6 million cash balance, the account used for the Foster Care program (as well as for other programs) was negative $358,465, as of June 30, 2003. Whether the funds were spent elsewhere or expenditures not reported, the Department does not have the money in the account to return the excess federal funds.

The Department has not perceived the overdraw as a problem because for years it has routinely drawn more than it expended and then paid back the excess drawn with future grant awards. The federal government then reduces the first year's grant award. When the federal government reconciles each year's grant award to the reported expenditures, it requires the Department to repay any excess cash drawn. The Department does this within the federal government's Payment Management System by taking funds from a later grant award for the same program and using that draw to "pay back" the first year's excess draw. Generally, these transactions do not show in the State's accounting system, but only in the federal letter of credit. This method never accounts for what happened to the federal funds that were drawn and received by the State in excess of the expenditures reported. It merely pushes the problem onto the next year's award.

Of the $6.6 million overdrawn, $1.3 million was overdrawn in prior federal fiscal years and $5.3 million was overdrawn in 2003. Included in the 2003 draws was $2,739,576 that the Department used to "pay back" overdraws for 2000, 2001 and 2002. Although the net overdraw amount is $6,613,525 as of June 30, 2003, the negative cash balance of $358,465 in the account indicates that the funds were used elsewhere. We note that the Department has since drawn funds from other later grant awards to offset the $6.6 million overdraw. We do not question costs as the same issue was reported as a finding in the prior year audit, and we questioned the costs then.

In addition to having inadequately accounted for the federal cash drawn, there may also be a violation of the requirements of the Cash Management Improvement Act. The Act requires States to minimize the time elapsing between the transfer of funds from the U.S. Treasury and the payout of funds for program purposes by a State. We note that the Department has since strengthened its internal controls over cash draws. It now requires that a cash draw document be completed and that the amounts requested be supported and documentation retained.

Recommendation:

We recommend that the Department of Human Services ensure that federal funds that are drawn correlate to reported expenditures, and discontinue the use of future grant awards to "pay back" overdraws. We recommend that the Department investigate the net that has been overdrawn and return any remaining excess to the federal government, or determine that it was appropriately expended and report it as such. Finally, we recommend that the Department ensure compliance with the Cash Management Improvement Act.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861 and Burnell Bouchard, 287-5060

DHS agrees that in prior years there have been errors in the process of drawing federal cash. During FY 04, all Accounting & Cash Management personnel have attended at least one *workshop on the requirements of the Cash Management Improvement Act and continued efforts are being made to ensure compliance with CMIA. During FY05, DHS will reconcile prior year cash draws and ensure that the federal funds drawn down correlate to reported or revised expenditures.*

(03-60) Division of Financial Services

Foster Care - Title IV-E **Questioned Costs:** $730,057
CFDA#: 93.658
Federal Award Number: 0301ME1401

Finding: Information system costs not charged in proportion with benefits received

The Department of Human Services charges the costs of the Maine Automated Child Welfare Information System (MACWIS) to the Foster Care Program. MACWIS is utilized by the Title IV-E Foster Care Program and the Adoption Assistance Program, as well as various other State and federally funded programs. Since the implementation of MACWIS in 1998, the Foster Care Program has been charged with the entire federal participation rate (50 percent) of its associated costs. During fiscal year 2003, the federal share of MACWIS costs charged to the federal Foster Care Program was $1,615,730 (50 percent of $3,231,459).

According to Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

The Department has procedures in place to proportionally allocate administrative and other qualifying expenditures shared between the two Title IV-E Programs, but the Department currently does not allocate the costs associated with MACWIS. Department personnel noted that the federal government created the reporting forms, and only the form for the Foster Care Program includes a line on which to report the MACWIS costs.

We question $730,057, the proportional share of MACWIS costs that should have been charged to the Title IV-E Adoption Assistance Program and not to the Foster Care Program. This amount is based on the of cost allocation rate that was used during the fiscal year to allocate other shared costs of the Title IV-E Programs. Although other federal programs benefit from using MACWIS, the primary users are these two programs, and the federally approved cost allocation plan provides that they share the cost.

<u>Recommendation</u>:

We recommend that the Department follow documented procedures to proportionally allocate MACWIS costs to both the Foster Care Program and the Adoption Assistance Program, so that expenditures incurred by the programs reflect proportional benefits received.

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

Contact: Elizabeth Hanley, 624-1861

Currently, a line for reporting MACWIS IT costs exists only on the Quarterly Foster care report. Historically, IT costs have been reported there for lack of a better line. Without including all expenditures, the quarterly report will not be in balance, and cannot be submitted. The Department of Health and Human Services is working with the Federal cognizant agency to add the IT expenditure line to the Quarterly Adoption Assistance report as well. Also, the Division of Accounting and Cash Management, as part of the procedure to reconcile all federal accounts, is in the process of analyzing shared costs between the two programs, in an effort to better report the expenditures in the short run. For the long run, the Department of Health and Human Services has released a Request for Proposals (RFP) to alter/improve the federal cost allocation plan. The vendor awarded the contract will be charged with addressing all cost allocation issues, including those within the Foster Care and Adoption Assistance Programs.

(03-61) Bureau of Child and Family Services

Foster Care - Title IV-E and Adoption Assistance

<u>Questioned Costs:</u>

Foster Care	$1,965,556
Adoption Assistance	$1,231,409

<u>CFDA#:</u> 93.658, 93.659
Federal Award Number: 030201ME1401, 030201ME1407

<u>Finding</u>: Inadequate controls over accounting for and reporting Title IV-E shared costs **(Prior Year Finding)**

The Department of Human Services does not have adequate internal controls over accounting for and reporting of the Title IV-E shared costs associated with the Adoption Assistance and Foster Care programs. Controls did not prevent errors in tracking and recording of program costs for federal reporting. Cost allocation factors were incorrect because of incorrect client population data within MACWIS and also because incorrect base periods were used. The Department's procedures for accounting for administrative and other qualifying expenditures are highly complex and prone to errors, which resulted in the accounting records not truly reflecting the sources and uses of funds. The varying approaches used by the Department to allocate Title IV-E shared costs were so complex, and the resulting human error so pervasive, that the general basis for many costs claimed during the year did not appear sound.

Although the Department had not updated its federally approved cost allocation schedules for Title IV-E shared costs to adequately reflect current methods used for allocating these costs, it has since submitted updated information that has received federal approval. Although the Department developed written procedures, during the year, to address prior year audit issues, it did not follow the procedures. The Department's inadequate review and reconciliation practices resulted in instances of double-counting, inappropriate cost content, inconsistent computation of factors and inconsistent application of methodology to account for and report allocated qualifying costs between the Title IV-E Programs.

The Department, in an effort to correct prior year computation and reporting errors related to shared costs, submitted numerous cost adjustments in the Title IV-E expenditure reports during fiscal year 2003. Because the methods used to compute these adjustments were inconsistent, additional computation and reporting errors resulted. Accordingly, we question the net overstatement of $1,079,271 for the Foster Care Program, associated with administrative and training-other costs. Additionally, we question the net overpayment of $665,029 for the Adoption Assistance Program for the same cost categories.

The Department allocated 100 percent of pre-service training costs to the Title IV-E Programs. The base costs for these allocated claims should have been subjected to factor rates before they were apportioned. For fiscal year 2003, if the appropriate factors had been applied, these pre-training costs would have been charged to the Title IV-Es at approximately 60 percent of the base amount. Department personnel indicated that they were aware that these costs probably should have been factored, but chose to claim them at 100 percent until they were told otherwise. We question the federal financial participation rate of these overstated pre-service costs of $843,603 for Foster Care and $545,890 for Adoption Assistance.

The Department increased postage costs by 200 percent. The Department could not provide us with their rationale or documentation to support these apparent overstated claims. We question the federal participation rate of the increased postage costs of $42,682 for Foster Care and $20,490 for Adoption Assistance.

Recommendation:

We recommend that the Department implement and engage in reasonable review and reconciliation practices. We further recommend that the Department document its current use of funds and accounts to prevent additional errors from occurring. We recommend that it restructure its use of accounts so that they will clearly reflect account activity and funding source and to simplify program accounting. We recommend that the Department document its rationale or basis for charging costs at other than approved rates.

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

Contacts: Bob Blanchard, 287-5060 and Elizabeth Hanley, 287-1861

In 2003 the Office of the Inspector General audited the training expenditures and had similar findings to these. At the time of the OIG Audit we made all corrections requested by OIG auditors under their supervision to insure we made the corrections as needed to conform to the federal requirements.

Also the Bureau of Child and Family Services submitted a new cost allocation plan in first quarter of calendar year 2003 to be effective October 2002. The plan was received and has since been approved by ACF and we are currently starting the implementation of that plan. Full implementation should occur in the October 2004 Quarterly Report to ACF.

The 200 percent increase in postage was due to satisfaction surveys sent out by the Bureau of Child and Family Services in response to the Federal Child and Family Services Review. These mailings were statewide and were sent to bureau venders, current and prospective foster parents, providers, as well as clients and adoptive families.

The Division of Financial Services have hired two new accountants whose task is to review the account activity prepare reconciliations and to simplify program accounting.

(03-62) Bureau of Child & Family Services

Foster Care- Title IV-E and Adoption Assistance **<u>Questioned Costs:</u>** $17,790
<u>CFDA#:</u> 93.658, 93.659
Federal Award Number: 0301ME1401, 0301ME1407

<u>Finding</u>: Adoption assistance costs incorrectly charged to the Foster Care Program **(Prior Year Finding)**

The Department of Human Services incorrectly charged the Title IV-E Foster Care Program for expenditures of the Title IV-E Adoption Assistance Program. The Department did not change the funding source from Foster Care to the Adoption Assistance Program in the Department's computerized system immediately upon a child being placed in an adoptive home.

For 19 of 60 cases that we examined, the dates entered into the system designating the change in funding from Foster Care to Adoption Assistance were different from the date of the adoption placement. Differences ranged from 34 to 189 days. Of the $328,670 in federal payments that were tested, $12,667 was charged in error to Foster Care rather than to Adoption Assistance. We question these costs. Applying the dollar error rate of 3.9 percent ($12,667/$328,670) to the total

Foster Care Program payments made during the fiscal year ($941,569) on behalf of children after the date of adoptive placement results in a likely questioned cost of $36,721.

Additionally, three of the 19 cases included costs that had been originally paid from State funds but then reimbursed through Title IV-E. The Department contracted with a consultant to identify Foster Care expenses paid from State funds that were in part reimbursable through the Foster Care Program. Of the $65,062 in State funded expenses that were targeted as reimbursable through the Foster Care Program, $5,123 were for benefit periods after the date of adoption placement. We question these costs. Applying the dollar error rate of 7.8 percent ($5,123/$65,062) to the total of State funded expenses targeted as federally reimbursable that were made on behalf of children placed in adoption during the audit period ($204,458) and adjusting for the federal portion of this amount, results in a likely questioned costs of $10,575.

In December of 2002, updates to the Department's system were made. Included was a change that allowed a retroactive adjustment between program accounts to be made whenever an adoption placement was not recorded in the system until some time after the placement date. The positive effect of this change was noted in tested cases with placements subsequent to December 2002.

Recommendation:

We recommend that the Department implement procedures to review all adoption cases at the time of placement to ensure that the correct federal program is charged for costs relating to the adopted child.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

In December 2002, updates to MACWIS were made. In addition, a draft of a statewide placement agreement is being proposed that will change the placement of a child from foster care to the Adoption Assistance Program the day the placement agreement is signed.

(03-63) Department of Human Services
Bureau of Child and Family Services

Foster Care Title IV-E and Adoption Assistance **Questioned Costs:** None
CFDA#: 93.658, 93.659
Federal Award Number: 0301ME1401, 0301ME1407

Finding: Inadequate controls to ensure that accurate client information is maintained **(Prior Year Finding)**

The Department does not have adequate controls in place to provide reasonable assurance that client data is accurate or compliant with eligibility requirements. Title 45 CFR 1355.53(g) states that information maintained by the State Automated Child and Welfare Information System must be tested for accuracy, completeness and compliance with federal requirements and State standards. Title 45 CFR 1356.22(m) states that the State must review the amount of payments made for foster care maintenance and adoption assistance at reasonable, specific, and time-limited periods, to assure their continued appropriateness. We noted the following exceptions:

1. The Department, using the Maine Automated Child Welfare System, was not able to adequately identify children who were eligible to receive program subsidy payments, report accurately all who received program payments during a specified time frame, and provide accurate data to support time spent working on Title IV-E Program cases.

2. The Department, because of inaccurate participant data reported by the system, could not compute reliable factor rates to appropriately calculate and allocate Title IV-E shared costs.

3. The Department did not close Title IV-E case information that was recorded in the automated system in a timely manner. This resulted in closed cases being included in client population data, which is used for cost allocation purposes.

Recommendation:

We recommend that the Department immediately address the eligibility problem identified within the system. We recommend that the Department establish quality control review procedures, and regularly review program cases to ensure correct coding, accurate participant data, and payment only to eligible participants.

Given the recent technological changes in the work environment, an increased number of new employees and a stated commitment toward the achievement of a “paperless” work environment, we recommend the Department document any procedures that require manual updates. We further recommend the Department document the relationship between different screens in the automated system.

Auditee Response/Corrective Action Plan:

Contact: Bob Blanchard, 287-5060

A two phase rollout of MACWIS programming changes first in March 04 and followed in June 04 were deployed to address the eligibility problems brought forward by this prior year finding. Also, in September 2003, a DROMBO Quality Assurance Reviewer was assigned to an ongoing random sample review of cases to verify client eligibility to receive Title IV-E funding. Also in March 2004, The Bureau of Child and Family Services underwent a full desk review of all cases prior to the 2004 Federal Audit of the Title IV_E Program and corrected any children who we decided were ineligible using a very conservative interpretation of the federal eligibility requirements. The Bureau of Child and Family Services passed the federal program review in April of 2004.

(03-64) Department of Human Services
Bureau of Child & Family Services

Adoption Assistance **Questioned Costs:** None
CFDA#: 93.659
Federal Award Number: 0301ME1407

Finding: Inadequate accounting and reporting controls **(Prior Year Finding)**

The Department did not correctly record, in separate accounts, the federal and State shares of $31,267 in non-recurring adoption assistance expenses and $355,689 in demonstration project expenses during fiscal year 2003. Further, the Department did not include non-recurring adoption assistance expenses in its quarterly financial reports. The financial impact or questioned costs associated with these errors could not be readily determined for the following reasons:

1. All non-recurring expenses are being recorded in one account for both the federal and the State funded programs. A detailed review of each transaction would be necessary in order to allocate these costs.
2. The federal share of many of these non-recurring expenses incurred on behalf of Title IV-E eligible clients is being recorded in accounts at the Federal Medical Assistance Payment rate, rather than 50%, the approved rate for administrative expenses.
3. Most Demonstration Project expenses are being recorded entirely in the federal expenditure fund. The State share of these expenses is never transferred to the General Fund. A detailed review of each transaction would be necessary in order to allocate these costs based on the Federal Financial Participation Rate applicable at the time the expenses were incurred.

<u>Recommendation</u>:

We recommend that the Department take steps to ensure the proper recording and reporting of Adoption Assistance Program expenses. We also recommend that the Department review program regulations and implement reasonable review and reconciliation procedures that will prevent additional errors from occurring.

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

Contact: Elizabeth Hanley, 287-1861 and Bernie Bouchard, 287-2377

The Demonstration Project expenses are currently being reported incorrectly on the Quarterly Financial reports. An initial review of the claims submitted for a couple of quarters shows that not all claimable expenditures have been reported. The funding sources for this project consist of the following: 1) Federal Funds based on the FMAP rate; 2) In-kind match provided by the parents to guiding group (such as horseback riding) is at 50/50; 3) University of Southern Maine indirect cost sharing; 4) State share of University of Southern Maine indirect cost. The claims reviewed included only the Federal Share paid to the University and the guiding groups. A review of the program expenditures and applicable matching funds since its inception will be conducted before September 30, 2004 and the appropriate claim (including all funding sources) will be compared with the original claim to then file an adjusted claim. Schedules will be revised to accumulate all claimable costs for future quarterly reports.

A review will be made of the non-recurring expenditures to determine the appropriate claim to both the State and federally funded programs. This review will also be conducted prior to the submission of the quarterly claim for the September 30, 2004 period.

(03-65) Department of Human Services
Bureau of Child & Family Services

Adoption Assistance — **<u>Questioned Costs:</u>** None
<u>CFDA#:</u> 93.659
Federal Award Number: 0301ME1407

<u>Finding:</u> Title IV-E Adoption Assistance costs incorrectly charged to the State subsidized program

The Department of Human Services incorrectly charged the State Subsidized Adoption Assistance Program for expenditures of the Title IV-E Adoption Assistance Program. The State Subsidized program is funded entirely by the General Fund whereas the Title IV-E Program is generally paid 66% from federal funds and 34% from the General Fund.

During fiscal year 2003, funding for benefit payments for 345 cases was provided by both the Title IV-E Adoption Assistance Program and the State Subsidized Adoption Assistance Program. The Department charged 58 of 60 payments that we examined to incorrect funding sources, with the net result being an overcharge to the State Subsidized of $94,266 in benefit payments made on behalf of Title IV-E eligible clients.

As the sample represented 17.4% of the population (60/345), likely incorrect charges of $541,759 ($94,266/17.4%) in benefit payments may have been made to the State Subsidized rather than the Title IV-E Program.

Recommendation:

We recommend that the Department review the cases that were funded by both the Title IV-E Adoption Assistance Program and the State Subsidized Adoption Assistance Program, prepare entries to appropriately charge the correct funding sources, and ensure that an accurate determination is made in the benefit funding source.

Auditee Response/Corrective Action Plan:

Contact: Bob Blanchard, 287-5060

The Department of Human Services agrees that it incorrectly charged the State Subsidized Adoption Assistance Program for expenditures of the Title IV-E Adoption Assistance Program during FY 03. The Office of the Inspector General has been reviewing all these cases and errors have been corrected accordingly.

(03-66) Bureau of Child & Family Services

Adoption Assistance **Questioned Costs:** None
CFDA#: 93.659
Federal Award Number: 0301ME1407

Finding: Documentation to support eligibility determinations not retained **(Prior Year Finding)**

The Department of Human Services was unable to provide, in a timely manner, all documentation necessary to determine client eligibility.

We tested 60 benefit payments for client eligibility. The Department was able to provide the documentation necessary to test the clients' eligibility; however, due to past practice of purging older eligibility files, much of the documentation was not readily available.

The Department amended its policy during the audit period as follows:

- Eligibility documentation is now being retained for three years beyond a client's eighteenth birthday.
- With respect to purged files, the Department will reconstruct eligibility determination files on an as-needed basis.

This policy does not ensure that information will be available during an audit undertaken after adoption assistance benefits have ended.

Recommendation:

Considering that federally funded adoption assistance may continue beyond a child's eighteenth birthday and that State subsidized assistance may continue even longer, we recommend the Department extend the retention period for the eligibility determination files for Adoption Assistance clients to at least five years beyond the time that a child stops receiving benefits from either the State or federally funded programs.

Auditee Response/Corrective Action Plan:

Contact: Carol Armour, 287-5060

This audit finding has been corrected. DHHS has implemented measures that will retain the eligibility determination files for Adoption Assistance clients for five years after their eighteenth birthday.

(03-67) Bureau of Child & Family Services

Adoption Assistance **Questioned Costs:** None
CFDA#: 93.659
Federal Award Number: 0301ME1407

Finding: Adoption assistance paid to clients at an incorrect rate **(Prior Year Finding)**

Controls were not in place at the beginning of the fiscal year to ensure that the Department paid benefits of the Adoption Assistance Program at the approved rates. Automatic increases in board and clothing rates for children who reach certain ages were not being made in accordance with the approved rate schedule due to a system programming error. Program changes that were released in December 2002 resolved this issue.

We tested 60 cases. Of those, five clients with benefit payments made prior to December 2002 for board or clothing were found to have been paid at incorrect rates. Benefits were underpaid by $51 to these five clients. This is a dollar error rate of .4 percent of the total of $12,768 in benefit payments that were tested. We found no deficiencies in benefit payment rates paid to clients after December 2002.

Applying the error rate of .4 percent to the total population of benefit payments paid through December 2002 resulted in a likely total underpayment of $17,096.

Recommendation:

Corrective action has been taken by the Department, no further action is recommended.

Auditee Response/Corrective Action Plan:

Contact: Bob Blanchard, 287-5060

Corrective action has been taken by the Department as part of a December 2002 MACWIS update. No further action is recommended.

(03-68) Community Services Center
Division of Financial Services

Social Services Block Grant **Questioned Costs:** $4,900,000
CFDA#:93.667
Federal Award Number: G0201MESOSR, G0301MESOSR

Finding: Funds not spent in accordance with earmarking requirements

The Department of Human Services does not have controls in place to ensure that funds that were transferred from the Temporary Assistance for Needy Families (TANF) Block Grant to the Social Services Block Grant (SSBG) were spent as required. According to 42 U.S.C. 604(d) (3) (b), TANF funds transferred to SSBG are only to be used for children or their families whose income is less than 200 percent of the federal poverty level. During fiscal year 2003, $8.4 million was transferred to SSBG as follows:

- $2.9 million to reimburse the State for social service contracts paid for with State funds (we question these costs);
- $2.0 million to pay for contracts to subgrantees for domestic violence services (we question these costs);
- $2.5 million to reimburse the State for foster care costs paid for with State funds; and

- $1.0 million to reimburse the State for costs associated with home visitation for newborns

Of the $8.4 million, we question $4.9 million because the contracts to the subgrantees did not inform the subgrantees of the applicable earmarking requirements; therefore, the subgrantees would not have restricted services to only eligible recipients. Furthermore, we do not question the remaining $3.5 million as our testing indicates that it is highly probable that the State would have made qualifying expenditures.

Recommendation:

We recommend the Department implement control procedures to ensure that funds transferred to the Social Services Block Grant from TANF are spent in accordance with the applicable earmarking requirements including a review of the language of contracts with providers. We further recommend the Department maintain supporting documentation to substantiate that earmarking requirements are met.

Auditee Response/Corrective Action Plan:

Contact: Jeannette Talbot, 287-5037

The Department does not agree with the finding.

The federal DHHS directive to SSBG administrators regarding TANF transfers in the Administration for Children & Families Information Memorandum Transmittal No. 09, as well as the TANF Final Rules and the Personal Responsibility and Work Opportunity Reconciliation Act, contain conflicting requirement/limitations. The TANF Final Rules state that "All funds transferred to the SSBG program are subject to the statute and regulations of the recipient SSBG program in place for the current fiscal year at the time the transfer occurs". The State of Maine has been operating under the Final Rules directive.

The state's SSBG Program Plan Report contains the eligibility and program parameters under which the state operates for the fiscal year in question. The eligibility section of the Program Plan Report (pages 5-10) lists exemptions to the generic income eligibility standards and the service income guidelines applied by the state..

The services funded with the TANF transfer funds were all allowable services under the federal SSBG Goals, and the generic list of services to be provided in the state's Program Plan Report (pages 15-33).

Department of Human Services

(03-69) Community Services Center

Social Services Block Grant **Questioned Costs:** None
CFDA#: 93.667
Federal Award Number: G0201MESOSR, G0301MESOSR

Finding: Inadequate suspension and debarment procedures

The Department of Human Services does not have procedures in place to ensure that contractors receiving awards of $100,000 or more are not suspended or debarred. The Department did not obtain the required certification for suspension and debarment for one of the ten contracts that we reviewed.

Title 45 CFR 76.200 prohibits non-federal organizations from contracting with parties that are suspended or debarred. Contractors receiving awards of $100,000 or more must certify that the organization and its principals are not suspended or debarred.

Recommendation:

We recommend that the Department require all contractors who are awarded $100,000 or more to certify that the organization and its principals are not suspended or debarred.

Auditee Response/Corrective Action Plan:

Contact: Jeannette Talbot, 287-5037

All Service Agreements funded with SSBG funds contain the Department's standard Rider D. When the Agreement is signed by the Service Provider, Rider D, item 6 serves as the certification for suspension and debarment.
I believe the contract sited in this finding was an Agreement with the University of Southern Maine for training and technical assistance to the Community Services Center. Currently, the standard state agreement template for University of Maine training and technical assistance agreements does not contain suspension and debarment language.

The Community Services Center will obtain authorization from the state Division of Purchases to include the Department's standard Rider D in all future training and technical assistance agreements.

Department of Human Services

(03-70) Community Services Center

Social Services Block Grant **Questioned Costs:** None
CFDA#: 93.667
Federal Award Number: G0201MESOSR, G0301MESOSR

Finding: Inadequate subrecipient monitoring procedures

The Department of Human Services did not provide the required federal grant award information and applicable program compliance requirements to all of the subgrantees receiving federal funds from the Social Services Block Grant. The Department changed the funding source of certain contracts from State funding to federal funding through a transfer from the Temporary Assistance for Needy Families Block Grant that totaled $2.9 million. The Department did not amend the contracts to reflect the change in funding source, or to include the required federal grant information. Subgrantees were unaware that they were receiving federal dollars and were unaware of the program requirements.

Title 31 USC. 7502 (f)(2)(a) requires entities that award federal funds to subgrantees to provide the program names (and any identifying numbers) from which such awards derive and the federal requirements that govern the use of the awards.

Recommendation:

We recommend that the Department ensure that all subgrantees are provided with the required grant award information. We further recommend that if contract funding sources are modified, subgrantees are made aware of the modification.

Auditee Response/Corrective Action Plan:

Contact: Jeannette Talbot, 287-5037

The Community Services Center applies the same eligibility standards and fiscal and program requirements to State Purchased Services funds as it does to Social Services Block Grant funds, in accordance with the Maine Uniform Accounting and Auditing Practices for Community Agencies rules, Section .04,A.

Each Service Agreement issued by the Community Services Center contains pages in Rider E that identify the applicable federal circulars that apply to the entity type of the contractor. These pages clearly state that the same standards apply to federal and state funds.

Department of Human Services

(03-71) Division of Financial Services

CFDA#: 93.667, 10.561, 93.558, 93.778	**Questioned Costs:** 93.667	$683,974
	93.558	$339,510
		$1,023,484

Federal Award Number: G-301MESOSR, 2003IS2514
G-301METANF, 50305ME2028

Finding: Inadequate controls over accounting for and reporting of allocated costs **(Prior Year Finding**

The Department of Human Services does not have adequate controls to ensure accurate financial reporting and compliance with prescribed methods to allocate costs. We noted the following instances of non-compliance in the allocation of administrative costs.

1. Costs were charged more than once. The Department included certain expenditures as both direct program costs and as allocated costs. As a result, the Department overstated expenditures by $793,293. Of the eleven federal programs tested, we identified duplicate charges in the following programs:

CFDA #	*Program Name*	*Amount*
93.667	Social Services Block Grant	$683,974
10.551/10.561	Food Stamps Cluster	$109,319

We question $683,974 in duplicate federal charges. We do not question the $109,319, as other non-allocated amounts for the Food Stamps Program were under reported.

The Department allocated certain expenditures twice, including the same expenditures in separate cost pools of the allocation plan. A portion of these expenditures was charged to the federal government, and a portion was credited toward State maintenance of effort for the Temporary Assistance for Needy Families program. We identified the following duplicate charges and overstated expenditures:

CFDA #	Program Name	Amount
10.551/10.561	Food Stamps Cluster	$ 29,877
93.558	TANF	$339,510
93.558	TANF – Maintenance of Effort	$111,745

We do not question the $29,877, as other non-allocated amounts for the Food Stamps Program were under reported. We question $339,510 in duplicate federal charges to the TANF program. We do not question $111,745 in State funds that were over reported, but note noncompliance with maintenance of effort requirements.

2. The Department omitted reportable and reimbursable expenditures. One allocation schedule contained a formula error, which resulted in allocated expenditures of the Medicaid Cluster

being understated. In addition, the Department failed to bring forward certain reportable expenditures from one schedule to another. Furthermore, certain accounts within the State's accounting system were not consistently included in the cost allocation plan. We identified $2,038,296 in unreported expenditures made on behalf of the Medicaid Cluster. The federal share these reimbursable expenditures is $1,115,602.

3. Factor rates used to allocate cost pools within primary allocation schedules were not applied and calculated in accordance with prescribed methods. Factor rates used to allocate regional administrative costs to various federal programs were updated, but the updated rates were not used to allocate those expenditures for fiscal year 2003. In addition, certain factor rates were incorrectly calculated. The errors did not appear to be material to any program.

4. The cost allocation plan contains numerous errors resulting from deficiencies in the implementation and management of the plan. We note the following deficiencies:
   a. Costs are miscoded in the State's accounting system, at times resulting in expenditures normally charged directly to a specific program to be allocated.
   b. There is misunderstanding, and therefore incorrect implementation, of procedures to determine indirect costs.
   c. There is a lack of assumed responsibility in managing the cost allocation plan. This includes personnel responsible for preparing spreadsheets not performing appropriate reviews that would identify errors and no one person appearing to have acquired a broad and detailed understanding of the cost allocation plan, such that errors impacting multiple schedules remain undetected.
   d. Certain rates used to calculate indirect costs are changed retroactively, and we were unable to determine whether the State of Maine recovers any resulting increase.
   e. Certain cost pools within the allocation plan could not be traced to the State's accounting system. Variances existed between the accounting system and the plan. The Department attempted to explain the variances, noting that certain accounts within the State's accounting system are split among different allocation schedules, but the explanations given did not account for all variances. A failure by the Department to document allocation methodology inhibits gaining an understanding of the cost allocation plan, raises concerns as to the accuracy of the plan, and creates potential risks when the responsible personnel are replaced. The Department could not provide responses to many of our questions concerning apparent abnormalities within the plan.
   f. The cost allocation plan does not reflect the current operating environment at the Department of Human Services. The primary allocation schedules used for allocating administrative costs were implemented in 1985. Additional schedules were added through the years, but no significant revisions have been made to reflect the current operating environment of the Department. We were unable to obtain a complete depiction of where costs that are accumulated and allocated in the plan are ultimately reported.

Recommendation:

We recommend that the Department of Human Services:

1. develop controls to ensure that costs are not reported both as allocated and as direct costs,
2. develop controls to ensure that costs are not allocated twice within the cost allocation plan,
3. ensure that updated factor rates are used in determining current allocations,
4. update the cost allocation plan to include a listing of the programs, by CFDA number, to which costs are allocated, and
5. document the methodology and underlying principles of the cost allocation plan.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

DHS has issued a Request for Proposal to design, develop and implement an Administrative Cost Allocation Plan, including an Indirect Cost Rate Proposal in accordance with the US Office of Management & Budget's Circular A-87. It is expected that this new plan will streamline data gathering and methodologies and result in a simplified, more accurate system for allocating indirect costs.

(03-72) Division of Financial Services

Social Services Block Grant **Questioned Costs:** None
CFDA#: 93.667
Federal Award Number: G0201MESOSR, G0301MESOSR

Finding: Inadequate cash management procedures

The Department of Behavioral and Developmental Services does not have controls in place to ensure funds are distributed to subgrantees based on their immediate cash needs. The Department distributes funds to the subgrantees of the Social Services Block Grant on a predetermined quarterly schedule and does not consider the subgrantees' immediate cash needs in the disbursement process.

According to the Common Rule of the Office of Management and Budget, advances in grant funds to subgrantees must conform substantially to the same standards of timing and amount that apply to cash advances by federal agencies. Title 31 CFR 205 states that both State and federal agencies "shall limit the amount of funds transferred to a State to the minimum required to meet a State's actual immediate cash needs."

Department of Human Services

The Department of Human Services does not have controls in place to ensure compliance with federal cash management requirements.

During fiscal year 2003, the Department held excessive cash for six of the 12 months. Title 31 CFR 205.33(a) states that the timing and amount of cash advances shall be as close as is administratively feasible to the actual cash outlay by the State for direct program costs and the proportionate share of any allowable indirect costs. "Administratively feasible" was determined by the Bureau of Accounts and Control to be seven days. For these six months, the program held cash sufficient for program needs ranging from 27 days to 104 days.

Recommendation:

We recommend the Department of Behavioral and Developmental Services advance funds to subgrantees based on immediate cash needs. We further recommend the Department of Human Services monitor the program's cash needs and time draws of federal cash to comply with federal requirements. The Department should investigate any unusual cash balances that are not temporary in nature.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

For fiscal year 2005, most contracts that are funded by the Social Services Block Grant have been executed and we will address the cash management problem as follows. For contracts that have split funding, general and federal funds, we will apportion the federal funds in a ratio (i.e., for a three month payment, 2/3 would be apportioned to the GF and 1/3 to the federal fund) and make the assumption that the federal dollars are expended first. We have contracts in place that are "fee for service," which is not an issue since the services have been performed when the money is drawn down.

For fiscal year 2006, we will change contract language for all contracts to either "fee for service" or provide for a monthly drawdown rather than quarterly.

Department of Human Services

(03-73) Division of Financial Services

State Children's Health Insurance Program **<u>Questioned Costs:</u>** None
<u>CFDA#:</u> 93.767
Federal Award Number: 05-0305ME5R21

<u>Finding</u>: Federal funds not drawn for allocated administrative costs

The Division of Financial Services of the Department of Human Services did not draw federal funds under the State Children's Health Insurance Program (SCHIP) for the program's allocated administrative costs. During the 2003 fiscal year, the federal share of allocated administrative costs totaled $1.7 million, which was not drawn because the journal entries that would initiate the draw were not made. It appears that other federal programs at the Department could be subsidizing SCHIP's share of the Department's allocated administrative costs.

<u>Recommendation</u>:

We recommend that the Department implement procedures to ensure that the federal funds are drawn for administrative costs of the SCHIP Program, and that each federal program pays its appropriate share of these costs.

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

Contact: Elizabeth Hanley, 287-1861

DHS reviewed this accounting recommendation and a new procedure was implemented in FY 2004. The required journal transactions to initiate the federal draw down of allocated administrative costs associated with SCHIP are being prepared on a regular schedule. This now allows the department to timely draw down federal funds to meet its share of the program.

Department of Human Services

(03-74) Division of Financial Services

Medical Assistance Program; State Children's Health Insurance Program; State Survey and Certification of Health Care Providers and Suppliers; and Child Support Enforcement

Questioned Costs: None

CFDA#: 93.775, 93.777, 93.778, 93.767, 93.563

Federal Award Number: 5-0105ME5028, 5-0105ME5048, 5-0205ME5028, 5-0205ME5048. 5-0205ME5R21, 5-0000091223, 5-0000091392, 5-0305ME5000, 5-305ME5001, 5-0305ME5002, G-0201MESAVP, G-90FD004301, G-90FD004401

Finding: Estimated grant disbursement amounts reported **(Prior Year Finding)**

The Department of Human Services reported estimated rather than actual cash payments as disbursements on the Federal Cash Transaction Report for the following grant programs: Medicaid, Certification of Health Care Providers and Suppliers, State Children's Health Insurance, and Child Support Enforcement. Reporting estimated amounts affects the federal Division of Payment Management's ability to control and monitor cash, as the Department's actual federal cash on hand is misstated.

Personnel at the Department of Human Services indicated that the federal expenditure reports for these grants are not completed in time to be able to report actual expenditures on the Federal Cash Transaction Report.

The Office of Management and Budget Common Rule, Section 20, requires States' financial management systems and fiscal control and accounting procedures to be sufficient to permit the preparation of required reports.

Recommendation:

We recommend that the Department of Human Services implement procedures to provide for timely and accurate federal financial reporting.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

DHS agrees with this finding. During FY 03 estimates were used in order to complete the PSC 272A Federal Cash Transaction Report on time. If the report is not filed by the due date, the federal Division of Payment Management will cease disbursing cash to the State for the Departments' grant awards. Starting in FY04, the PSC 272A has been filed timely and accurately.

Department of Human Services

(03-75) Bureau of Family Independence

Medical Assistance Program **<u>Questioned Costs:</u>** None
<u>CFDA#:</u> 93.778
Federal Award Number: 50305ME2028

<u>Finding</u>: Annual reviews for eligibility not conducted

The Bureau of Family Independence did not conduct annual eligibility reviews as required by 42 CFR 435.916. Of 32 recipients who were required to have annual reviews conducted, the Bureau did not conduct the reviews for three.

During State fiscal year 2003, the Bureau implemented a new automated eligibility system. This implementation caused major changes in the procedures followed by the eligibility specialists, and is likely to have contributed to this compliance issue.

<u>Recommendation</u>:

We recommend that the Bureau of Family Independence conduct reviews annually. If a review date is intentionally extended past the one-year mark, the explanation should be entered into the computer system.

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

Contact: Tom Keyes, 287-2310

Bureau of Family Independence reviews are conducted annually. An enhancement was made to the Automated Client Eligibility System (ACES) in April, 2004 which made annual reviews standard and automatically set by ACES. There will be virtually no reason to bypass this process, in order to extend a review.

In the rare event that an annual review should be extended, staff is instructed to make a notation in the CASE NOTE section of ACES.

Department of Human Services

(03-76) Bureau of Family Independence

Medical Assistance Program **<u>Questioned Costs:</u>** None
<u>CFDA#:</u> 93.778
Federal Award Number: 50305ME2028

<u>Finding</u>: Requirements of Medicaid Eligibility Quality Control not met **(Prior Year Finding)**

Since federal fiscal year 1996, the State's Quality Assurance Unit has not provided Centers for Medicare and Medicaid Services (CMS) with required error calculation reports. 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. In the absence of these reports, CMS 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. An attempt is being made to submit the error rate based on New Hampshire's federally accepted report, for October 2002 through March 2003. This report has not been submitted or federally accepted at this time.

It appears that the Department did not submit a Medicaid Eligibility Quality Control sampling plan to CMS for approval, as required by Title 42 CFR §431.814. Additionally, the sampling plan that was used did not contain the following components as required by the State Medicaid Manual:

1. the sample size,
2. the accuracy and completeness of the sample selection lists,
3. the number of items on the sample selection lists,
4. the expected number of cases to be selected, and
5. a detailed description of the procedures used in selecting the sample review cases.

<u>Recommendation</u>:

We recommend that the Quality Assurance Unit:

1. provide CMS with past due error rate information,
2. calculate error rates using the prescribed statistical formula,
3. submit a sampling plan to CMS for approval, and
4. include in the sampling plan all of the components and descriptions required by the State Medicaid Manual.

Auditee Response/Corrective Action Plan:

Contact: Tom Keyes, 287-2310

This requirement was completed and sent to the federal government in April. 2004. A copy was sent electronically to the Boston office and the Baltimore office. Our submission included an approved sampling plan and QC findings for Medicaid for the period back six years.

(03-77) Bureau of Medical Services

Medical Assistance Program **Questioned Costs:** $8.7 million
CFDA#: 93.778
Federal Award Number: 50305ME2028

Finding: Federal funds for school-based services returned to General Fund

The Bureau of Medical Services received $8.7 million from the federal government for rate increases for school based rehabilitative services but never actually implemented the rates or distributed the additional amounts that were received to the local school districts.

The Department of Education indicated that its data showed that there were sufficient costs to support a rate increase and that rates had not been increased for some time; however, the existing "bundled" rates were established through negotiation with the federal government, and the State did not contact the federal government to formally seek a rate increase before taking these actions. The cost of living rate increases that were applied were 8 percent for fiscal year 2001, 16 percent for 2002 and 25 percent for 2003. Also, the school districts have agreed to provide matching funds for federal funds received for school based rehabilitative services. It is unclear whether the school districts have met that requirement for higher matching funds.

In December 2002, the Bureau calculated the effect of the rate increases for each local school district for the period retroactively to January 1, 2001, and through November 2002. The Bureau caused checks to be written, had those checks sent directly to the Department and then redeposited them into the General Fund without ever mailing them to the schools. The Bureau charged the total amount of the checks to the federal fund and then claimed those costs on a federal expenditures report. This resulted in a payment of $4.6 million from the federal government to the State.

In June 2003, the Bureau processed an additional $4.1 million for rate increases for the period from December 2002 through May 2003 and for the estimated expenditures of June 2003. Again, the checks were not issued to the schools but were redeposited to the General Fund; the expenditures were again transferred to the federal fund and the costs claimed from the Medicaid Program.

This action was taken as part of a strategy known as "intergovernmental transfers," which are designed to maximize federal revenues. Qualifying costs of another entity are identified, submitted for federal reimbursement, paid out to the other entity and then, with the agreement of the other entity, a portion or the equivalent amount of the "earned" amount returned to the submitting government. These strategies have been implemented by many States and are currently allowed by the federal government. In this instance, the transfer part of the strategy did not take place and it is not apparent that the schools were aware of the plan. In part, the Bureau was constrained because the State's authorizing legislation for this action, PL 2003, Chapter 714 Part A, states, "any additional actions needed to secure these federal funds will be the responsibility of the Department of Human Services and the Department of Education and will not be the responsibility of individual school districts." The law allocated $5 million in federal funds and deappropriated $5 million from the Bureau's State account. Apparently, the $5 million amount was an estimate of what the result of the rate increase would be. The actual increase totaled $8.7 million. Since the actual transactions exceeded the Bureau's deappropriation by $3.7 million, an inadvertent effect of these transactions was to increase the Bureau's allotment by $3.7 million. The net effect was to reduce General Fund expenditures by $8.7 million and to receive that much from the Medicaid Program.

Recommendation:

We recommend that, if the Department of Human Services pursues strategies to maximize federal participation, that it do so legally and with the consent of the federal government and other affected parties if necessary. The Department should never cause checks to be issued that it does not intend to send. We also recommend the Department not implement rate increases that have not been approved, if required.

Auditee Response/Corrective Action Plan:

Contact: Robert Boschen, 287-3833

It is important to note that the Department of Human Services is not required to notify or seek approval from CMS for provider rate increases. The State Plan for Medicaid must only be amended if the methodology for calculating payments changes. The Department has provided for fee increases for SBR providers in the past, as for many other Medicaid providers, and does not seek federal approval. Therefore, the recommendation of the Department of Audit in this regard is not appropriate.

The Department of Human Services has had conversations with CMS in regard to this finding and is working with CMS to correct the original transfer. In addition, the Office of the Inspector General has reviewed the transfer as well as rates for school based rehabilitation services. The Department of Human Services will provide its response to CMS once the OIG has provided the Department with its findings. DHS and CMS will be working together to resolve this issue.

Department of Human Services

(03-78) Bureau of Medical Services

Medical Assistance Program **Questioned Costs:** $3,268,650
CFDA#: 93.778
Federal Award Number: 50305ME2028

Finding: Limits of disproportionate share exceeded

The Bureau of Medical Assistance made disproportionate share (DSH) payments to psychiatric hospitals that exceeded the limits for federal participation. In federal fiscal year 2002 and 2003, the combined State and federal limits for DSH payments to institutions for mental disease were $42,488,372 and $50,752,369, respectively. State and federal payments that were made were $4,936,047 and $11,825,658 higher. The State cannot receive reimbursement for the federal share of the excess payments ($3,268,650 and $7,873,523) so they must be paid from State funds. We question the excess costs of $3,268,650 claimed in federal fiscal year 2002 (State fiscal year 2003).

The process for determining expenditures that this limit applies to is complicated by hospital cost settlements that are unknown as of the limit deadline.

Per 42 CFR 447.297, "…at any time a State has exceeded its final DSH allotment for a Federal fiscal year, FFP attributable to the excess DSH expenditures will be disallowed."

Recommendation:

We recommend the Department closely monitor disproportionate share expenditures to ensure that costs are not incurred beyond those allowable or funded.

Auditee Response/Corrective Action Plan:

Contact: Robert Boschen, Director, Division of Finance & Reimbursement, Bureau of Medical Services, 287-3833

DHS agrees with this finding and corrective action has been taken in FY 2004.

Department of Human Services

(03-79) Bureau of Medical Services

Medical Assistance Program **Questioned Costs:** $18,400
CFDA#: 93.778
Federal Award Number: 50305ME2028

Finding: Reimbursement rates excessive

The Bureau of Medical Services implemented a strategy whereby ambulance claims to municipally owned ambulance services were paid at the Medicare rate rather than at the lower Medicaid rate. The municipalities were asked to certify that they would provide the required non-federal match for the claims ("certified seed"). The Bureau then created a "match pool." This construct allows the difference between the two rates to be used as matching funds for other municipalities. Not every municipality provided certifications, and not all ambulance services are owned by municipalities.

The effects of this strategy were that municipalities received the higher Medicare reimbursement rates; the State no longer paid the State share of the claims, which reduced General Fund expenditures; and the federal Medicaid Program was charged for the same services at the higher Medicare rate. This strategy also increased the complexity of quarterly Medicaid reports.

This strategy violates the State's Maine Care Benefits Manual provisions, which provide that reimbursement is to be made at the lowest of Medicaid rates, Medicare rates or the providers' usual and customary charge. The Bureau implemented the payment policy in February 2003. Our examination of Medicaid payments showed that only one particular type of service (ambulance service) was paid at the higher rates. Rather than paying the Medicaid rate of $95, the Bureau processed 147 claims at $285 per claim, which resulted in total claim costs of $41,755 rather than $13,965. The 66.22 percent federal share was reimbursed to the ambulance companies ($27,650 rather than $9,250, a difference of $18,400). We question this $18,400, the federal share of the difference in the Medicaid and Medicare rates.

Recommendation:

We recommend the Department comply with the provision of its manual, ensure that matching funds exist and are appropriately applied, and document procedures necessary to report unusual financing arrangements.

Auditee Response/Corrective Action Plan:

Contact: Chris Zukas-Lessard, 287-2674

The Department does, in fact, have a Rider A for every ambulance provider that certified public dollars available for the State share of Medicaid payments.

The Bureau did provide for increased rates for all ambulance providers and did so in compliance with its rules. The Medicaid rules were amended so that the rates were listed as "Negotiated Rate," rather than to list a $95 base rate that would not always be in effect.

The Office of the Inspector General is reviewing the Department's process in regard to these fee increases. Once the OIG issues its final report, the Department will work toward a resolution with the Centers for Medicare and Medicaid Services.

(03-80) Bureau of Medical Services

Medical Assistance Program **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME5028

Finding: Inadequate controls over "suspense account"

The Bureau of Medical Services uses a subsidiary account, referred to as the "suspense account," of a General Fund expenditure account to process cash receipts and disbursements from and to medical providers. Suspense accounts are generally balance sheet accounts used to temporarily hold amounts for which the ultimate disposition is uncertain. The Department's use of the expenditure account for this purpose does not provide a clear record of whether the amounts have cleared, or a record of the source and use of funds.

The Department sometimes posts clearing entries in a later period than that of the original transaction. As an operating account, the suspense/expenditure account is closed at the end of each fiscal year. Therefore, any late postings will not match with the original transactions but will offset or add to unrelated new activity. Some entries may never be cleared other than by the closing of the account at year-end. Therefore, the suspense account balance is essentially meaningless. Revenues or fund balance may be understated because all transactions, including cash receipts, are coded to expenditures. Those same receipts create allotment above what has been legislatively authorized for the period. That allotment is then available to be used to disburse additional funds. Using the suspense account also causes a delay in obtaining applicable federal funds in a timely manner, increases the likelihood of inaccurate financial reporting and requires additional manual procedures to determine and process clearing entries.

Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations,* requires recipient organizations of federal funds to have internal controls in place to provide reasonable assurance of accountability of assets and the preparation of reliable financial statements and federal reports.

Although the net effect of the transactions on the account was a credit to expenditures of $2.8 million, this is not reflective of the volume of activity during the year. In fiscal year 2003, 12,457 transactions were posted to the account. The Department used the account to disburse $49.9 million to providers. Medical providers returned 261 overpayments, which totaled $25.6 million, to the Bureau of Medical Services. The Department also posted 89 journals, which increased the account balance by $25.2 million.

Personnel of the Bureau of Medical Services stated that they use the account to facilitate timely payments to providers.

Recommendation:

We recommend the Department discontinue use of the existing suspense account for making payment to providers. We further recommend the Department establish a suspense account as a balance sheet account, use it only for appropriate activities, and clear the transactions that are posted to the account in a timely manner.

Auditee Response/Corrective Action Plan:

Contact: Robert Boschen, Director, Division of Finance & Reimbursement, Bureau of Medical Services, 287-3833

The amounts are posted to the Suspense account and used as a tracking mechanism for payments made from all State funds. At the point that the account is reconciled, monies that have been charged to a State account are accurately distributed into the appropriate federal account, based on the service area.

With the implementation of the MeCMS in October 2004, the utilization of the Suspense account will be significantly diminished.

(03-81) Division of Financial Services
Bureau of Medical Services

Medical Assistance Program **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME2028

Finding: Negative cash balance of $121 million **(Prior Year Finding)**

The cash balances of two of the principal federal fund Medicaid accounts at the Department of Human Services were negative every month during fiscal year 2003. Although a negative balance is expected because of the provisions of the Cash Management Improvement Act, which provides for a four-day average clearance pattern for timing cash draws, the negative amount was far in excess of what might be expected. While the average "cycle" payment was $19.8 million, the ending balance exceeded the average cycle payment by six times. At the end of fiscal year 2003, the cash balance was negative $121 million. The Department expended $88 million more than it drew for the program during the year.

By April of 2003, the Department had spent its entire grant award for the last quarter of the State's fiscal year. It could not draw additional funds until the next fiscal year, when it drew $112 million from the July through September grant award in July 2003. Those funds were needed to pay the already incurred expenditures, which had been funded by the Treasurer's Cash Pool in the interim.

The federal grant award is given to the State of Maine based on reports submitted to the Centers for Medicare and Medicaid Services, a quarterly budget report completed by the Bureau of Medical Services and a quarterly expenditure report completed by the Division of Financial Services. The reasons the Department did not have sufficient grant award include: not including last-minute budget changes on quarterly federal budget requests, not claiming all allowable expenditures on the federal expenditure reports and not processing journal vouchers in a timely manner. If allowable expenditures are not claimed on the quarterly expenditure report within eight quarters of the expenditures, federal reimbursement is no longer available.

The effect of this negative balance resulted in cash flow problems for the Medicaid Program that continued into fiscal year 2004. As we reported, this problem also existed on a smaller scale in fiscal year 2002.

The State has since engaged a consultant to investigate the underlying causes for the negative balance. The consultant's report recognized the issues identified here, and also commented that the Department had mistakenly paid certain State expenses from a federal account that should have been charged to the General Fund.

Recommendation:

We recommend that the Department of Human Services continue to monitor this balance and determine all causes of the variances involved. We also recommend the Department:

1. make the journal entries that affect these accounts on a timely basis to help ensure federal reimbursement is obtained for all allowable expenditures;
2. obtain grant award for all allowable expenditures; and
3. ensure the Division of Financial Services and the Bureau of Medical Services work together to file accurate quarterly reports on a timely basis.

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

Contact: Colin Lindley, 287-1855

DHS has started to monitor the cash balances in these two accounts. With DHS's team approach starting in FY 05, journal entries will be done on a timely basis, reconciliations will be completed and overall communications between the Division of Financial Services and the Bureau of Medical Services will be improved.

(03-82) Bureau of Medical Services

Medical Assistance Program **<u>Questioned Costs:</u>** None
<u>CFDA#:</u> 93.778
Federal Award Number: 5030ME2028

<u>Finding</u>: Controls over provider eligibility inadequate

The process for determining Medicaid provider eligibility at the Provider Services Unit of the Bureau of Medical Services does not ensure that all required documents are available and reviewed.

The key control identified to ensure providers are eligible Medicaid participants and that all the required information has been submitted is the application process. This control proved to be ineffective. Of 60 provider files examined, 15, or 25 percent, did not have provider agreements or applications on file. Both the provider agreement and the application inform the provider of the responsibility to disclose information pertaining to ownership interests and any criminal activity of the provider and the provider's staff, as required by 42 CFR 455. There was no indication these files received any periodic review to provide assurance that the information on file remained current and accurate.

Furthermore, as part of the application process, providers are required to submit a copy of a current license. Upon receipt of the copy, Provider Services staff does not verify the validity of the license. Of the 38 files tested for which licensees were required, 15 (40 percent) did not include a copy of the license. Also, license expiration dates were not entered in the computer system for 28 of the 38 (74 percent). The system relies on the date to verify the provider's eligibility before payment can be made. This omission could lead to an unqualified provider receiving Medicaid funds.

There was also a lack of segregation of duties. As information is received, all staff members have access to the computer system to create new providers and change existing provider information. These functions should be separated to prevent the possibility of fraud.

Recommendation:

We recommend the Provider Services Unit develop a file verification system that includes a checklist of the information that must be submitted before a provider can participate in the Medicaid Program. We also recommend there be periodic review of the provider files to give assurance that the provider information remains current and accurate. We recommend provider license information should be verified and entered into the computer system immediately upon receipt. Finally, we recommend that there be segregation of duties.

Auditee Response/Corrective Action Plan:

Contact: Diane Bailey, 287-9345

Following is a summary of activities that the Bureau's Provider File Unit staff is presently performing or will perform in response to the findings on lack of effective internal controls.

Application Process – The Bureau's new Maine Claims Management System (MECMS) will have required steps that will allow continuation of provider enrollments only when all necessary documentation has been received by Provider File Unit staff. This means that MECMS has a checklist of information that must be provided before a new provider enrollment can be completed, i.e. agreement, license, etc. As was noted in the Department's response to a previous finding in this area, there is missing documentation because many files were destroyed due to contamination in the former office building. However, there have been several mailings to all active MaineCare billing providers in the last few months not only to ascertain additional data required for MECMS, but also to obtain agreements and licenses.

Periodic Review of Provider Files – Since there are thousands of files and limited staff resources, the Bureau will ask that each staff person review, on an annual basis, providers in the portion of the alphabet assigned to them. These files will be reviewed for completeness and to ensure that contents are accurate/current. Staff will note on a spreadsheet their progress and findings associated with the review. For those files that have been identified as incomplete, staff will contact the provider to obtain necessary documentation.

Licenses – A MaineCare provider report has been generated for missing license data. Both Provider File Unit staff and Provider Relations Unit staff are working on a daily basis to acquire missing licenses and correct expired license dates. Data entry is occurring immediately upon receipt of this information. It is expected that this activity will be completed when MECMS is implemented.

Segregation of Duties - There has been a segregation of duties in Provide File Unit since 4/1/04. Enrollment activities and out-of-state claim review is alphabetically assigned for each applicable staff person. Other job functions (date stamping/distribution of mail, filing, compiling enrollment packets, etc.) are now performed by two staff in clerical positions.

Department of Human Services

(03-83) Bureau of Medical Services

Medical Assistance Program **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME2028

Finding: Insufficient documentation for certain Medicaid reimbursement rates

The Bureau of Medical 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 rule making process.

The Bureau could not provide sufficient documentation to support all reimbursement rates that were tested. We selected 60 Medicaid claim payments that included 76 procedure codes. The Bureau could not document the basis for the rates established for nine of the 76 codes. The Bureau documents some rates very well such as the rates for nursing facilities and private non-medical institutions.

The rate setting process is decentralized within the Bureau. Because of the large number of allowable services, different individuals are authorized to set one or more of the reimbursement rates based on different rate setting methodologies.

Recommendation:

We recommend the Bureau of Medical Services institute standardized methods for determining and supporting Medicaid reimbursement rates. We further recommend the supporting documentation be retained for audit purposes.

Auditee Response/Corrective Action Plan:

Contact: Robert Boschen, Director, Division of Finance & Reimbursement, Bureau of Medical Services, 287-3833

Documentation corrected for rates set from 2001 forward.
Standardization and documentation improvements – ongoing.

At the present time, the Bureau utilizes several methods for rate setting. As mentioned above, provider cost reports is one method and is used as a basis for those rates that are presently cost settled. In addition, the provider budgets or cost reports (referred to as Rate Reports) are used in the rate setting methodology for all services where the "negotiated rate" terminology is presently used. This is the standardized practice across both the former Department of

Behavioral and Developmental Services and the Bureau for rate setting purposes. All other rates are based on the Medicare numbers or a factor of those amounts, as allowable within the constraints of the budget.

The Bureau has established strict controls over the Maine Care rate setting system. All rates that were set in 2001 and forward must have sufficient documentation (as determined by the rate review board) before they can be put into place. This finding notes that the Bureau could not supply documentation for several codes where claim payments were made. Although the claim payments were made in the 2003 audited year, the rates were set many years earlier - several years prior to any strict controls implemented by the Bureau. The Bureau agrees that any and all supporting documentation should be retained for audit purposes and continues to do that for all rates set from 2001 forward.

The Bureau agrees that the rates should be more standardized and has worked for several years with the Department of Behavioral and Developmental Services to establish a consistent methodology across the two Departments for Maine Care rate setting. In addition, both Departments have been working together for three years to develop the new MeCMS system. The rate-setting module of this new system will allow the new Department of Health and Human Services to provide a central location for all rates for all Maine Care services. This should better facilitate the standardization and documentation of the rates and the rate setting process.

(03-84) Bureau of Medical Services

Medical Assistance Program **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME5028

Finding: Insufficient controls over accounts receivable **(Prior Year Finding)**

The Bureau of Medical Services does not have procedures in place to reconcile the Bureau's accounts receivable records to the State's accounting system accounts receivable balance. The Bureau maintains the original accounts receivable records. The Division of Financial Services enters the data on the State's accounting system. Although the Division reconciles its records to the accounting system, no one reconciles the original Bureau's records to the accounting system. There is a variance of $4.8 million. The Bureau does not have collection procedures in place to ensure that balances are actively pursued, nor to routinely identify those balances that should be written off. The Bureau does not keep collection data to assist in calculating an accounts receivable allowance amount.

During fiscal year 2003, the Bureau of Medical Services did review accounts receivable balances, and provided a list of accounts that were recommended for charge off totaling $14 million. These amounts were removed from the State's accounting system in June 2003 but were not removed from the Bureau of Medical Services accounts receivable records until January 2004.

Recommendation:

We recommend the three accounts receivable files be reconciled at least annually. We recommend the Bureau of Medical Services set up formal procedures for monitoring accounts receivable and collection practices in order to identify uncollectable accounts and to write off bad debts. We recommend the Bureau track collection statistics in order to more accurately establish a reserve amount. We further recommend procedures and policies be instituted for assessing interest and penalties on the accounts receivable balances. We also recommend that procedures be established to ensure that providers with Medicaid bad debts do not begin filing claims under another Medicaid provider number.

Auditee Response/Corrective Action Plan:

Contact: Robert Boschen, Director, Division of Finance & Reimbursement, Bureau of Medical Services, 287-3833

With implementation of the Maine Claims Management System (MECMS), replacing the old MMIS system in fall to winter 2003-2004, the Bureau of Medical Services will run monthly reports to reconcile the original accounts receivable against the total amount recouped to date. MECMS will enable the Department to offset against any accounts owed by a specific entity in order to collect outstanding amounts due the State.

Until MECMS is operational, the BMS will set up an Access database for tracking all accounts receivable. Reports will be done on a monthly basis to monitor the status of all receivables.

Even though the MeCMS is not yet operational, the Bureau of Medical Services (BMS) has moved forward to guarantee that collection procedures are in place to ensure that balances are actively pursued and to identify those balances that should be written off.

In April 2003 the BMS completed an "Accounts Receivable Aging Schedule" and an "Accounts Receivables Recommended for Charge Off" and submitted those through the Commissioner, Department of Human Services to the Bureau of Accounts and Control. In February 2004, after thorough review of all outstanding receivables for State Fiscal Year 2004, the BMS determined that there were no accounts receivable that could be submitted for write off in April 2004. All accounts receivable are tracked on a weekly basis.

In addition, the Bureau of Medical Services is now working very closely with the Accounting Staff at 221 State Street to ensure that the BMS' accounts receivable balance will tie to the State's accounting system. Staff has been replaced/added to both offices and the method in which the receivables are being tracked has changed. A flow chart of the process has been determined and both offices will be working to streamline that process to ensure that the *interpretation of all receivables/payables is consistent within the Department of Health and Human Services (DHHS).*

One recommendation that the BMS is still reviewing with the Attorney General's Office is the method of assessing interest and penalties on outstanding debts. This process has been implemented by the BMS Surveillance and Utilization Review Unit, but not by the Accounting Unit within the BMS' Division of Financial Services. That process is being slated for State Fiscal Year 2005.

(03-85) Bureau of Medical Services

Medical Assistance Program **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME5028

Finding: Surveillance and utilization reviews not done on a sampling basis **(Prior Year Finding)**

The Surveillance and Utilization Review Unit of the Department of Human Services does not follow sampling procedures to identify cases to evaluate for a post-payment review. Title 42 CFR 456.22 requires the Department to have procedures for the on-going evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The reviews serve as a control to ensure that payments made are appropriate.

In 2003, the unit reviewed cases that were initiated mostly by complaints or referrals and that were not the result of a sample. SURS opened 180 cases in 2003. Only 7% appeared to have originated from within the Unit; 43% came from referrals from various sources and 50% came from non-specified sources.

The Unit does not have electronic tools to conduct data mining procedures. The new automated claims management information system that is expected to be implemented in fiscal year 2005 should provide the data necessary to review cases on a sample basis.

Recommendation:

We recommend that the Bureau of Medical Services provide the unit with the tools necessary to ensure compliance with federal regulations. We further recommend the Surveillance staff implement as much of the procedure manual as possible pending the new claims management computer system.

Auditee Response/Corrective Action Plan:

Contact: Robert Boschen, 287-3833

The Bureau of Medical Services is currently developing a new claims management system, MECMS, which includes a Surveillance and Utilization Review subsystem (SURS). The new SURS will provide the Bureau with capability to identify potential cases utilizing sampling methods and will increase the percentage of cases that are initiated. MECMS is expected to be operational in October 2004.

(03-86) Division of Financial Services

Medical Assistance Program **Questioned Costs:** $46,643
CFDA#: 93.778
Federal Award Number: 50305ME2028

Finding: Medicaid financial reports not accurate and not reconciled; controls over compliance with matching requirements insufficient **(Prior Year Finding)**

The Division of Financial Services relies on a single individual to prepare and submit Medical Assistance Program quarterly financial reports. The same individual who prepares the reports also prepares or approves journal vouchers for millions of dollars. Reports are submitted late, are not reconciled to the State's accounting system, and are not subjected to any formal review by other Department personnel. Information that is reported affects the amount of the Medicaid grant award to the State. Reporting errors result in the State's Medicaid grant award being incorrect. In addition, reporting errors result in an incorrect Schedule of Federal Awards.

The reports are highly complex and include information from multiple sources, including other agencies. Because Financial Services personnel do not have access to the accounting system's data warehouse for other agencies, the manager reports estimated expenditures rather than reporting actual disbursements. The Department does not have a written chart of accounts for the Medicaid Program. The reports do not flow directly from the accounting system. The preparer must remember where information is obtained, and how various portions of it are to be included. There are no written procedures for completion of the reports. Every new Medicaid waiver approved by the federal oversight agency adds to the complexity of the reporting, thereby increasing the risk of errors or omissions. These issues combine to complicate the reporting process unnecessarily. Federal reviewers from the Centers for Medicare and Medicaid Services routinely find errors in the reports, which the Department must then correct.

The Department reported allocated costs of $23,129 for one account; however, the accounting system showed a negative $23,514. We question $46,643.

The Department could not explain a $38.4 million variance that resulted when we attempted to reconcile the reports to the accounting system for 2003.

The Department does not have adequate controls in place to ensure compliance with matching requirements. The basic control is the automated allocation of expenditures to federal and State funds within the Maine Medicaid Information System. However, within the system, certain bills are reimbursed only for the federal portion, with other non-State providers responsible for the local or State share. Also, many program charges result from cost allocation journals or other adjustments, which do not go through the system. The Department has no means of tracking or accumulating the federal and State share of those transactions and, consequently, no way of determining that the matching requirements of the program are satisfied.

Medicaid financial monitoring and reporting is also complicated by using matching funds from various sources. The Bureau of Elder and Adult Services, the Bureau of Child and Family Services, the Department of Labor, the Department of Corrections, the Department of Behavioral and Development Services, and the University of Maine are all responsible for providing some Medicaid matching funds. In addition, various providers obtain federal Medicaid funds by agreeing to provide matching funds in the form of "certified seed." The current process makes it almost impossible to track and monitor these funding sources to ensure accurate matching of federal funds.

We also note the Medicaid appropriation account contains certain subsidiary accounts that are not used for Medicaid related activities. In 2003, the Department expended $69 million from those accounts. Of that, $23.4 million was expended for the SCHIP Program and $23 million for boarding home payments. The remainder was expended for other health programs. Including these other activities within the Medicaid account structure distorts the Medicaid costs that need to be funded by the State. For budgeting, control, and reporting purposes, these non-Medicaid subsidiary accounts should be removed from those established for the Medicaid Program.

During fiscal 2003, new staff positions were created in Division of Financial Services, and the Bureau of Accounts and Control increased oversight; however, many of these changes did not take effect for fiscal year 2003 reporting.

Recommendation:

We recommend the Division of Financial Services initiate a system to ensure that federal financial reporting is reviewed, reported accurately and filed on a timely basis. We recommend the Division prepare a reconciliation of Medicaid accounts at least annually. We also recommend that Division staff obtain access to the accounting system's data warehouse for expenditures made by other relevant agencies. We recommend the Department require providers to document amounts claimed as matching funds in the form of "certified seed." We further recommend the Department establish separate accounts for each federal program administered to allow identification, monitoring and accurate reporting of federal expenditures.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

The Department of Human Services agrees that no reconciliation is done between the quarterly Federal financial reports and the State's accounting system. As stated, the Federal reports for the Medicaid Program are growing more complex as new Medicaid and non-Medicaid Programs are established at both the State and Federal levels as a result the Division of Accounting and Cash Management is moving towards a Medicaid team approach. During FY 05, this team will be redesigning the report preparation process, preparing reconciliations and reviewing previously filed reports.

(03-87) Division of Financial Services

Medical Assistance Program **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME5028

Finding: Journal vouchers not adequately supported **(Prior Year Finding)**

Department of Human Services personnel prepared journal vouchers that do not have adequate supporting documentation. Eleven of 40 vouchers that were tested did not have information to support the derivations of the amounts of the journals. The net value of the journals was negative $15.3 million, with an absolute value of $65.6 million.

In fiscal year 2003, the amount of journal vouchers processed in the two Medicaid Program appropriation accounts exceeded $48 million dollars, with an absolute value of $598 million.

Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* states that, to be allowable under federal awards, costs must be adequately documented.

Recommendation:

We recommend that adequate support for journal vouchers be maintained.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

This was corrected in November 2003. All journal vouchers have supporting documentation to support the entries.

(03-88) Division of Financial Services

Medical Assistance **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME2028

Finding: Federal funds used for State purposes **(Prior Year Finding)**

The Department of Human Services temporarily transferred State expenditures to the Federal Expenditures Fund so that Medicaid cycle payments could be paid on a timely basis.

To allow the State share of Medicaid bills to be paid, the Department artificially created General Fund allotment by temporarily transferring $13.7 million in previously recorded General Fund expenditures to the Federal Expenditure Fund.

The entries temporarily overcharged federal funds and triggered a draw of federal cash. The Department then used the federal cash to make the cycle payments. In effect, the Department temporarily used federal funds for the State's share of program expenses. Prior to the end of the fiscal year, the entries were reversed to properly allocate expenditures within the program's accounts.

Recommendation:

We recommend that transfers between Medicaid accounts without financial orders be discontinued.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley

This practice was terminated during FY 2004. Transfers between Medicaid accounts are processed by financial orders.

Department of Human Services

(03-89) Division of Financial Services

Medical Assistance Program **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME2028

Finding: Financial reporting errors

We reviewed the allocation of hospital prospective payments to the Medical Assistance Program and other related programs. We found that $93,552 was not reported to the federal government on the September 30, 2002 Medicaid financial report. We found the same amount was erroneously deducted from the June 30, 2003 financial report. We found that expenditures were claimed that were $3,259 greater than was actually spent. These errors are directly attributable to the complexity of the quarterly report and the lack of review process.

The total unclaimed and allowable expenditures total $183,845. We do not question the amount, as the program allows such errors to be corrected in subsequent reports.

Recommendation:

We recommend the Division of Financial Services initiate a system to ensure that federal financial reporting is reviewed, reported accurately and filed timely. We recommend that the next quarterly report be adjusted to claim these unclaimed expenditures.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

In FY 2004, a consultant group was hired to document the Medicaid Federal Reporting process. A recommendation was made to redesign the federal reporting processes into a team function with internal checks and oversight, clarifying critical linkages, dissemination, efficiency and timeliness. This team has been formed starting in FY05 and will be reviewing the quarterly reports in question.

Department of Human Services

(03-90) Division of Technology Services

Medical Assistance Program **Questioned Costs:** None
CFDA#: 93.778
Federal Award Number: 50305ME5028

Finding: No internal control system established for ADP risk analyses and system security reviews (**Prior Year Finding)**

The Department of Human Services did complete an Automated Data Processing (ADP) risk analysis this year but there are no controls in place to ensure that this procedure will be repeated as required. According to 45 CFR 95.621, State Medicaid agencies must establish and maintain a program for conducting periodic risk analyses and system security reviews for each computerized information system involved in the administration of HHS programs. To reasonably ensure compliance with federal laws and regulation, non-federal entities receiving federal awards must establish and maintain a system of internal control.

The Maine Medicaid Management Information System has been in use for over twenty years; however, the first risk analysis was not completed until this fiscal year. No system of internal controls has been established to ensure compliance with the risk analysis and system review requirements. This internal control will be even more important when the current claims processing system is replaced with a new system at the end of fiscal year 2004.

Recommendation:

We recommend the Bureau of Medical Services establish a system of internal controls to ensure that the required ADP risk analyses and system security reviews of the claims processing systems involved in the administration of the Medical Assistance Program are conducted as required.

Auditee Response/Corrective Action Plan:

Contact: Rene LeBlanc, 287-1746

BMS currently has a contractor developing a replacement system for MMIS called Maine Claims Management System (MeCMS). MeCMS will completely change the way BMS conducts its claims processing. The contractor responsible for oversight of the MeCMS project is documenting the manual business processes associated with MeCMS, and this item is one of the processes they have been asked to develop.

MeCMS was originally scheduled to be implemented in October of 2003, so these processes were expected to be implemented prior to this audit. Therefore, the processes were not added to the

MMIS operations procedures. Unforeseen circumstances have resulted in the implementation date of MeCMS slipping to January 2004, then April, then August and now they are targeting completion in December 2004. These delays have resulted in the corrective actions being documented in the MeCMS operations procedures not being viable. DoTS BMS staff is on schedule to again perform the audit in late summer of 2004, but the task has still not been added to the production schedule due to the inevitability that MeCMS must be operational in 2004.

(03-91) Division of Financial Services

Social Security-Disability Insurance **Questioned Costs**: $633,282
CFDA#: 96.001
Federal Award Number: N/A

Finding: Inequitable distribution of indirect costs

The Social Security Grant Cluster was charged a disproportionate share of the State's overhead associated with the State's accounting system.

As of July 1, 2003, the Department of Human Services obtained provisional federal approval for indirect cost rates calculated through the Department's Indirect Cost Allocation Plan. The indirect cost rate that was calculated for use by the Social Security Grant Cluster increased from 7.7 percent to 25 percent. This rate increase is effective retroactively to fiscal years beginning July 1, 2001 and continues until amended.

The Bureau of Accounts and Control allocated indirect costs to the State agencies based on total checks written (vendor and payroll checks) and electronic transfer units processed for each agency. The Department of Human Services reallocated these costs, through their own Indirect Cost Allocation plan, to the various Bureaus within the Department. The allocation was based solely on checks written to vendors, excluding payroll checks and electronic transfer units from the allocation basis.

The effect of the Department's method of allocation is that the Social Security grant cluster, which issues a significantly greater number of vendor checks in comparison to payroll checks and electronic transfers, is charged a disproportionate share of the State's indirect costs. We question $633,282, the excess costs estimated to have been allocated to the program. We obtained the estimated questioned costs by factoring in the check and electronic transfer units, which resulted in an indirect rate of 8.6 percent instead of 25 percent. There would be a similar effect for State fiscal year 2002.

The Office of Management and Budget Circular A-87 states that a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Department of Human Services

Recommendation:

We recommend that the Department of Human Services develop a more equitable distribution method for the overhead costs associated with the State's accounting system.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, 287-1861

On July 1, 2003, Indirect Cost rates were approved by The Department of Health & Human Services. A provisional indirect rate of 25% was approved for Social Security Disability Determination. In July 2004, DHS issued a request for proposal to design, develop and implement an Administrative Cost Allocation Plan, including an Indirect Cost Rate Proposal.

State of Maine
Department of Labor

Summary of Federal Findings

We found exceptions in the Department of Labor's financial administration of three programs: Unemployment Insurance, the Workforce Investment Act program, and the Vocational Rehabilitation Grants to States. The most significant single event was a disruption in the payment of unemployment benefit checks. The most significant control issue was the ability of individual employees to interview applicants for the Vocational Rehabilitation program, determine eligibility, establish plans for employment, authorize expenditures, and initiate and approve payments.

<u>Unemployment Insurance</u>

The Department did not draw federal funds for routine benefits checks and for administration costs in accordance with federal regulations. In addition, the Department incorrectly drew over $1.8 million for federal unemployment beneficiaries from the State of Maine's Unemployment Trust Fund, which should be used only for unemployment compensation claims of non-federal beneficiaries.

The Department was unable to prevent a disruption in the processing of unemployment benefit checks. Continuity planning for automated systems was inadequate, back-up and recovery procedures were untested, and personnel were inadequately trained.

The Department did not require that certain vendors provide suspension and debarment certifications, as required, and did not report untimely payment by employers of the State of Maine to the Internal Revenue Service.

<u>Workforce Investment Act</u>

The Department was unable to document information that was reported to the U.S. Department of Labor regarding Maine's effectiveness in carrying out activities funded by the Workforce Investment Act. In addition, the Department did not ensure that subrecipients presented financial reports on the appropriate basis of accounting. The Department relies upon these in order to present its own financial report to the federal government. Finally, we noted control weaknesses in the automated system that is used to make eligibility determinations for beneficiaries of the Workforce Investment Act.

<u>Rehabilitation Services- Vocational Rehabilitation Grants to States</u>

The Department incorrectly reported program income to the federal government, but corrected the problem by the end of the fiscal year. More importantly, the Department allowed individual rehabilitation counselors to make all decisions regarding an applicant's eligibility and employment plan, including how much is spent on that plan and when it terminates, without supervisory review.

State of Maine
Department of Labor

(03-92) Office of Administrative Services

Unemployment Insurance **<u>Questioned Costs</u>: None**
<u>CFDA#:</u> 17.225
Federal Award Number: UI-12642-03-55

<u>Finding</u>: Cash draws for unemployment compensation were not in compliance with cash management requirements **(Prior Year Finding)**

The Department of Labor did not draw funds for unemployment compensation in accordance with the Cash Management Improvement Act (CMIA) agreement and with 31 CFR 205.7(b).

The CMIA agreement requires that withdrawals from the Unemployment Trust Fund held by the U.S. Treasury utilize the estimated clearance method, which is based on a historical bank clearance pattern. This method requires that withdrawals for each day's benefits expenditures be based upon multiple consecutive draws to the 10th day of issuance. Department personnel attempted to follow the pattern for all of fiscal year 2003. However, these procedures were not fully adopted for all federal type unemployment compensation benefits until June 2003. When the Department adopted procedures to comply with the requirement, all daily withdrawals were made one day later than allowed, and working days rather than calendar days were counted from the date of benefit check issuance.

The federal government supports the State's unemployment compensation program by granting funds for administration. The Department draws federal funds for payroll costs to be deposited two days after checks are issued. The CMIA agreement requires that annual payroll costs be prorated and that the federal reimbursement be deposited bi-weekly one day after checks are issued. The Department bases draws for non-payroll costs on an examination of administrative expenditures for the period since the last draw. Draws are made to be deposited to the State's bank account on a Tuesday or Friday. The CMIA agreement requires that non-payroll costs be drawn four days after checks are issued.

During an unplanned interruption of electronic processing that occurred in September 2002, Department personnel responsible for cash management did not have the information necessary to follow established procedures. Personnel estimated that approximately $1.3 million in benefit checks were printed and mailed, and withdrew this amount from the Unemployment Trust Fund held by the U.S. Treasury. This amount was deposited into the unemployment compensation checking account. Subsequent draws from the Unemployment Trust Fund were not adjusted to reflect the effect of the $1.3 million estimate and $1.3 million was drawn again. In addition, personnel did not have procedures in place to adjust the balance of the benefit account for the effect of an additional approximately $1.3 million in refunds and adjustments for stale-dated checks. Refunds and adjustments must be considered in order to minimize cash balances in the checking account. These issues contributed $2.6 million to an excess cash balance in the unemployment compensation checking account of $3.2 million. Excess cash balances are in violation of 31 CFR 205.7(b).

Recommendation: We recommend that Department of Labor comply with the CMIA agreement and with 31 CFR 205.7(b).

Auditee Response/Corrective Action Plan:

Contact: Rose M. Bailey, 287-1276

The Office of Administrative Services (OAS) has taken steps to correct inadequacies in complying with the Cash Management Improvement Act (CMIA). OAS has corrected misunderstanding in the clearance pattern and is now using 10 calendar days in the calculation. With regard to the return of funds to the Unemployment Trust Fund, OAS would normally return funds as soon as it was identified that excess funds were on hand. Instead, we chose to work with the Office of the Treasurer, State of Maine to ensure that we remained in compliance with CMIA. With the collaboration of the Office of the Treasurer, we developed a new procedure that would maintain compliance. Refunds, stale-dates, and voids are now included in our daily process. The OAS works closely with the Office of the Treasurer on a daily basis, keeping them abreast of situations that could impact our ability to comply. This teamwork will ensure ongoing understanding, communication and fewer audit findings.

Contact: Allen R Stasulis 287-3336
Payroll and Non-Payroll

Payroll draw downs are now performed bi-weekly on Wednesday in order for funds to be deposited as required by the CMIA agreement one day after checks are issued.

The non-payroll funding technique for fiscal year 2003 was average clearance requiring that funds be deposited four days after checks are issued. This funding technique has been changed for fiscal year 2004 to estimated clearance. Accordingly, deposits are now made in accordance with this funding technique and in compliance with the CMIA agreement.

(03-93) Office of Administrative Services

Unemployment Insurance **Questioned Costs: None**
CFDA#: 17.255
Federal Award Number: UI-12642-03-55

Finding: Inadequate internal control over the Unemployment Trust Fund

Funds amounting to $1,867,569 were incorrectly drawn from the State of Maine's Unemployment Trust Fund held by the U.S. Treasury. This amount was used to pay income tax and child support for federal Unemployment Compensation beneficiaries. Federal beneficiaries are residents of the State of Maine who are participants in certain federal unemployment programs, such as temporary extended unemployment benefits, benefits for unemployed federal and postal workers, benefits for unemployed military personnel, and unemployment compensation benefits for other trade programs.

Maine's Unemployment Trust Fund should be used for unemployment compensation claims by non-federal workers, and is funded by an unemployment compensation tax paid by Maine's public and private employers. The State's Bureau of Unemployment Compensation also administers the federal unemployment compensation programs. One hundred percent of the claims costs associated with these programs should have been drawn from federal funds rather than from Maine's Unemployment Trust Fund, both of which are held by the U.S. Treasury.

Recommendation:

We recommend that controls be placed in operation to ensure that funds are drawn from the appropriate Unemployment Trust fund.

Auditee Response/Corrective Action Plan:

Contact: Rose M. Bailey, 287-1276

The Temporary Extended Unemployment Compensation program was a new program, and there was a misunderstanding of the source of reimbursement, as it was identified by our federal partners as UI-TEUC. Once the error was detected, the funds were returned to the UI Trust fund and drawn down from the Federal Trust Fund. UCX and UCFE were impacted by the drawdown of Child Support payments and Federal and State Withholding taxes. The breakdown for these expenses was only available weekly. In prior years we would draw down based on those weekly reports, but found we were not in compliance with the Cash Management Improvement Act because we were deviating from the clearance pattern. These expenses were then added to the daily disbursement register net amounts for UI and ordered based on the clearance pattern. Although the disbursements were recorded and reported correctly, the adjustment between programs at month end did not trigger a transfer between the UI and Federal Trust Funds. This problem has since been corrected. The OAS is now ordering these funds to coincide with the transfers of cash and recording the adjusting entry for CMIA review. Management is monitoring the balance in the U.C. Benefit Account to ensure any irregularities will be investigated and corrected to ensure we maintain the appropriate cash levels for all program.

Department of Labor

(03-94) Office of Information Processing

Unemployment Insurance **Questioned Costs:** None
CFDA#: 17.225
Federal Award Number: UI-12642-03-55

Finding: Inadequate internal control over technology resources

The Office of Information Processing (OIP) did not have adequate internal controls in place to prevent a disruption in the processing of unemployment benefit checks. The primary processing system was not functional during the fourth week of September 2002.

According to OIP personnel, there were multiple causes for the disruption. The primary weaknesses were inadequate business continuity planning, untested back-up and recovery procedures, and inadequate training of personnel.

Internal control practices should be in place to ensure continuous governmental operations.

Recommendation:

We recommend that the Office of Information Processing implement a comprehensive internal control system over technology resources.

Auditee Response/Corrective Action Plan:

Contact: Steven Campana, 287-3168

The Maine Department of Labor (MDOL) created a 'Disaster Recovery Plan' on August 26, 2003.

The Immediate Response Plan allows MDOL to provide Unemployment checks to needy claimants, in the face of an incident. The Maine Department of Labor intends to achieve its objectives, while sustaining the needs and expectations of the public, through an ongoing effort to complete a 'Short Term IT Plan' and 'Long Range Agency Plan', coupled with a focus on the living Agency Disaster Recovery Plan (living to mean changeable, when necessary).

Department of Labor

(03-95) Office of Administrative Services

Unemployment Insurance State Administration
CFDA#: 17.225 **Questioned Costs: None**
Federal Award Number: UI11823HY, UI12642KS

Finding: Insufficient controls over suspension and debarment certification

The Maine Department of Labor did not require that certain vendors provide suspension and debarment certification in compliance with 29 CFR 98.510. Contractors receiving individual awards for $25,000 or more and all subrecipients were required to certify that the organization and its principals were not suspended or debarred from participation in federal assistance programs. We noted two contracts in amounts exceeding this threshold.

The November 26, 2003 *Federal Register* noted some changes to the procurement, suspension, and debarment requirements, effective on that date. Changes include elimination of the certification requirement and the availability of new means of ensuring compliance with the requirements.

Recommendation:

We recommend that the Department of Labor ensure that contractors are not suspended or debarred. We recommend that the Department design and document internal controls to ensure that the new procurement, suspension, and debarment rules are followed.

Auditee Response/Corrective Action Plan:

Contact: Rose M. Bailey, 287-1276

The Office of Administrative Services (OAS) has maintained the policy of including the debarment certification in all contracts. It has been added to the Contract for Services template, as a rider (D) and as part of the template, will be in every contract regardless of the over $25,000 requirement. The OAS currently reviews contracts for such content prior to approval by the Commissioner and/or Assistant Director of Operations.

Department of Labor

(03-96) Bureau of Unemployment Compensation

Unemployment Insurance **<u>Questioned Costs</u>:** None
<u>CFDA#:</u> 17.225
Federal Award Number: UI-12642-03-55

<u>Finding</u>: Procedures to report untimely payments not followed **(Prior Year Finding)**

The Department of Labor did not comply with required procedures for reporting the timeliness of employers' payments for Federal Unemployment Tax Act (FUTA). Payments for two accounts, of twenty-five reviewed, were classified as timely although they were received after the due date. The payments were received after February 10, 2001, but were applied as a credit against delinquent amounts due for the period January 2000 through December 30, 2000**.**

Employers are eligible to receive a tax credit on payments if they submit FUTA tax payments within certain time parameters that are required by the *Guide for the Computerized Certification of State FUTA Credits*. The FUTA tax must be paid in full by February 10 for amounts due for the previous calendar year. Each State is required to provide the IRS with data on the timeliness of FUTA tax payments.

Personnel from the Department of Labor's Bureau of Unemployment Compensation and the Office of Information Processing stated that the method used to record the timeliness of tax payments on the Department's Tax Master system is not compatible with the time parameters specified by the IRS. That is, payments received on delinquent accounts may be recorded on Tax Master as a credit for the time period of the delinquency. However, for the FUTA tape match, credits applied to past due amounts are reflected as timely, regardless of the time period in which the payment was received. Department personnel indicated that software modifications would be required in order to properly report payments to the IRS.

<u>Recommendation</u>:

We recommend that the Department of Labor make the required software modifications to the Tax Master system in order to provide the IRS with the proper classification of timely payments**.**

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

Contact: Joan Cook, 287-1248

As was stated last year, DOL has determined that it is impossible to make a quick fix software modification due to the complexity of the computer program used to perform the task of matching payments on accounts to determine the timeliness of the payments. The computer program correction will be addressed in the agency's future redesign of the U.I. Tax Program.

At this time the planning is going forward. The computer programming is scheduled to begin around November 2004 and will take about 13 months to complete. In the meantime every effort will be made at the time of certification of the tape to review the files for correctness before returning the verification to the IRS.

(03-97) Employment Services

Workforce Investment Act Cluster **Questioned Costs:** None
CFDA#: 17.258, 17.259, 17.260
Federal Award Number: AA11255, AA12019

Finding: Reported performance levels not verifiable

The Maine Department of Labor could not support actual performance levels that were reported for the Workforce Investment Act on the Annual Report Data System. Section 136 of the Workforce Investment Act establishes a comprehensive performance accountability system to assess the effectiveness of States and local areas in carrying out activities funded by the Act. Required program performance indicators include information on entry and retention in unsubsidized employment, earnings received, and attainment of recognized educational credentials. This information is presented in an annual report to the U.S. Department of Labor on the progress of the State in achieving prescribed performance measures. The Maine Department of Labor did not retain documentation supporting the reported performance. The Department is working with the U.S. Department of Labor to provide adequate support for their performance reporting.

Recommendation:

We recommend that the Department adequately support reported performance levels.

Auditee Response/Corrective Action Plan:

Contact: Rusty Cyr, 624-6492

At the present time the U.S. Department of Labor does not require States to maintain data sets beyond the reporting period currently maintained by the Maine DOL. The U.S. DOL has mandated a data validation and reporting process that we are presently in full compliance with. If there are additional state requirements in this regard we will look to see what modifications we can make to become compliant with these requirements as well.

Department of Labor

(03-98) Employment Services

Workforce Investment Act Cluster **Questioned Costs:** None
CFDA#: 17.258, 17.259, 17.260
Federal Award Number: AA-11255, AA-12019, EM-11650

Finding: Subrecipient monitoring insufficient **(Prior Year Finding)**

The Department of Labor's monitoring of subrecipients was deficient for formula grants authorized by the Workforce Investment Act (WIA). Title 29 USC 2934 requires that the State conduct annual onsite monitoring of each WIA local area within that State. The Department began a site visit program for formula grant recipients in 2004.

Monitoring of subrecipient financial reporting procedures did not ensure that reports were presented on the appropriate basis of accounting. Per 20 CFR 667.300, the Department is required to submit financial reports to the U.S. Department of Labor on an accrual basis. To prepare the reports, the Maine Department of Labor uses expenditure information directly from the subrecipient financial reports that are submitted to the State. Adequate monitoring would ensure that these reports are presented on the appropriate basis.

Recommendation:

We recommend that the Department of Labor conduct and document the required annual onsite monitoring of each WIA local area. We recommend monitoring procedures to ensure that subrecipients are filing financial reports to the State on an accrual basis.

Auditee Response/Corrective Action Plan:

Contact: Andrew Drouin, 624-6493

During Program Year 2002 (July 1, 2002, to June 30, 2003), the Bureau established the implementation of regular yearly monitoring of local area activities as one of its principal goals. To that end, monitoring tools were developed, expectations were articulated, schedules were developed and staff were given assignments.

Actual monitoring commenced in Program Year 2003 (July 1, 2003, to June 30, 2004). As originally designed, the first quarter was dedicated to a review of each Local Area's Planning and Governance activities. Beginning with the second quarter, each Local Area has been monitored in the areas of WIA IB activities (Youth, Adult and Dislocated Worker programming), as well as for Wagner-Peyser and Trade Adjustment Act activities. This is occurring on a quarterly rotating basis. The third quarter also saw the incorporation of Financial and Administrative Systems monitoring, again on a quarterly rotating schedule. All monitoring was to have resulted in extensive documentation that included summaries of findings, *communications of those findings to the Local Areas, and any corrective action and follow up activities.*

To date, all PY03 monitoring has occurred as scheduled. Staff has conducted field visits and, using the developed monitoring tools, has reviewed Local Area activities.

While the Bureau has made a considerable leap forward in this area of monitoring, some of the particulars still need to be reviewed and corrected. Documentation of findings and subsequent corrective action still requires attention. In the upcoming year, the Bureau will redouble its efforts to ensure that all monitoring information is properly recorded and maintained in central file.

(03-99) Bureau of Employment Services
Information Processing

Workforce Investment Act Cluster **Questioned Costs:** None
CFDA#: 17.258, 17.259, 17.260
Federal Award Number: AA-11255, AA-12019, EM-11650

Finding: Lack of adequate computer controls **(Prior Year Finding)**

The Maine Department of Labor does not have adequate controls in place for the automated One Stop Operating System (OSOS). The Bureau of Employment Services and the Office of Information Processing share responsibility for the system's operations and controls. The system is used to make eligibility determination for clients of the Workforce Investment Act Programs.

We noted the following control weaknesses:

- Information technology personnel could make changes to master files, production programs, and live data files. Adequate controls were not in place to ensure that changes of this type were authorized and appropriate.
- Procedures were not sufficient to ensure that passwords are confidential and unique, changed at regular intervals, and canceled upon termination of the employee.
- Procedures were not in place to prohibit test versions of programs from being run on production data, and controls were not in place to determine if these types of tests needed to be run.
- Disaster contingency plans were not tested.

We also noted that OSOS could allow applicants to receive program benefits, even if personal data entered onto the system should have rendered them ineligible. Department staff relies on OSOS to invalidate ineligible applicants. The system's eligibility verification coding was appropriately revised as a consequence of our fieldwork. In our testing, we did not find that any ineligible applicants had been accepted.

Department of Labor

Recommendation:

We recommend that the Department of Labor plan and implement a comprehensive control system for the OSOS computer system. We recommend that these controls include appropriate eligibility verification.

Auditee Response/Corrective Action Plan:

Contact: Andrew Drouin, 624-6493

The Department of Labor is currently in the process of adopting a new information technology security policy (ISO 17799 Information Technology Best Practices). The Department has named a security officer and a policy implementation plan is under development. This policy addresses in detail corrective measures to fully resolve audit findings "Lack of adequate computer controls." Full implementation of the new security policy will be dependent on renovations (Enterprise) to the Department's current computing infrastructure. These renovations should be completed by July 05.

Following is a list of the weaknesses spelled out in the finding and references to where the new security policy addresses those weaknesses. Also included are updates that were taken in response to the initial release of the draft Audit findings in April 03 and current updates as of 6/23/04.

1. *Information technology personnel are able to make changes to master files, production programs and live data files. Adequate controls are not in place to ensure that changes of this type are authorized and appropriate.*

   - ***This item is addressed in sections 8, 9 and 10 of the security policy***

   Update: OIP has formalized a process to ensure that changes to production programs and live data, for this system, are authorized and documented. All future change requests that impact the OSOS production system will be routed to the OIP helpdesk. Helpdesk staff will log in the requested change, date, and name of requestor into a tracking system for resolution. Once the change request has been logged in, an email of the request will be forwarded to programmers for the system and their supervisor. The programming supervisor will review requests for system impact and keep an electronic file of requests. In cases where the request potentially impacts, design, policy, or program governance, the supervisor will consult with appropriate administrative officials for change authorization. System programmers are pre- authorized to make nominal changes to the system, to correct data entry errors, bugs, and perform routine maintenance.

   Current update: We have continued to follow the process as defined above. We will determine impact of the changes to date and determine our strategy to further comply with the security guidelines.

2. *Passwords are used to limit access to the program. However, procedures are not in place to ensure that passwords are confidential and unique, changed at regular intervals, and canceled upon termination of the employee were not sufficient.*

   - ***This item is addressed in sections 8 and 9 of the security policy***

   Update: No specific action on this recommendation has been taken to date. This is however an area that will be addressed within the security policy. There are different technological ways to limit access along with passwords which we will investigate as we implement our policies. We will however, review all password access to be sure that only active approved personnel have access and any others with access will have that access terminated.

   Current update: An access/password strategy has been implemented on one of our new OSOS servers and the same strategy will be implemented on the second server in the next few weeks. This strategy introduces layers of accessibility/traceability on the two production Unix servers.

3. *Procedures are not in place to prohibit test versions of programs from being run on production data and controls are not in place for when it is determined that these types of tests need to be run.*

   - ***This item is addressed in sections 8 and 10 of the security policy***

   Update: As part of the new Enterprise system that will be instituted beginning in March of 2004, development and test servers will be made available for all systems including this one. At that time control of the environment will be much more effective. In the meantime a new Progress Database Administrator for OIP has been hired and that person will assist in setting proper test controls. No specific schedule has been set at this time but it should be this fall.

   Current update: No change other than initial order of equipment for the Enterprise system has been received Enterprise development and testing has begun and a test system (non production) for application programmers is expected to be available in August 04.

4. *Disaster contingency plans have not been tested.*

   - ***This item is addressed in 8 and 11 of the security policy and our new Enterprise Computing strategy that we will be beginning to install in 2004 - 2005***

   Update: The disaster recovery procedures are currently being reviewed and updated. Some portions of our disaster recovery plans will be tested during the fall especially those that are involved with check writing.

   Current update: The disaster recovery check writing files are being created on a nightly basis and individual program tests have been completed both by customers and by technical *staff full recovery procedures completed. The new Enterprise system, which will begin to be instituted in July of 2004, will also include a backup site and use of the backup site will be tested on a periodic basis.*

(03-100) Bureau of Rehabilitation Services

Rehabilitation Services – Vocational Rehabilitation Grants to States **Questioned Costs:** None
CFDA#: 84.126
Federal Award Number: H126A030026E, H126A030085E

Finding: Incorrect financial reporting **(Prior Year Finding)**

The Maine Department of Labor did not correctly report program income on the federal Financial Status Reports. Department personnel reported the entire program income amounts in the disbursed category rather than reporting disbursed and undisbursed amounts separately, in accordance with federal guidance. For fiscal year 2003, the Department reported $972,790 more than was actually disbursed. The issue is limited to one of reporting because by year-end the funds were disbursed.

In addition, the Department did not include the required explanatory comments for disbursements from program income.

Recommendation:

We recommend that the Maine Department of Labor separately report disbursed and undisbursed program income, as well as include the required explanatory comments. We further recommend that the Department submit report revisions or advise the U.S. Department of Education of the correct data, as necessary.

Auditee Response/Corrective Action Plan:

Contact: William Whitley, 624-5967

We are making the change recommended above. The U.S. Department of Education, Rehabilitation Services Administration, will receive the revised copies as to their requirements. This is an area we have had reviewed by an objective third party. We have had Berry, Dunn, McNeil and Parker do the review and they will be working with us to do work in the above cited area and others as well.

Department of Labor

(03-101) Bureau of Rehabilitation Services

Rehabilitation Services – Vocational Rehabilitation Grants to States **Questioned Costs:** None
CFDA#: 84.126
Federal Award Number: H126A030026E, H126A030085E

Finding: Inadequate controls over program payments **(Prior Year Finding)**

The Department of Labor does not have adequate safeguards in place to prevent abuse of program funds. The Department relies on its rehabilitation counselors to interview applicants, determine program eligibility, establish individualized plans for employment, authorize expenditures, and initiate and approve payments.

Title 34 CFR 361.42 requires the State plan to assure that determination for program eligibility is based only on determination that an applicant both has a physical or mental impairment and that the impairment constitutes or results in a substantial impairment to employment. Also, 29 USC 722 requires that there be an individualized plan for employment for each program participant. The plan includes a description of the services required and the participation, if any, of the applicant in paying for the costs of the plan. It includes the responsibilities of other parties as a result of the applicant having applied for other comparable services, when required.

The Department relies on the rehabilitation counselors to obtain independent verification of the qualifying disability, to prepare the plans and to document consideration of comparable services. The counselors also determine when participation of an applicant should terminate. In most cases, the Department does not review or document that the work done by the counselors has been reviewed to ensure that all requirements have been satisfied. Supervisory approval of the counselor's decisions is not generally required.

The Department of Labor's computer system (ORSIS) allows a rehabilitation counselor to initiate, authorize and approve payments. The payments are batch processed into the State's accounting system via an interface that receives no additional substantive approval. The system does not limit the expenditure amount, require a second approval or restrict the type of access.

Approximately $9.1 million of the program's $16.3 million of expenditures were processed in this manner.

Recommendation:

We recommend that the Maine Department of Labor establish procedures to ensure independent approvals of expenditures and implement controls that would limit the ability of a system user to initiate, authorize and approve the payment process. We further recommend that a supervisor periodically review the work done by rehabilitation counselors to ensure compliance with program and control system requirements.

Auditee Response/Corrective Action Plan:

Contact: William Whitley, 624-5967

This has been an area of major focus by Berry, Dunn, McNeil and Parker in their review of the Bureau of Rehabilitation Services procedures to include the automated parts of the processes. They are currently in the process of finalizing recommendations of procedural changes to accomplish, in part, the above Auditor's recommendation. We would expect to have our work with B,D,M & P completed by October, 2004 with implementation of changes to immediately follow.

State of Maine
Department of Transportation

Summary of Federal Findings

The Department of Transportation did not comply with all requirements of the federal Highway Planning and Construction program. The Department did not include in its contracts required language regarding suspension and debarment, and did not perform inspections and acceptance testing, to ensure that materials and workmanship conformed to specifications, according to schedule.

Also, we found that the Department did not follow its own procedures to ensure that contractors paid prevailing wages. Various documents were missing, which resulted in our being unable to verify compliance with procedures. Additionally, we found that three of forty contractors' employees whose wages we tested were not paid the prevailing wage.

State of Maine
Department of Transportation

(03-102) Bureau of Project Development

Highway Planning and Construction **Questioned Costs:** None
CFDA#: 20.205
Federal Award Number: Various

Finding: Failure to perform inspections and acceptance testing at the established frequency **(Prior Year Finding)**

The Department of Transportation did not perform Independent Assurance Inspections and Acceptance Testing at the established frequency. Per 23 CFR 637.207, the Department is required to have a sampling and testing program to ensure that materials and workmanship conform to specifications. The program must include an Acceptance and Independence Assurance Testing component. There were two instances of a sample of 56 Independent Assurance results where the Department did not perform the required inspections, and one instance of a sample of 25 Acceptance Testing results where the Department did not perform the required Acceptance Testing, in accordance with established frequency schedules.

Recommendation:

We recommend that the Department of Transportation perform Independent Assurance Inspections and Acceptance Testing at the established frequency.

Auditee Response/Corrective Action Plan:

Contact: Bruce Yeaton, 453-7377

We concur with the finding. The Materials Testing and Exploration unit was cited for two failures to perform Independent Assurance (IA) inspections at the established frequency (out of the 56 samples reviewed).

Both of these IA deficiencies were noted in the 2002 Annual IA Report and both involve the frequency of IA inspections on acceptance personnel performing nuclear densities. At this time, I would like to note that we received a similar deficiency during the last audit and we responded that we were in the process of updating our Testing Information Management System (TIMS) to include an IA inspection report that would help us better manage the inspection requirements and reduce/eliminate future frequency deficiencies. We also planned to modify our compaction frequency rates for the 2003 season (with approval from FHWA). We agreed that this corrective action would occur by June 30, 2003. We did implement the changes by that date but as you can see, due to the timing of the audits, it was after the date of the current audit findings.

Department of Transportation

Maine DOT has made improvements to the TIMS database and it is now capable of calculating pay factors for each hot mix asphalt job mix if the Residents/Inspectors provide the laboratories with the proper sample identification when the samples are sent into the labs. Field personnel have been trained to properly fill out the sample ID tags and management has instructed lab supervisors to withhold test reports until the Resident provides any missing data on the sample ID tags. These changes should insure that proper acceptance tests are in TIMS and pay factor calculations are accurate.

The corrective action plan has been implemented.

(03-103) Bureau of Project Development

Highway Planning and Construction
CFDA#: 20.205 **Questioned Costs:** None
Federal Award Number: Various

Finding: Prevailing wage rates not paid; internal control policies not followed (**Prior Year Finding)**

The Department of Transportation did not consistently follow established internal control procedures regarding federal Davis-Bacon Act requirements. In order to ensure contractor compliance with the prevailing wage provisions of the Davis-Bacon Act, the Department requires Resident Engineers to maintain a contract file with copies of certified payroll reports from contractors and subcontractors. The Resident Engineer is required to review and sign the payroll report to indicate that the prevailing wage rates have been used. Additionally, the Department requires the Resident Engineer to conduct monthly interviews and to document payroll interviews in a project diary.

Twenty-five projects were randomly selected for testing. Payrolls could not be located for two projects, and certified payrolls were not obtained for three. A Resident Engineer had not stamped or signed the certified payrolls of three other projects, and documentation of payroll interviews could not be located in twenty-two of the twenty-five projects.

Wages of forty employees were tested for compliance with 29 CFR 5, which requires that "all laborers and mechanics must be paid wages not less than the prevailing wage rate." Three employees were not paid the prevailing wage. The rate could not be determined for three others, due to incomplete wage rate sheets.

Recommendation:

We recommend that the Department of Transportation require that established internal control procedures be followed, and that contractors comply with the Davis-Bacon Act. Certified payrolls should be obtained from all contractors and subcontractors. Payroll reports should be reviewed for use of prevailing wage rates, and reports should be stamped and signed to indicate agreement that appropriate pay rates were used. Payroll interviews should be documented in project diaries.

Auditee Response/Corrective Action Plan:

Contact: Scott Bickford, 624-3533

We concur with the finding. We will continue Resident education, focusing on the requirements of payroll submission, fringe benefit breakdowns, wage rates, and signature/approval. We will also continue to train the Residents on payroll interviews and the need for them to be conducted at the federally prescribed rate of 2 interviews per Contractor or Subcontractor per 90 days. The On-site Review Unit will check on timely payroll submission and Resident's review and signature during their inspections. In-depth reviews by the Labor Compliance Officer will be conducted on a majority of projects.

This corrective action plan will be implemented immediately.

(03-104) Bureau of Project Development

Highway Planning and Construction **Questioned Costs:** None
CFDA#: 20.205
Federal Award Number: Various

Finding: Inadequate controls over Suspension and Debarment for consultant contracts **(Prior Year Finding)**

The Department of Transportation is prohibited by 49 CFR 18 from contracting with or making subawards to parties that are suspended or debarred. 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. Consultants are required to complete a Consultant Registration Form, which specifically addresses whether the consultant has been suspended or debarred. Additionally, contracts should reference the Consultant General Conditions, effective July 1, 2002, which incorporates suspension and debarment language.

Twenty-five consultant contracts were tested. Of those twenty-five contracts, fifteen either did not reference the correct Consultant General Conditions, or did not include a Consultant Registration Form that specifically addressed suspension and debarment. Additionally, Consultant Registration Forms for the period March 2001 through March 2002 could not be found. For that period, it could not be determined whether suspension and debarment were specifically addressed.

Department of Transportation

<u>Recommendation</u>:

In order to ensure that the Department of Transportation is not contracting with suspended or debarred parties, we recommend the Department of Transportation follow established suspension and debarment procedures and retain the Consultant Registration Form.

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

Contact: Gale Lizzotte, 624-3529

We concur with the finding. Based on the Auditor's review of the above referenced contracts, those consultant contracts that were not federal-aid or those that were federal-aid, but were not engineering/design related contracts may have been contracted through the State of Maine Bureau of Purchases contract form, which currently does not address debarment.

The Department has added suspension and debarment declarations to the Consultant Registration Form and will require that this form is maintained. An updated consultant procedures manual, which outlines the regulations, laws, procedures, templates and sources of information for the acquisition and administration of consultant contracts was issued in June 2003. In addition, training classes were held for Department employees as well as the consultant community.

In addition, the Department has established the Agreement Coordination Office which will provide oversight for contracts throughout the Department. That office is now reviewing the current contracting practices and developing procedures to ensure compliance concerning contract issues. This labor intensive effort will be completed by March 2005.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2003

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
00-30	84.027	Education	Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Corrective action taken in FY04.	03-23
00-33	93 575 93 596	Human Services	No controls to ensure compliance with payroll requirements (Prior Year Finding)	$85,783	Corrective action taken in September 2003.	03-52
00-48	Various	Human Services	Controls do not ensure compliance with cash management requirements (Prior Year Finding)	None	Corrective action will be taken by June 2004.	03-45
00-49	Various	Human Services	Procedures do not ensure accurate reporting of information for the Schedule of Expenditures of Federal Awards (Prior Year Finding)	None	Corrective action taken in February 2003.	Finding was not repeated
00-51	17 225 17 207	Labor	Procedures do not ensure compliance with the Cash Management Improvement Act	None	Corrective action begun in FY03.	03-92
00-52	Various	Labor	Accounting systems not reconciled (Prior Year Finding)	None	Corrective action taken in FY03.	Finding was not repeated
00-54	16 579	Public Safety	Inadequate documentation of compliance with earmarking requirements	None	DOJ closed 09/03/03.	Finding was not repeated
00-56	16 579	Public Safety	Procedures inadequate to ensure compliance with pass-through requirements (Prior Year Finding)	None	DOJ closed 09/03/03.	Finding was not repeated
00-57	16 579	Public Safety	Procedures do not ensure compliance with cash management requirements (Prior Year Finding)	None	DOJ closed 09/03/03.	Finding was not repeated
01-01	N/A	Administrative and Financial Services	Inadequate controls to ensure complete and accurate recording of general fixed assets	None	Corrective action is ongoing. Significant improvements made for FY03.	03-02
01-07	12.401	Defense	Inadequate internal control over cash management (Prior Year Finding)	None	Corrective action taken in FY04.	03-17
01-09	12.999	Defense	Inadequate internal control over cash management at the Loring Rebuild Facility, and non-compliance with cash management requirements	None	Corrective action taken in FY04.	03-18
01-10	Various	Education	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	Partially corrected in FY04, CMIA coordinator will work with agency to complete corrective action in FY05.	DAFS 03-10 & Verbal Communication to DOE
01-13	Various	Education	Inadequate internal controls and compliance over monitoring of subrecipient cash balances (Prior Year Finding)	None	Corrective action taken in Q3 of FY03.	Finding was not repeated
01-14	84.027	Education	Controls over earmarking requirements not sufficient to ensure compliance	$165,080	Corrective action taken in FY02. QC resolved on May 6, 2003.	03-24 covering FY01
01-15	84.027	Education	Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Corrective action requiring LEAs to submit information on annual application taken in FY04.	03-23
01-16	66.605	Environmental Protection	Inadequate internal controls and compliance over cash management	None	Corrective action taken FY04.	Finding was not repeated
01-17	66.605	Environmental Protection	Controls ineffective to ensure compliance with payroll certification requirement	None	Corrective action taken in FY03.	Finding was not repeated
01-18	66.605	Environmental Protection	Inadequate controls over subrecipient monitoring responsibilities	None	Corrective action taken FY04.	03-29

State of Maine
Summary Schedule of Prior Audit Findings
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Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
01-19	66.605	Environmental Protection	No controls over suspension and debarment requirements	None	Corrective action taken in FY03 for FY04 contracts.	03-28
01-20	66.605	Environmental Protection	No controls over inclusion of federal procurement requirements in subrecipient contracts	None	Corrective action taken in FY03 for FY04 contracts.	03-28
01-21	93 558	Human Services	Inaccurate federal financial reporting (Prior Year Finding)	$149,082	Corrective action taken in December 2003.	03-43
01-22	93 575 93 596	Human Services	Inaccurate federal financial reporting (Prior Year Finding)	None	Past reports corrected in February of 2003. Corrective action taken in late FY2003	03-54
01-23	93.575 93.596	Human Services	Unallowable payroll costs (Prior Year Finding)	$82,730	Corrective action taken in July 2003.	03-52
01-24	93.658	Human Services	Costs claimed more than once	$65,203	Corrective action taken in March 2004.	03-58
01-25	93.658	Human Services	Foster Care payment system not reconciled to State's accounting system	None	Corrective action taken in March 2004.	03-57
01-26	93.658	Human Services	Ineligible participants	$1,026	Corrective action taken in March 2004.	03-56
01-27	93.658	Human Services	Inadequate suspension and debarment procedures	None	Corrective action taken in September 2003.	Finding was not repeated
01-28	93.658	Human Services	Payments made to ineligible recipients and at incorrect rates (Prior Year Finding)	$37,179	Corrective action began in March 2003 and will be completed in July 2004.	03-58
01-30	93.658 93.659	Human Services	Payments made to ineligible recipients and at incorrect rates	$1,792 $43,727	Corrective action taken in March 2003.	03-67
01-31	93.659	Human Services	Accuracy of information maintained by the Maine Automated Child and Welfare Information System (MACWIS) not assured	None	Corrective action will be completed in August 2004.	03-62
01-32	93.658 93.659	Human Services	Inadequate controls over accounting and reporting for the Title IV-E Programs	$2,846,146 $46,445	Corrective action will be completed by June 2004.	03-57, 03-64
01-34	10 561	Human Services	No controls in place to ensure payroll costs are properly charged to the federal program; excess payroll costs charged to the Food Stamps program	$164,026	Disagree with finding. All six employees work for Food Stamps program.	Management Letter
01-37	93 563	Human Services	Inadequate controls and procedure to ensure that only program-related payroll costs are charged to the program	$73,448	Corrective action will be taken by June 2004.	Finding was not repeated
01-38	93 563	Human Services	Inadequate controls over accounting for cash and revenue, errors in supporting schedules, and State accounting system and internal computer system not reconciled	None	Corrective action will be taken by June 2004.	03-08, 03-46
01-39	93 563	Human Services	Excess federal program funds to pass-through agency	$673,369	Corrective action taken in FY04.	03-47
01-44	93 268	Human Services	Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)	None	Grant subsystem will incorporate Time Attendance Management System and be implemented in May 2004.	03-39
01-45	93.959	Human Services	Noncompliance with cash management requirements (Prior Year Finding)	None	Corrective action taken July 2003.	Finding was not repeated
01-47	Various	Human Services	Procedures do not ensure compliance with the Cash Management Improvement Act (Prior Year Finding)	None	Corrective action taken July 2003.	03-45

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Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
01-48	Various	Human Services	Costs charged twice, cost allocation plan errors not detected (Prior Year Finding)	$1,290,881	Corrective Action will be taken by June 2004.	03-71
01-50	84 126	Labor	Lack of segregation of duties, inadequate oversight	None	Corrective action to be completed by June 30, 2004.	03-101
01-52	84 126	Labor	Excess federal cash on hand, and program income not properly accounted for	None	CMIA coordinator will work with agency to be compliant by June 30 2004.	Finding was not repeated
01-53	17 207 17.801 17.804 17 225	Labor	Compliance with Cash Management Improvement Act not ensured (Prior Year Finding)	None	Corrective action begun in FY03.	03-92
01-54	Various	Labor	Accounting systems not reconciled (Prior Year Finding)	None	Corrective action taken in FY03.	Finding was not repeated
01-57	20.205	Transportation	Inadequate oversight of locally administered projects (Prior Year Finding)	$13,119	Corrective action taken in August 2003.	Finding was not repeated
01-58	20.205	Transportation	Internal controls regarding Davis Beacon Act not followed	None	Corrective action taken in January 2004.	03-103
01-59	Various	Treasury	Internal controls not adequate to ensure compliance with Cash Management Improvement Act (Prior Year Finding)	None	Corrective action taken in FY03.	Finding was not repeated
02-01	N/A	Administrative and Financial Services	Inadequate controls to ensure complete and accurate recording of capital assets (Prior Year Finding)	None	Corrective action is ongoing. Significant improvements made for FY03.	03-02
02-02	N/A	Administrative and Financial Services	Inadequate internal control and disclosure over revenue reporting	None	Corrective action taken for FY03 compilation.	Finding was not repeated
02-03	N/A	Administrative and Financial Services	Inadequate internal control over reporting of loans receivable	None	Substantively corrected for FY03 compilation. System corrective action ongoing.	Finding was not repeated
02-04	N/A	Administrative and Financial Services	Controls inadequate to prevent interfund misstatement of cash and vouchers payable	None	Corrected for FY03 financial statements. Control issue corrective action ongoing.	03-03
02-05	N/A	Administrative and Financial Services	Reporting of Component Unit financial information inadequate	None	Specific issues raised have been resolved. Corrective action on related issues ongoing.	03-01
02-06	N/A	Administrative and Financial Services	Inadequate maintenance of the fixed asset system	None	Corrective action taken for FY03 compilation.	Finding was not repeated
02-07	N/A	Administrative and Financial Services	Unresolved lease valuation and reporting differences (Prior Year Finding)	None	Corrective action taken for FY03 compilation.	Management Letter
02-08	N/A	Behavioral and Developmental Services	Inadequate internal controls over billings and accounts receivable	None	Corrective action taken for FY03 compilation. Computerized system will be in place in September 2004.	Finding was not repeated
02-09	N/A	Conservation	Inadequate controls to ensure complete and accurate recording of capital assets (Prior Year Finding)	None	Corrective action taken for FY03 compilation.	Finding was not repeated
02-10	N/A	Economic and Community Development	Inadequate internal control over reporting of loans receivable	None	Substantively corrected for FY03 compilation. System corrective action ongoing.	Finding was not repeated
02-11	N/A	Environmental Protection	Inadequate internal control over financial reporting	None	Corrective action taken for FY03 compilation.	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
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Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
02-12	N/A	Human Services	Accounting for federal funds inadequate	None	Significant corrective action has been taken since communication of the finding and is ongoing.	03-05, 03-30
02-13	N/A	Human Services	Inadequate internal controls over subrecipient cash balances, reporting, and cash collection	None	Corrective action taken in late FY2003	Finding was not repeated
02-14, 02-65	93.667	Human Services	Improper transactions	None	Corrective action taken in FY03.	Finding was not repeated
02-15	N/A	Human Services	Insufficient controls over accounts receivable	None	Partial corrective action taken in FY03 and FY04. New system implementation will provide full corrective action in FY05.	03-84
02-16	N/A	Human Services	Journal vouchers not adequately supported	None	Corrective action taken in FY04.	03-07, 03-87
02-17	N/A	Inland Fisheries and Wildlife	Inadequate internal controls over reporting of revenue and accounts receivable	None	Corrective action taken for FY03 compilation.	Finding was not repeated
02-18	N/A	Judicial	Inadequate internal control over fines and fees receivable	None	Substantively corrected for FY03 compilation. System corrective action ongoing.	Finding was not repeated
02-19	N/A	Public Safety	Inadequate internal accounting controls over cash seized from citizens	None	Corrective action taken in FY04 to eliminate the source of the variance. The variance has been reduced to $37,803.93. Efforts continue to identify past reconciling items.	Finding was not repeated
02-20	N/A	Secretary of State	Inadequate internal control and disclosure over revenue reporting	None	Revenue components were adequately disclosed for the FY03 compilation. System solution will be implemented by January 2006.	Finding was not repeated
02-21	N/A	Secretary of State	Inadequate control over reporting and budgeting InforME service fees	None	Issue has been resolved for the FY03 Compilation.	Finding was not repeated
02-22	N/A	Transportation	Assets not recorded on state records	None	Corrective action taken for FY03 compilation.	Management Leter
02-23	93 959	Behavioral and Developmental Services	Non-compliance with cash management requirements (Prior Year Finding)	None	Corrective action taken in FY03.	Finding was not repeated
02-24	12.401	Defense	Improper account usage	None	Corrective action taken in FY03.	Finding was not repeated
02-25	12.401	Defense	Inadequate internal control over cash management (Prior Year Finding)	None	Corrective action taken in FY04.	03-17
02-26	12.401	Defense	Non-federal cash balance carried in the federal expenditures fund	None	Corrective action taken in late FY03.	03-17
02-27	12 999	Defense	Inadequate internal control over cash management (Prior Year Finding)	None	Corrective action taken in FY04.	03-18
02-28	12 999	Defense	Excess federal funds in account	$300,000	Corrective action taken in FY03.	Verbal Communication
02-29	12 999	Defense	Lack of controls over ensuring compliance with suspension and debarment requirements	None	Corrective action taken in late FY03.	03-18

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Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
02-30	84.010	Education	Site visits not made	None	Corrective action taken in FY03.	Finding was not repeated
02-31	84.010 84.027 10 555	Education	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	Partially corrected in FY04. CMIA coordinator will work with agency to complete corrective action in FY04.	DAFS 03-10 & Verbal Communication to DOE
02-32	84.027	Education	Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Corrective action taken in August 2003.	03-23
02-33	Various	Education	Cash balance negative and financial reports not in agreement with accounting records or SEFA	None	Corrective action taken in Q4 of FY04.	Management Letter
02-34	Various	Education	Inadequate internal controls over subrecipients' cash balances (Prior Year Finding)	None	Corrective action taken in January 2003.	Finding was not repeated
02-35	66.605	Environmental Protection	Inadequate internal controls and compliance over cash management (Prior Year Finding)	None	Corrective action taken in FY04.	Finding was not repeated
02-36	66.605	Environmental Protection	Inadequate controls over subrecipient monitoring responsibilities (Prior Year Finding)	$15,300	Corrective action taken in FY04.	03-29
02-37	66.605	Environmental Protection	No controls over suspension and debarment requirements (Prior Year Finding)	None	Corrective action taken in FY03 for FY04 contracts.	03-28
02-38	66.605	Environmental Protection	No controls over inclusion of federal procurement requirements in subrecipient contracts (Prior Year Finding)	None	Corrective Action taken in FY03 for FY04 contracts.	03-28
02-39	93.558	Human Services	TANF grant overdrawn	$18,968,786	Corrective action taken in October 2003.	03-06, 03-44
02-40	93.658	Human Services	Payments made to ineligible recipients (Prior Year Finding)	$106,252	Corrective action began in June 2002 and will be completed in July 2004.	03-56
02-41	93.659	Human Services	Payments to ineligible recipients (Prior Year Finding)	$260,866	Corrective action began in June 2002 and will be completed in August 2004.	03-66
02-42	10.561	Human Services	Excess payroll costs charged to the Food Stamps program. No controls in place to ensure payroll costs are properly charged to the federal program. (Prior Year Finding)	$203,509	Agency disagrees with finding. All six employees work for Food Stamp Program.	Management Letter
02-43	10 561	Human Services	Inadequate controls over financial reporting	None	Managing staff accountants will reconcile SEFA and implement corrective action prior to Fall 2004 SEFA submission.	03-37
02-44	93 268	Human Services	Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)	None	Corrective action taken in May 2004.	03-39
02-45	93 268	Human Services	Inadequate cash management procedures	None	Corrective action taken in FY04	Management Letter
02-46	93 558	Human Services	Inaccurate financial reporting (Prior Year Finding)	$1,763,688	Corrective action taken in December 2003.	03-43

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Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
02-47	93 563	Human Services	Inadequate controls over accounting for child support (Prior Year Finding)	None	Corrective action taken in March 2004.	03-08, 03-46
02-48	93 563	Human Services	Inadequate controls and procedures to ensure that only program related payroll costs are charged to the program	$90,700	Corrective action will be taken by June 2004.	Finding was not repeated
02-49	93 563	Human Services	Inadequate controls and procedures to ensure accurate financial reporting	$735,765	Corrective action taken in March 2003.	Finding was not repeated
02-50	93 563	Human Services	Excess federal program funds to pass-through agency; no adjustments made for prior year excess transfers (Prior Year Finding)	$437,427	Corrective action taken in FY04.	03-47
02-51	93 575 93 596	Human Services	Failure to comply with subrecipient monitoring requirements (Prior Year Finding)	None	Significant corrective action taken in FY03. Improvements ongoing.	03-53
02-52	93.575 93.596	Human Services	Unallowable payroll costs (Prior Year Finding)	$88,225	Corrective action taken in FY04.	03-52
02-53	93.575 93.596	Human Services	Inaccurate federal financial reporting (Prior Year Finding)	None	Past reports corrected in February of 2003. Corrective action taken in late FY2003	03-54
02-54	93.658	Human Services	Inadequate suspension and debarment procedures (Prior Year Finding)	None	Corrective action taken in September 2003.	Finding was not repeated
02-55	93.658	Human Services	Title IV-E payments made to unlicensed providers	$68,401	Corrective action taken in FY03.	Finding was not repeated
02-56	93.658	Human Services	Costs claimed more than once and ineligible participants included (Prior Year Finding)	$48,047	Corrective action taken in March 2004.	03-58
02-57	93.658	Human Services	Foster Care grant overdrawn (Prior Year Finding)	$8,286,840	Corrective action taken in FY03.	03-59
02-58	93.658	Human Services	Control deficiencies over eligibility data (Prior Year Finding)	None	Corrective action began in March 2003 and will be completed in July 2004.	03-63
02-59	93.658 93.659	Human Services	Inadequate controls over accounting and reporting for Title IV-E Shared Costs (Prior Year Finding)	$36,164	Corrective action taken in FY04 and will be completed by June 2004.	03-61
02-60	93.658 93.659	Human Services	Inadequate controls over accounting for the Title IV-E Programs (Prior Year Finding)	None	Corrective action taken in FY04.	03-57
02-61	93.658 93.659	Human Services	Inadequate controls over program payments (Prior Year Finding)	$49,534	Corrective action began in June 2003 and completed in March 2004.	03-57
02-62	93.659	Human Services	Internal control deficiencies over the program to track program recipients	None	Corrective action began in June 2002 and will be completed in August 2004.	Finding was not repeated
02-63	93.659	Human Services	Inadequate controls to ensure compliance with eligibility and match requirements (Prior Year Finding)	None	Corrective action began in June 2002 and will be completed in June 2004.	Finding was not repeated
02-64	93.659	Human Services	Documentation to support eligibility not maintained	None	Corrective action taken in November 2002.	Finding was not repeated
02-66	93.667	Human Services	Inaccurate federal financial reporting	None	Corrective action taken in January 2003.	Finding was not repeated
02-67	93.778	Human Services	Procedures do not ensure compliance with Medicaid Eligibility Quality Control rules and procedures (Prior Year Finding)	None	Corrective action taken in April 2004.	03-76

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Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
02-68	93.778	Human Services	Payment made to ineligible recipient; lack of eligibility documentation	$330,860	Corrective action began in Fall 2003 and will be completed in April 2004.	Finding was not repeated
02-69	93.778	Human Services	Incorrect third party liability data	$3,335	Corrective action to be taken by June 2004.	Finding was not repeated
02-70	93.778	Human Services	Lack of controls to ensure accurate payment of case management claims	$15,869	Corrective action taken in August 2003.	Finding was not repeated
02-71	93.778	Human Services	Federal funds used for State purposes	None	Corrective action taken in late FY03.	03-88
02-72	93.778	Human Services	Unexplained negative cash balance	None	Corrective action will be taken by September 2004.	03-81
02-73	93.767 93.777 93.778	Human Services	Estimated grant disbursement amounts reported to the Federal government	None	Corrective action to be taken by September 2004.	03-74
02-74	93.778	Human Services	No financial reconciliation and a lack of controls to ensure accurate federal financial reporting	None	Corrective action will be taken by September 2004.	03-86
02-75	Various	Human Services	Controls are inadequate to ensure accurate financial reporting (Prior Year Finding)	$691,657	Corrective action will be taken by June 2004.	03-71
02-76	Various	Human Services	Cash management and accounting records inadequate (Prior Year Finding)	None	Corrective action began in October 2003 and is ongoing.	03-45
02-77	84.126	Labor	Lack of segregation of duties; inadequate oversight (Prior Year Finding)	None	Corrective action begun, to be completed by June 30, 2004.	03-101
02-78	17.207	Labor	Insufficient controls over set-aside expenditures	None	Corrective action taken in FY03.	Finding was not repeated
02-79	17.225	Labor	Funds drawn on the federal Unemployment Compensation Trust Fund were not in compliance with CMIA	None	Corrective action begun in FY03.	03-92
02-80	17.225	Labor	Untimely account reconciliation of accounting systems; inaccurate federal financial reports	None	Corrective action taken in FY03.	Finding was not repeated
02-81	17.258 17.259 17.260	Labor	Lack of adequate computer controls	None	Significant corrective action taken in FY03. Full corrective action will be taken by July 2005.	03-99
02-82	17 258 17 259 17 260	Labor	Lack of adequate subrecipient monitoring	None	Corrective action taken in FY04.	03-98
02-83	84 126	Labor	Controls did not prevent excess federal cash on hand (Prior Year Finding)	None	Partially corrected in FY04, CMIA coordinator will work with agency to complete corrective action by end of FY04.	Finding was not repeated
02-84	84 126	Labor	Incorrect financial reporting	None	Agency is reexamining and pursuing reconsideration of the issue with Audit.	03-100
02-85	Various	Labor	Compliance with the Cash Management Improvement Act not ensured (Prior Year Finding)	None	Corrective action taken in FY04.	03-92
02-86	Various	Labor	Accounting system not reconciled (Prior Year Finding)	None	Corrective action taken in FY04.	Finding was not repeated
02-87	Various	Labor	Program drawdowns are not consistent with program expenditures	None	Increased availability of information has mitigated this issue beginning with the FY03 audit.	Finding was not repeated

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Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
02-88	Various	Labor	Federal grant program activity and status information not timely	None	Increased availability of information has mitigated this issue beginning with the FY03 audit.	Finding was not repeated
02-89	20 205	Transportation	Inadequate oversight of locally administered projects	None	Corrective action taken in FY03.	Finding was not repeated
02-90	20 205	Transportation	Internal controls regarding Davis Bacon Act not followed	None	Corrective action taken in FY04.	03-103
02-91	20 205	Transportation	Inadequate controls over suspension and debarment requirements for consultant contracts (Prior Year Finding)	None	Corrective action taken in FY03 for FY04 contracts.	03-104
02-92	N/A	Treasury	Non-compliance with Cash Management Improvement Act (Prior Year Finding)	None	Corrective action taken in FY03.	Finding was not repeated