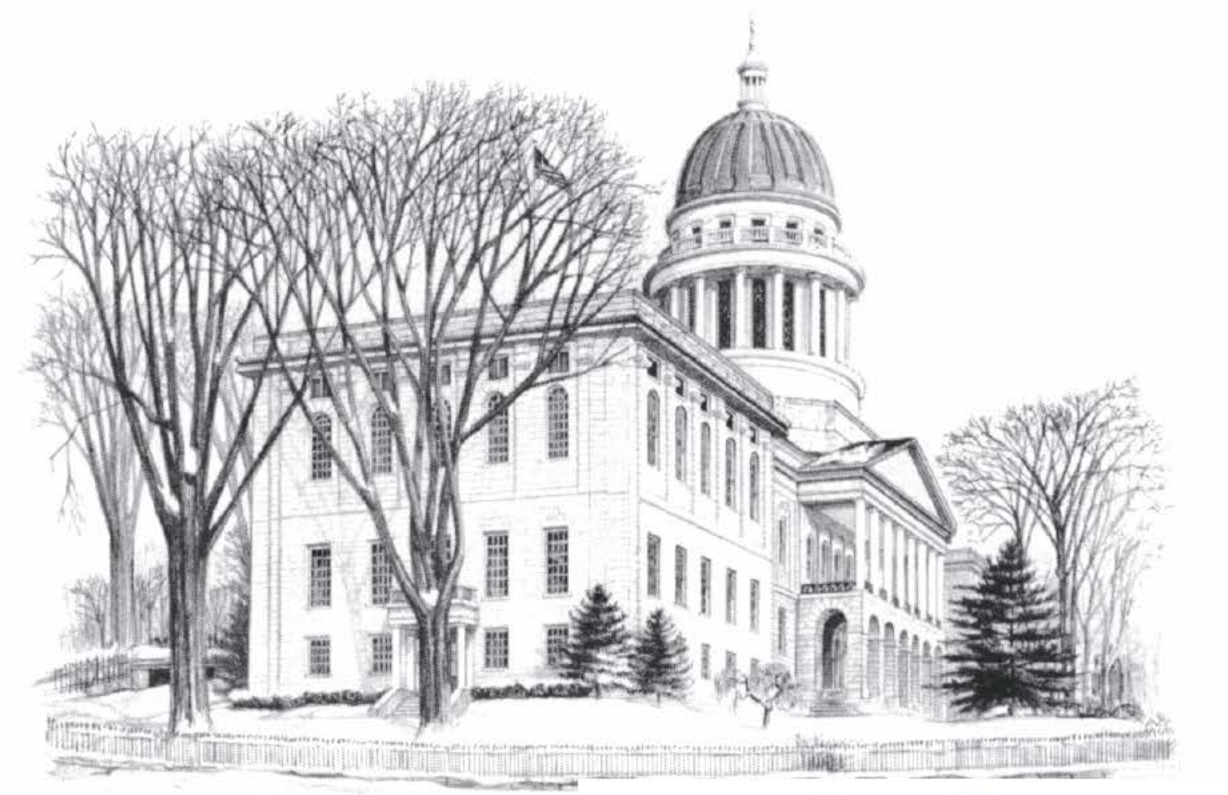
State of Maine

Single Audit Report
Fiscal Year Ended
June 30, 2004



Prepared by
State Department of Audit
Neria R. Douglass, JD, State Auditor

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STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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Letter of Transmittal

Senator Beth Edmonds
President of the Senate

Representative John Richardson
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, 2004. This report complies with the State's audit requirements, including those placed upon the State as a condition for the receipt of over $2.6 billion in federal financial assistance. 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

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 2004 Single Audit of the State of Maine.

Respectfully submitted,

Neria R. Douglass

Neria R. Douglass, JD
State Auditor

June 30, 2005

STATE OF MAINE
EXECUTIVE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2004

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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 report provides information used by the federal government, credit rating agencies and State policymakers. It also provides citizens of our State a report on the accountability of our government for the funds it receives and uses.

Audit Reports

Independent Auditor's Report

We rendered an opinion on the 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 State of Maine's financial report fairly presents its financial position and the results of its operations for the year ended June 30, 2004. The report is on pages B-3 and B-4.

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 reported on internal control over financial reporting and compliance with certain provisions of laws, regulations, contracts and grants, and noncompliance which could have a direct and material effect on the financial statements. The key points of the report, on pages C-3 and C-4, are as follows:

<u>Compliance</u>

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.

<u>Internal Control over Financial Reporting</u>

We identified four instances of control weaknesses that we consider to be reportable conditions. Reportable conditions are significant deficiencies in internal control that could adversely affect the State's ability to record, process, summarize and report financial information. However none of these conditions are serious enough to be classified as material weaknesses.

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

We issued an opinion on the compliance of each major federal program with that program's requirements, and reported on the internal control over that compliance. Our audit included 25 major federal programs representing 91% of the $2.6 billion in federal assistance that the State received. We found 77 instances of control deficiencies or noncompliance with the requirements of federal programs. The key points of the report, on pages C-5 to C-6, are as follows:

<u>Compliance</u>

We expressed an unqualified opinion on 22 major federal programs, indicating that the State had complied, in all material respects, with program requirements.

We qualified our opinion for three programs: the Foster Care: Title IV-E program because of material noncompliance with federal requirements regarding allowable costs, cash management, eligibility and reporting; the Social Services Block Grant program for material noncompliance with earmarking and allowable costs requirements; and the Child Care Cluster for material noncompliance with reporting requirements. The findings relating to the programs' material noncompliance are as follows:

Foster Care: Title IV-E

- Insufficient controls to ensure compliance with eligibility requirements/noncompliance with eligibility requirements (04-43)
- Federal cash drawn in excess of reported expenditures (04-45)
- Insufficient internal controls to ensure accurate reporting/noncompliance with reporting requirements (04-46)

Social Services Block Grant

- Noncompliance with earmarking requirements (04-50)
- Costs charged twice, cost allocation plan errors not detected (04-62)

Child Care Cluster

- Inaccurate federal financial reports (04-40)

We identified 11 other instances of noncompliance that are required to be reported by the federal government, although they are not serious enough to be classified as material noncompliance.

Internal Control over Compliance

We identified eight instances of material weakness in internal control over compliance as follows:

- Inadequate controls over cash management and delayed reimbursement (04-27)
- Inaccurate federal financial reports (04-40)
- Insufficient controls to ensure compliance with eligibility requirements/noncompliance with eligibility requirements (04-43)
- Federal cash drawn in excess of reported expenditures (04-45)
- Insufficient internal controls to ensure accurate reporting/noncompliance with reporting requirements (04-46)
- Noncompliance with earmarking requirements (04-50)
- Costs charged twice, cost allocation plan errors not detected (04-62)
- Administration of federal funds inadequate (04-67)

We identified 68 other instances of control weakness that we considered to be reportable conditions, but do not rise to the level of a material weakness. Reportable conditions relate to significant deficiencies in internal control over compliance that could affect the State's ability to comply with program requirements.

Findings and Questioned Costs

Overall, departments and agencies continue to improve systems of accountability, and most managers and employees perform their duties well. However, the Department of Health and Human Services (DHHS) continues to have serious weaknesses in internal control and significant compliance deficiencies that need to be addressed. While DHHS has taken action to address some of our findings from prior year audits, there is still a lot of work that must be done.

To present a balanced view in our report, and to allow departments 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 instances when agencies have fallen short of compliance with laws or regulations, or when systems that are designed to ensure compliance are absent or ineffective.

Financial Statement Findings

In general, we found that the State's systems adequately support the processing of transactions on the budgetary basis of accounting, and facilitates the preparation of financial statements in accordance with generally accepted accounting principles.

Federal Findings

The most significant deficiencies are described above in the sections titled Compliance and Internal Control over Compliance. A summary of federal findings can be found at the beginning of each department's section of the report.

Questioned Costs

We reported $18.7 million of questioned costs. Questioned costs are 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 these costs and require reimbursement from the State.

Conclusion

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

FINANCIAL STATEMENTS


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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying 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, 2004, 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, Loring Development Authority, Maine Educational Loan Authority, Maine Governmental Facilities Authority, Maine Health and Higher Educational Facilities Authority, Maine Maritime Academy, Maine Municipal Bond Bank, Maine Port Authority, 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	4.4 %	.2%
Component Units	100%	100%

Fund Financial Statements:	Percent of Assets	Percent of Revenues or Additions
Proprietary Funds-Governmental Activities-Internal Service Funds	45%	3%
Fiduciary Funds-Pension (and Other Employee Benefit) Trust Funds, Maine Health & Higher Educational Facilities Authority	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, the Maine Governmental Facilities Authority and the Maine Port 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 reports 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, 2004, and the respective changes in financial position and cash flows, where applicable, thereof 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 March 18, 2005 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 supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Notes 1 and 3 to the financial statements, the State of Maine reporting entity changed to include the Loring Development Authority and the Maine Port Authority. Also, a discrete component unit, the Maine Health and Higher Education Facility, has been reclassified as fiduciary in nature and is reported with private purpose trusts.

As discussed in Note 3 to the financial statements, the State has implemented Governmental Accounting Standards Board Statement #39, *Determining Whether Certain Organizations are Component Units.*

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.

Neria R Douglass

Neria R. Douglass, JD
State Auditor

March 18, 2005

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, 2004. 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 nine percent from the previous fiscal year. Net assets of governmental activities increased by $383.7 million, while net assets of business-type activities decreased by $94.4 million. The State's assets exceeded its liabilities by $3.5 billion at the close of fiscal year 2004. Component units reported net assets of $1.6 billion, an increase of $84.2 million (roughly six 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 $446.4 million, an increase of $109.9 million from the previous year. The General Fund's total fund balance was ($2.3) million, an increase of $38.6 million from the previous year.

- The proprietary funds reported net assets at year end of $543.9 million, a decrease of $71.9 million.

Long-term Debt:

- The State's liability for general obligation bonds increased by $58 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $130.3 million in bonds and made principal payments of $72.3 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. Operating costs not covered by customer fees are subsidized by the General Fund. Lottery tickets, transportation services, 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" one component unit, the Maine Governmental Facilities Authority (MGFA) with governmental activities as described above. Maine reports 14 other component units as discretely presented component units of the State, two of which are reported with the State's fiduciary funds.

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, the Maine Health and Higher Educational Facilities Authority, both discrete component units, 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 nine percent to $3.5 billion at June 30, 2004, 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**	
	2004	2003*	2004	2003*	2004	2003*
Current and other noncurrent assets	$ 1,370,954	$ 1,216,874	$ 476,354	$ 479,243	$ 1,847,308	$ 1,696,117
Capital assets	3,262,497	2,972,419	51,434	63,574	3,313,931	3,035,993
Total Assets	4,633,451	4,189,293	527,788	542,817	5,161,239	4,732,110
Current liabilities	823,976	872,155	22,051	17,567	846,027	889,722
Long-term liabilities	754,372	645,755	75,247	370	829,619	646,125
Total Liabilities	1,578,348	1,517,910	97,298	17,937	1,675,646	1,535,847
Net assets:						
Investment in capital assets, net of related debt	2,878,596	2,628,197	51,434	63,574	2,930,030	2,691,771
Restricted	214,026	184,809	450,475	459,127	664,501	643,936
Unrestricted	(37,519)	(141,623)	(71,419)	2,179	(108,938)	(139,444)
Total Net Assets	$ 3,055,103	$ 2,671,383	$ 430,490	$ 524,880	$ 3,485,593	$ 3,196,263

**As restated.*

Changes in Net Assets

The State's fiscal year 2004 revenues totaled $6.4 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 43.5 percent and 39.2 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 $6.1 billion for the year 2004. (See Table A-2) These expenses (68 percent) are predominantly related to health & human services and education activities. The State's governmental support & operations activities accounted for 7.7 percent of total costs. Total net assets increased by $289.3 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003*	2004	2003*	2004	2003*
Revenues						
Program Revenues:						
Charges for Services	$ 375,087	$ 370,232	$ 396,444	$ 377,555	$ 771,531	$ 747,787
Grants/Contributions	2,466,611	2,116,996	27,698	9,000	2,494,309	2,125,996
General Revenues:						
Corporate Income Taxes	216,366	182,554	-	-	216,366	182,554
Individual Income Taxes	1,149,109	1,095,143	-	-	1,149,109	1,095,143
Fuel Taxes	166,174	161,534	-	-	166,174	161,534
Property Taxes	28,412	38,179	-	-	28,412	38,179
Sales & Use Taxes	1,086,049	1,012,552	-	-	1,086,049	1,012,552
Other Taxes	117,168	90,769	-	-	117,168	90,769
Investment Earnings	17,049	8,521	-	-	17,049	8,521
Other	313,158	220,226	-	-	313,158	220,226
Total Revenues	5,935,183	5,296,706	424,142	386,555	6,359,325	5,683,261
Expenses						
Governmental Activities:						
Governmental Support	469,682	414,084	-	-	469,682	414,084
Arts, Heritage & Culture	12,498	13,012	-	-	12,498	13,012
Business Lic & Reg	46,249	34,447	-	-	46,249	34,447
Economic Development & Workforce Training	191,868	206,586	-	-	191,868	206,586
Education	1,357,080	1,340,614	-	-	1,357,080	1,340,614
Health & Human Services	2,775,008	2,527,345	-	-	2,775,008	2,527,345
Justice & Protection	297,619	301,575	-	-	297,619	301,575
Natural Resources	166,167	163,606	-	-	166,167	163,606
Transportation Safety	203,968	240,286	-	-	203,968	240,286
Interest	31,324	32,120	-	-	31,324	32,120
Business-Type Activities:					0	0
Employment Security	-	-	118,965	124,453	118,965	124,453
Alcoholic Beverages	-	-	61,958	59,407	61,958	59,407
Lottery	-	-	146,214	125,633	146,214	125,633
Airport	-	-	819	753	819	753
Marine Ports	-	-	1,415	1,854	1,415	1,854
Ferry Services	-	-	7,296	7,483	7,296	7,483
Military Equip. Maint.	-	-	25,923	-	25,923	0
Transfers and Other	-	-	155,942	58,630	155,942	58,630
Total Expenses	5,551,463	5,273,675	518,532	378,213	6,069,995	5,651,888
Increase (Decrease) in Net Assets	$ 383,720	$ 23,031	$ (94,390)	$ 8,342	$ 289,330	$ 31,373

**As restated*

In tables A-2 and A-3, other revenues in the governmental activities includes: $68.1 million of statutorily required profit transfers and $75 million of special items; and other expenses in the business-type activities includes $68.1 million of statutorily required profit transfers and $85.7 million of special items.

Governmental Activities

Revenues for the State's governmental activities totaled $5.9 billion while total expenses equaled $5.6 billion. Therefore, the increase in net assets for governmental activities was $383.7 million in 2004. This is due, primarily, to increases in employment, construction and taxable retail sales, which resulted in higher-than-expected revenues in the major tax lines. The users of the State's programs financed $375.1 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $2.5 billion. $3.1 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 2004

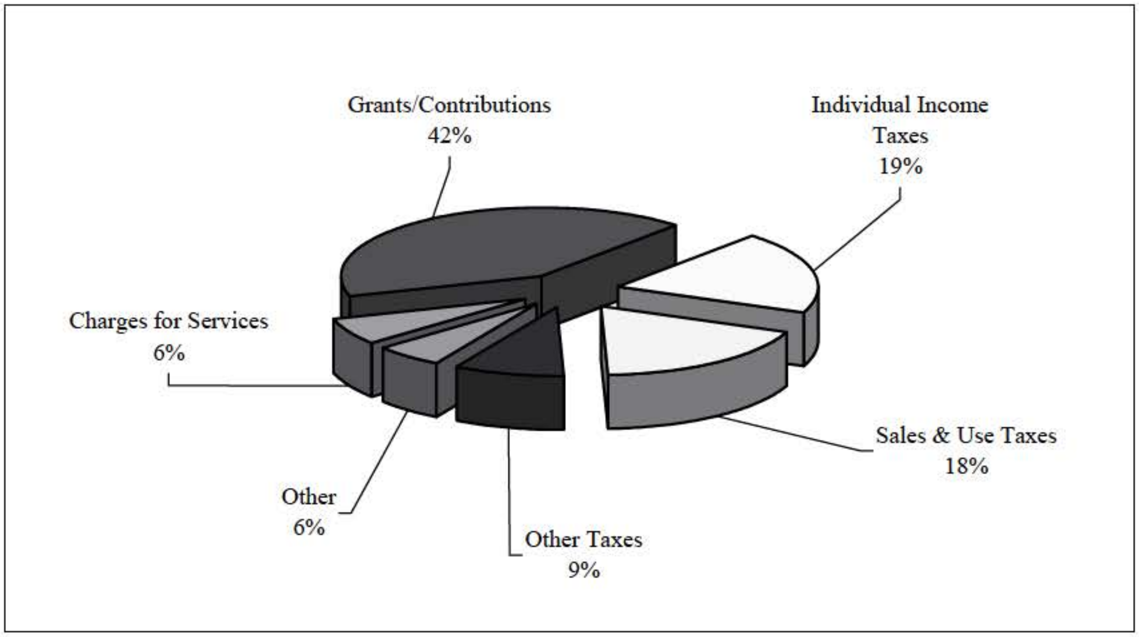
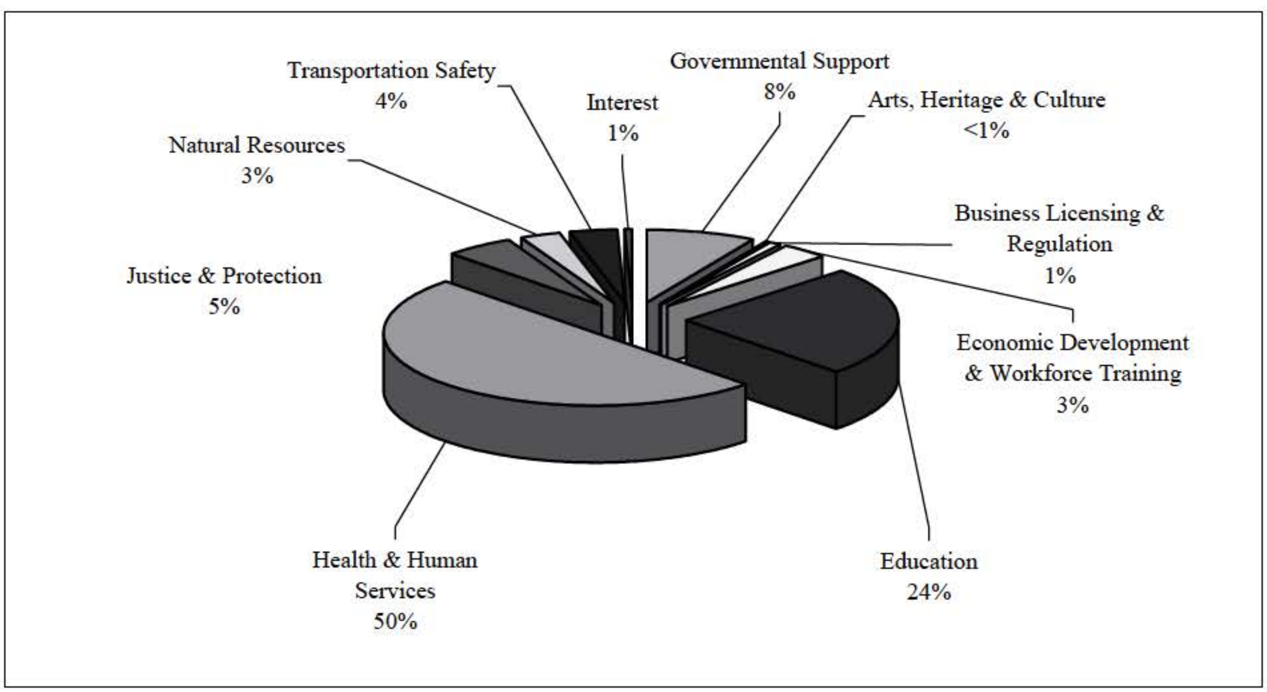


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2004



Business-type Activities

Revenues for the State's business-type activities totaled $424.1 million while total expenses and transfers totaled $518.5 million. The decrease in net assets for business-type activities was $94.4 million in 2004. Two events, recorded as Special Items, contributed to the decrease: 1) the State of Maine entered into a contract with a vendor to manage and operate wholesale liquor distribution as the State's agent and recorded the transfer of $75 million of proceeds from the sale of those operating rights from the Alcoholic Beverages enterprise fund to the General Fund; and, 2) the State transferred the remaining $10.7 million of assets associated with the construction of the Mack Point Pier facility from the Marine Ports enterprise fund to the Maine Port Authority, a discretely presented component unit.

Table A-5 presents the cost of State business-type activities: employment security, alcoholic beverages, lottery, airport, marine ports, ferry services, military equipment maintenance, 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	2004	2003*	2004	2003*
Employment Security	$ 118,965	$ 124,453	$ (6,905)	$ (5,125)
Alcoholic Beverages	61,958	59,407	27,129	26,573
Lottery	146,214	125,633	42,457	41,262
Airport	819	753	(672)	(212)
Marine Ports	1,415	1,854	99	5,304
Ferry Services	7,296	7,483	(3,854)	(2,682)
Military Equip. Maint.	25,923	-	1,420	3
Other	2,107	1,840	(229)	9
Total	$ 364,697	$ 321,423	$ 59,445	$ 65,132

**As restated*.

The cost of all business-type activities this year was $364.7 million. The users of the State's programs financed most of the cost. The State's net revenue from business-type activities was $59.4 million. The State's business-type activities transferred $143.1 million (net) to the governmental activities, which includes $68.1 in statutorily required profit transfers and $75 million of proceeds from the sale of operating rights from the Alcoholic Beverages enterprise fund.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

At the close of the fiscal year, the State reported fund balances of $446.4 million in its governmental funds. The Other Special Revenue Fund, at $276.7 million, comprises just less than 62 percent of the total, while the General Fund, at ($2.3) million, the Highway Fund, at $50.4 million, and the Federal Fund, at $33.9 million comprise just over 18 percent of the total fund balances. Miscellaneous non-major governmental funds, in the aggregate, comprise just under one-fifth of the total. Total fund balances in the governmental funds increased by $109.9 million. More than 56 percent of that increase occurred in the Other Special Revenue fund, while 35 percent occurred in the General Fund. Proceeds from the sale of operating rights for the State's wholesale liquor distribution accounted for $75 million, or 68 percent of the increase in total fund balances in the governmental funds. The General Fund carries a small deficit balance into the next fiscal year, which will be funded through the final installment on the sale of operating rights for wholesale liquor distribution.

Budgetary Highlights

For the 2004 fiscal year, the final budgeted expenditures for the General Fund increased by about $80 million from the original budget of approximately $2.6 billion. Actual expenditures on the budgetary basis were $91.8 million less than those authorized in the final budget, resulting from a concerted effort to reduce spending, primarily in the broad categories of education and social services. Actual revenues exceeded final budget forecasts by $52 million mainly due to higher than expected personal income tax and sales tax revenues.

On the modified accrual basis, General Fund expenditures and other financing uses exceeded revenues and other financing sources by $38.6 million for the fiscal year. All of this difference was funded through a legislatively authorized contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The State recorded the transfer of $75 million of proceeds from the sale of those operating rights from the Alcoholic Beverages enterprise fund to the General Fund. The General Fund ended the year with a $2.3 million deficit, which will be funded through the final installment on the sale of operating rights for wholesale liquor distribution.

During fiscal year 2004, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers, which affected the General Fund: $38.8 million from the General Fund to the Federal Fund to offset the federal unfunded liability in the MaineCare program from prior years; $53 million from the General Fund to the Other Special Revenue Fund to capitalize the Dirigo Health Fund; $13.6 million from the Highway Fund to the Other Special Revenue Fund for distribution to municipalities for highway-related purposes; and, $13.6 million from the Other Special Revenue Fund to the General Fund to return amounts that would otherwise have been distributed to municipalities in the absence of the transfer from the Highway Fund. The legislature also authorized the State to recognize $10 million of interfund borrowing from the Retiree Health Insurance Fund as revenue in the General Fund in order to close the budget gap.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2004, the State had roughly $3.3 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2004, the State acquired or constructed more than $300 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	
	2004	2003	2004	2003*	2004	2003*
Land	$ 366,443	$ 303,327	$ 6,517	$ 6,517	$ 372,960	$ 309,844
Buildings	463,165	418,157	8,747	8,746	471,912	426,903
Equipment	223,229	215,898	18,864	18,905	242,093	234,803
Improvements	24,372	16,162	51,410	51,410	75,782	67,572
Infrastructure	2,429,192	2,216,788	-	-	2,429,192	2,216,788
Construction in Progress	34,211	50,723	1,904	10,831	36,115	61,554
Total Capital Assets	3,540,612	3,221,055	87,442	96,409	3,628,054	3,317,464
Accumulated Depreciation	(278,115)	(248,636)	(36,008)	(32,835)	(314,123)	(281,471)
Capital Assets, net	$ 3,262,497	$ 2,972,419	$ 51,434	$ 63,574	$ 3,313,931	$ 3,035,993

* *As Restated.*

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 8,716 highway miles or 17,707 lane miles within the State. Bridges have a deck area of 11.3 million square feet among approximately 2,968 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2004, the actual average condition was 78.2. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 77 at June 30, 2004. Preservation costs for fiscal year 2004 totaled $29.7 million compared to estimated preservation costs of $30 million.

Chapter 38, P&S 2001, authorized $37.4 million of transportation bonds and Chapter 33, P&S 2003, authorized $42 million of transportation bonds. These bonds are for improvements to highways and bridges and were approved at referendum. At June 30, 2004 $57.4 million in transportation bonds were issued related to Chapter 38. After year end the State issued an additional $22.2 million in bonds.

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 $784.4 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**	
	2004	2003	2004	2003	2004	2003
General Obligation Bonds	$ 416,360	$ 358,410	$ -	$ -	$ 416,360	$ 358,410
Other Long-Term Obligations	368,003	385,685	277	452	368,280	386,137
Total	$ 784,363	$ 744,095	$ 277	$ 452	$ 784,640	$ 744,547

During the year, the State reduced outstanding long-term obligations by $72.3 million for outstanding general obligation bonds and $83.7 million for other long-term debt. Also during fiscal year 2004, the State incurred $191 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 2004, Moody’s Investors Service rated the State at Aa2, Standard & Poor’s rated it at AA, and Fitch Ratings 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 approximately 1.7% employment growth during 2005. As a result, calendar year 2005 employment and income growth are projected to increase by 1.7% and 4%, respectively. The consensus economic forecast expects that job growth will improve to 1.5% in 2006 and 1% a year from 2007 and 2009. Personal income growth is forecasted to grow by 4% annually over the same period.

The modest turn-around in Maine's economy has allowed the State's Revenue Forecasting Committee to increase revenue estimates by $2 million for 2005; estimated revenues available for appropriation by the legislature.

The revenue estimate for the 2006 – 2007 biennium provides approximately $5.47 billion in general fund revenues to be available for general purpose spending an increase over prior estimates of $19 million. This is approximately $733 million less than what is required to maintain current services levels in the 2006 – 2007 biennia. 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


DIRIGO
MAINE

BASIC FINANCIAL STATEMENTS

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2004
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Cash and Cash Equivalents	$ 180,642	$ 5,100	$ 185,742	$ 52,767
Cash with Fiscal Agent	31,762	-	31,762	-
Investments	89,187	588	89,775	671,805
Restricted Deposits and Investments	2,724	428,464	431,188	-
Inventories	6,326	846	7,172	1,175
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	332,010	-	332,010	-
Loans Receivable	5,725	-	5,725	29,604
Notes Receivable	-	-	-	23
Other Receivables	164,723	41,970	206,693	39,956
Internal Balances	2,633	(2,633)	-	-
Due from Other Governments	394,514	-	394,514	155,543
Due from Primary Government	-	-	-	11,422
Due from Component Units	1,000	-	1,000	-
Other Current Assets	1,746	1	1,747	10,965
Total Current Assets	1,212,992	474,336	1,687,328	973,260
Noncurrent Assets:				
Assets Held in Trust	-	-	-	2
Restricted Deposits and Investments	33,996	-	33,996	417,338
Investments	86,702	2,018	88,720	404,311
Receivables, Net of Current Portion:				
Taxes Receivable	37,264	-	37,264	-
Loans Receivable	-	-	-	1,134,749
Notes Receivable	-	-	-	70,568
Other Receivables	-	-	-	3,439
Due from Other Governments	-	-	-	1,079,871
Due From Primary Government	-	-	-	3,400
Other Noncurrent Assets	-	-	-	39,624
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	2,829,846	8,421	2,838,267	114,802
Buildings and Equipment	710,766	79,021	789,787	846,887
Less: Accumulated Depreciation	(278,115)	(36,008)	(314,123)	(330,613)
Capital Assets, Net of Accumulated Depreciation	3,262,497	51,434	3,313,931	631,076
Total Noncurrent Assets	3,420,459	53,452	3,473,911	3,784,378
Total Assets	4,633,451	527,788	5,161,239	4,757,638
Liabilities				
Current Liabilities:				
Accounts Payable	466,887	10,158	477,045	53,404
Accrued Payroll	32,246	724	32,970	691
Compensated Absences	4,112	30	4,142	513
Tax Refunds Payable	119,034	-	119,034	-
Due to Component Units	18,770	-	18,770	-
Due to Other Governments	47,303	-	47,303	4,913
Due to Primary Government	-	-	-	1,000
Amounts Held under State & Federal Loan Programs	-	-	-	26,593
Undistributed Grants and Administrative Funds	-	-	-	6,312
Allowances for Losses on Insured Commercial Loans	-	-	-	10,305
Claims Payable	26,220	-	26,220	-
Bonds and Notes Payable	66,790	-	66,790	123,301
Revenue Bonds Payable	11,045	-	11,045	37
Obligations under Capital Leases	5,864	-	5,864	272
Certificates of Participation and Other Financing Arrangements	15,305	-	15,305	-
Accrued Interest Payable	2,979	-	2,979	17,518
Deferred Revenue	2,904	385	3,289	56,833
Other Current Liabilities	4,517	10,754	15,271	29,472
Total Current Liabilities	823,976	22,051	846,027	331,164

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	$ 34,398	$ 247	$ 34,645	$ -
Due to Other Governments	743	-	743	3,933
Amounts Held under State & Federal Loan Programs	-	-	-	40,411
Claims Payable	56,996	-	56,996	-
Bonds and Notes Payable	349,570	-	349,570	2,733,836
Revenue Bonds Payable	186,905	-	186,905	2,590
Obligations under Capital Leases	34,273	-	34,273	4,958
Certificates of Participation and Other Financing Arrangements	30,041	-	30,041	-
Deferred Revenue	15,386	75,000	90,386	602
Pension Obligation	46,060	-	46,060	-
Other Noncurrent Liabilities	-	-	-	74,272
Total Long-Term Liabilities	754,372	75,247	829,619	2,860,602
Total Liabilities	1,578,348	97,298	1,675,646	3,191,766
Net Assets				
Invested in Capital Assets, Net of Related Debt	2,878,596	51,434	2,930,030	509,533
Restricted:				
Highway Fund Purposes	49,307	-	49,307	-
Federal Programs	33,925	-	33,925	-
Natural Resources	19,429	-	19,429	-
Capital Projects and Debt Service	32,685	-	32,685	-
Unemployment Compensation	-	450,475	450,475	-
Other Purposes	14,534	-	14,534	872,836
Funds Held as Permanent Investments:				
Expendable	53,970	-	53,970	-
Nonexpendable	10,176	-	10,176	-
Unrestricted	(37,519)	(71,419)	(108,938)	183,503
Total Net Assets	$ 3,055,103	$ 430,490	$ 3,485,593	$ 1,565,872

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 469,682	$ 148,707	$ 29,860	$ -
Arts, Heritage & Cultural Enrichment	12,498	1,308	2,062	-
Business Licensing & Regulation	46,249	54,920	723	-
Economic Development & Workforce Training	191,868	2,242	103,573	-
Education	1,357,080	924	170,314	-
Health & Human Services	2,775,008	14,722	1,877,881	-
Justice & Protection	297,619	63,475	37,989	-
Natural Resources Development & Protection	166,167	78,870	34,000	19,657
Transportation Safety & Development	203,968	9,919	9,455	181,097
Interest Expense	31,324	-	-	-
Total Governmental Activities	5,551,463	375,087	2,265,857	200,754
Business-Type Activities:				
Employment Security	118,965	86,143	25,917	-
Alcoholic Beverages	61,958	89,087	-	-
Lottery	146,214	188,671	-	-
Airport	819	147	-	-
Marine Ports	1,415	14	-	1,500
Ferry Services	7,296	3,168	3	271
Military Equipment Maintenance	25,923	27,336	7	-
Other	2,107	1,878	-	-
Total Business-Type Activities	364,697	396,444	25,927	1,771
Total Primary Government	$ 5,916,160	$ 771,531	$ 2,291,784	$ 202,525
Component Units:				
Child Development Services	$ 25,854	$ 4,561	$ 21,199	$ -
Finance Authority of Maine	30,399	5,004	24,094	-
Governor Baxter School for the Deaf	5,791	39	100	-
Loring Development Authority	5,493	1,068	2,625	1,394
Maine Community College System	88,486	20,166	25,103	5,006
Maine Educational Loan Authority	2,619	2,445	549	-
Maine Maritime Academy	20,433	9,471	794	2,554
Maine Municipal Bond Bank	62,765	47,504	(2,837)	30,775
Maine Port Authority	811	69	201	-
Maine State Housing Authority	213,913	86,811	123,206	-
Northern New England Passenger Rail Authority	4,471	43	3,564	489
University of Maine System	564,141	220,914	189,989	25,758
Total Component Units	$ 1,025,176	$ 398,095	$ 388,587	$ 65,976

General Revenues:
Taxes:
Corporate
Individual Income
Fuel
Property
Sales & Use
Other
Unrestricted Investment Earnings
Non-Program Specific Grants, Contributions & Appropriations
Miscellaneous Income
Loss on Assets Held for Sale
Tobacco Settlement
Special tems
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
$ (291,115)	$ -	$ (291,115)	$ -
(9,128)	-	(9,128)	-
9,394	-	9,394	-
(86,053)	-	(86,053)	-
(1,185,842)	-	(1,185,842)	-
(882,405)	-	(882,405)	-
(196,155)	-	(196,155)	-
(33,640)	-	(33,640)	-
(3,497)	-	(3,497)	-
(31,324)	-	(31,324)	-
(2,709,765)	-	(2,709,765)	-
-	(6,905)	(6,905)	-
-	27,129	27,129	-
-	42,457	42,457	-
-	(672)	(672)	-
-	99	99	-
-	(3,854)	(3,854)	-
-	1,420	1,420	-
-	(229)	(229)	-
-	59,445	59,445	-
(2,709,765)	59,445	(2,650,320)	-
-	-	-	(94)
-	-	-	(1,301)
-	-	-	(5,652)
-	-	-	(406)
-	-	-	(38,211)
-	-	-	375
-	-	-	(7,614)
-	-	-	12,677
-	-	-	(541)
-	-	-	(3,896)
-	-	-	(375)
-	-	-	(127,480)
-	-	-	(172,518)
216,366	-	216,366	-
1,149,109	-	1,149,109	-
166,174	-	166,174	-
28,412	-	28,412	-
1,086,049	-	1,086,049	-
117,168	-	117,168	-
17,049	-	17,049	7,222
-	-	-	236,301
124,043	-	124,043	2,876
(3,035)	-	(3,035)	(432)
49,018	-	49,018	-
75,000	(85,703)	(10,703)	10,703
68,132	(68,132)	-	-
3,093,485	(153,835)	2,939,650	256,670
383,720	(94,390)	289,330	84,152
2,671,383	524,880	3,196,263	1,481,720
$ 3,055,103	$ 430,490	$ 3,485,593	$ 1,565,872


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 93.

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2004
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Current Assets:						
Cash and Short-Term Investments	$ 121	$ 37,381	$ 4	$ 64,854	$ 142	$ 102,502
Cash with Fiscal Agent	8,929	7,746	-	14,555	-	31,230
Investments	-	5,039	353	9,252	63,978	78,622
Restricted Deposits and Investments	-	-	-	4,433	29,163	33,596
Inventories	918	-	2,049	-	-	2,967
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	305,581	20,072	-	6,357	-	332,010
Loans Receivable	1	105	-	5,618	-	5,724
Other Receivables	52,867	2,620	34,581	68,107	-	158,175
Due from Other Funds	16,211	3,810	28,331	148,751	-	197,103
Due from Other Governments	1,463	-	347,304	-	-	348,767
Due from Component Units	-	-	-	-	1,000	1,000
Other Current Assets	381	3	93	3	-	480
Total Current Assets	386,472	76,776	412,715	321,930	94,283	1,292,176
Noncurrent Assets						
Investments	-	17,319	1,213	31,798	61	50,391
Taxes Receivable	37,264	-	-	-	-	37,264
Working Capital Advances Receivable	536	-	-	-	-	536
Total Noncurrent Assets	37,800	17,319	1,213	31,798	61	88,191
Total Assets	$ 424,272	$ 94,095	$ 413,928	$ 353,728	$ 94,344	$ 1,380,367
Liabilities and Fund Balances						
Current Liabilities:						
Accounts Payable	$ 135,444	$ 24,322	$ 228,634	$ 27,881	$ 1,556	$ 417,837
Accrued Payroll	14,537	7,674	3,998	5,010	-	31,219
Tax Refunds Payable	119,034	-	-	-	-	119,034
Due to Other Governments	-	-	47,295	-	-	47,295
Due to Other Funds	112,050	3,278	91,348	7,909	-	214,585
Due to Component Units	3,276	154	5,790	4,350	5,200	18,770
Compensated Absences	1,918	745	575	619	-	3,857
Deferred Revenue	-	-	2,359	23,977	-	26,336
Other Accrued Liabilities	3,015	262	4	211	35	3,527
Total Current Liabilities	389,274	36,435	380,003	69,957	6,791	882,460
Long-Term Liabilities:						
Working Capital Advances Payable	-	-	-	25	-	25
Deferred Revenue	37,264	7,211	-	7,053	-	51,528
Total Long-Term Liabilities	37,264	7,211	-	7,078	-	51,553
Total Liabilities	426,538	43,646	380,003	77,035	6,791	934,013
Fund Balances:						
Reserved						
Continuing Appropriations	54,966	61,978	56,872	250,165	224	424,205
Maine Budget Stabilization Fund	33,158	-	-	-	-	33,158
Debt Service	8,868	3,134	-	-	-	12,002
Capital Projects	-	-	-	-	20,683	20,683
Permanent Trusts	-	-	-	-	10,176	10,176
Other	25,448	13,290	-	14,514	56,470	109,722
Unreserved	(124,706)	(27,953)	(22,947)	12,014	-	(163,592)
Total Fund Balances	(2,266)	50,449	33,925	276,693	87,553	446,354
Total Liabilities and Fund Balances	$ 424,272	$ 94,095	$ 413,928	$ 353,728	$ 94,344	$ 1,380,367

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, 2004
(Expressed in Thousands)

Total fund balances for governmental funds		$	446,354
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.	3,332,455		
Less: Accumulated depreciation	(159,683)		3,172,772
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	(358,410)		
Interest Payable Related to Long-term Financing	(1,963)		
Certificates of Participation and Other Financing Arrangements	(34,108)		
Claims Payable	(15,426)		
Compensated Absences	(34,443)		
Pension Obligation	(66,261)		(510,611)
Current year reductions to compensated absences are recognized as a liability when the expense is incurred under full-accrual accounting.			1,112
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.			(130,275)
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.			72,325
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.			7,888
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.			(4,426)
Current year reductions to interest payable are recognized as a liability when the expense is incurred under full-accrual accounting.			464
Current year decreases to claims payable are recognized as a liability when the expense is incurred under full-accrual accounting. No accrual is recorded in the governmental fund statements for claims not paid from current financial resources.			(2,404)
Current year reductions to pension obligations are recognized as a decrease in liability when the obligation is incurred under full-accrual accounting.			20,201
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.			66,206
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.			(84,503)
Net assets of governmental activities		$	3,055,103

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, 2004
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,453,800	$ 215,320	$ -	$ 95,564	$ -	$ 2,764,684
Assessments and Other Revenue	81,852	89,093	-	89,280	-	260,225
Federal Grants and Reimbursements	25,230	-	2,434,031	1,943	-	2,461,204
Service Charges	44,049	6,649	1,670	79,503	-	131,871
Investment Income	5,837	720	337	696	7,657	15,247
Miscellaneous Revenue	45,008	2,028	475	100,498	528	148,537
Total Revenues	2,655,776	313,810	2,436,513	367,484	8,185	5,781,768
Expenditures						
Current:						
Governmental Support & Opera ions	263,839	29,560	27,614	136,935	16,225	474,173
Economic Development & Workforce Training	47,095	-	106,776	20,924	19,584	194,379
Education	1,144,907	-	170,943	15,691	35,873	1,367,414
Heatlh and Human Services	777,074	-	1,880,795	171,974	226	2,830,069
Business Licensing & Regulation	-	-	860	46,842	-	47,702
Natural Resources Development & Protection	66,692	34	52,896	69,484	11,322	200,428
Jus ice and Protection	203,360	33,457	41,131	25,669	42	303,659
Arts, Heritage & Cultural Enrichment	8,352	-	2,494	1,108	761	12,715
Transporta ion Safety & Development	3,338	211,636	190,422	8,115	45,168	458,679
Debt Service:						
Principal Payments	56,310	16,015	-	-	-	72,325
Interest Payments	12,458	3,022	-	-	-	15,480
Total Expenditures	2,583,425	293,724	2,473,931	496,742	129,201	5,977,023
Revenue over (under) Expenditures	72,351	20,086	(37,418)	(129,258)	(121,016)	(195,255)
O her Financing Sources (Uses):						
Transfer from Other Funds	127,525	2,135	75,938	227,801	1,535	434,934
Transfer to Other Funds	(238,637)	(19,704)	(29,789)	(47,993)	(13,676)	(349,799)
Other	-	-	-	11,246	-	11,246
Bonds Issued	2,335	1,205	-	-	130,275	133,815
Net Other Finance Sources (Uses)	(108,777)	(16,364)	46,149	191,054	118,134	230,196
Special Items:						
Purchase of Landfill	(26,000)	-	-	-	-	(26,000)
Sale of Landfill Capacity	26,000	-	-	-	-	26,000
Proceeds from Sale of Liquor Operating Rights	75,000	-	-	-	-	75,000
Net Special Items	75,000	-	-	-	-	75,000
Revenues and Other Sources over (under) Expenditures and Other Uses	38,574	3,722	8,731	61,796	(2,882)	109,941
Fund Balances at Beginning of Year (As Restated)	(40,840)	46,727	25,194	214,897	90,435	336,413
Fund Balances at End of Year	$ (2,266)	$ 50,449	$ 33,925	$ 276,693	$ 87,553	$ 446,354

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, 2004
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 109,941
Amounts reported for governmental activities in the statement of ac ivities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, he cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:		
Capital ou lay	315,229	
Depreciation expense	(27,210)	288,019
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(121)
Current year reductions to compensated absences are recognized as a liability when the expense is incurred under full-accrual accounting.		1,112
Current year bond issue proceeds are recognized as additions to long-term liabilities and are not reported as revenue in the Statement of Activities.		(130,275)
Principal payments on bond indebtedness are recognized as reductions of long-term liabilities and are not reported as expenditures in the Statement of Activities.		72,325
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.		7,888
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.		(4,426)
Current year reductions in interest payable associated with long-term debt decrease interest expense recorded under full-accrual accounting.		464
Claims payable at June 30, 2004 is recognized in the Statement of Activities under full-accrual accounting. No accrual is recorded in the governmental fund statements for claims hat were not paid from current financial resources.		(2,404)
Current year reduction of pension obliga ions decreases the pension expense recorded under full-accrual accounting.		20,201
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		1,756
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.		19,240
Changes in net assets of governmental activities		$ 383,720

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 105.

Combining fund statements for the internal service funds, whose combined totals are presented on these statements, begin on page 113.

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2004
(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	$ -	$ 5,100	$ 5,100	$ 78,140
Cash with Fiscal Agent	-	-	-	532
Investments	-	588	588	10,565
Restricted Deposits and Investments	428,464	-	428,464	3,124
Inventories	-	846	846	3,359
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	11,045
Other Receivables	24,589	17,381	41,970	6,548
Due from O her Funds	21	2,341	2,362	22,558
O her Current Assets	-	1	1	1,266
Total Current Assets	453,074	26,257	479,331	137,137
Noncurrent Assets				
Investments	-	2,018	2,018	36,311
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	186,905
Fixed Assets - Net of Deprecia ion	-	51,434	51,434	89,725
Total Noncurrent Assets	-	53,452	53,452	312,941
Total Assets	453,074	79,709	532,783	450,078
Liabilities				
Current Liabilities:				
Accounts Payable	2,471	7,687	10,158	8,268
Accrued Payroll	-	724	724	1,027
Due to O her Governments	-	-	-	751
Due to O her Funds	-	4,841	4,841	2,597
Current Portion of Long-Term Obligations:				
Certificates of Participa ion and Other Financing Arrangements	-	-	-	5,385
Revenue Bonds Payable	-	-	-	11,045
Obligations Under Capital Leases	-	-	-	5,864
Claims Payable	-	-	-	8,390
Compensated Absences	-	30	30	255
Deferred Revenue	-	385	385	545
Other Accrued Liabilities	128	10,626	10,754	2,470
Total Current Liabilities	2,599	24,293	26,892	46,597
Long-Term Liabilities:				
Working Capital Advances Payable	-	400	400	111
Deferred Revenue	-	75,000	75,000	1,122
Non-Current Por ion of Long-Term Obliga ions:				
Certificates of Participa ion and Other Financing Arrangements	-	-	-	9,315
Revenue Bonds Payable	-	-	-	186,905
Obligations Under Capital Leases	-	-	-	34,273
Claims Payable	-	-	-	56,996
Compensated Absences	-	247	247	1,067
Total Long-Term Liabilities	-	75,647	75,647	289,789
Total Liabilities	2,599	99,940	102,539	336,386
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	51,434	51,434	34,888
Restricted for:				
Unemployment Compensation	450,475	-	450,475	-
Other Purposes	-	-	-	20
Unrestricted	-	(71,665)	(71,665)	78,784
Total Net Assets	$ 450,475	$ (20,231)	$ 430,244	$ 113,692

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, 2004
(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	$ -	$ 310,207	$ 310,207	$ 321,066
Assessments	86,143	1	86,144	-
Miscellaneous Revenues	-	15	15	192
Total Operating Revenues	86,143	310,223	396,366	321,258
Operating Expenses				
General Operations	-	242,406	242,406	256,166
Depreciation	-	3,265	3,265	16,246
Claims/Fees Expense	118,965	-	118,965	10,591
Other Operating Expenses	-	-	-	481
Total Operating Expenses	118,965	245,671	364,636	283,484
Operating Income (Loss)	(32,822)	64,552	31,730	37,774
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	25,917	-	25,917	1,802
Interest Expense	-	-	-	(16,412)
Other Nonoperating Revenues (Expenses)- net	-	88	88	(761)
Total Nonoperating Revenues (Expenses)	25,917	88	26,005	(15,371)
Income (Loss) Before Capital Contributions, Transfers and Special Items	(6,905)	64,640	57,735	22,403
Capital Contributions, Transfers and Special Items				
Capital Contributions from Other Funds	-	1,771	1,771	-
Transfers from (to) Other Funds	(1,747)	(66,385)	(68,132)	(5)
Special Items	-	(85,703)	(85,703)	-
Total Capital Contributions, Transfers In (Out) and Special Items	(1,747)	(150,317)	(152,064)	(5)
Change in Net Assets	(8,652)	(85,677)	(94,329)	22,398
Total Net Assets - Beginning of Year	459,127	65,446	524,573	91,294
Total Net Assets - End of Year	$ 450,475	$ (20,231)	430,244	$ 113,692
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			246	
Net Assets of Business-Type Activities			$ 430,490	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2004
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 86,267	$ 310,231	$ 396,498	$ 304,676
Other Operating Cash Receipts (Payments)	-	-	-	-
Payments of Benefits	(119,330)	-	(119,330)	-
Payments to Prize Winners	-	(116,826)	(116,826)	-
Payments to Suppliers	-	(106,730)	(106,730)	(250,043)
Payments to Employees	-	(17,185)	(17,185)	(27,510)
Net Cash Provided (Used) by Operating Activities	(33,063)	69,490	36,427	27,123
Cash Flows from Noncapital Financing Activities				
Operating Transfers in	-	3,121	3,121	-
Operating Transfers out	(1,747)	(69,506)	(71,253)	(5)
Special Item - Proceeds from Sale of Right to Operate Liquor Business	-	75,000	75,000	-
Special Item - Transfer of Proceeds to General Fund	-	(75,000)	(75,000)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(1,747)	(66,385)	(68,132)	(5)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(61)	(61)	(9,484)
Capital Contributions	-	-	-	-
Proceeds from Financing Arrangements	-	-	-	55,690
Principal and Interest Paid on Financing Arrangements	-	-	-	(74,870)
Proceeds from Sale of Capital Assets	-	4	4	2
Net Cash Provided (Used) by Capital Financing Activities	-	(57)	(57)	(28,662)
Cash Flows from Investing Activities				
Interest Revenue	25,917	87	26,004	1,802
Payments to Purchase Investments	-	(482)	(482)	-
Proceeds from Sale of Investments	-	294	294	27,598
Net Cash Provided (Used) by Investing Activities	25,917	(101)	25,816	29,400
Net Increase (Decrease) in Cash/Cash Equivalents	(8,893)	2,947	(5,946)	27,856
Cash/Cash Equivalents - Beginning of Year	437,357	2,153	439,510	53,940
Cash/Cash Equivalents - End of Year	$ 428,464	$ 5,100	$ 433,564	$ 81,796
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (32,822)	$ 64,552	$ 31,730	$ 37,774
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	3,265	3,265	16,246
Decrease (Increase) in Assets				
Accounts Receivable	127	1,725	1,852	(16,706)
Interfund Balances	(3)	(5,085)	(5,088)	(28)
Inventories	-	520	520	449
Increase (Decrease) in Liabilities				
Accounts Payable	(187)	2,307	2,120	(8,551)
Accrued Payroll Expenses	-	336	336	(467)
Change in Compensated Absences	-	(175)	(175)	(45)
Other Accruals	(178)	2 045	1 867	(1 549)
Total Adjustments	(241)	4,938	4,697	(10,651)
Net Cash Provided (Used) by Operating Activities	$ (33,063)	$ 69,490	$ 36,427	$ 27,123
Non Cash Investing, Capital and Financing Activities				
Property Leased or Acquired	-	-	-	9,705
Contributed Capital Assets	-	1,771	1,771	-
Special Item - Transfer of Pier	-	(10,703)	(10,703)	-

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 270 local municipalities and other public entities in Maine.

Maine Health & Higher Educational Facilities Authority - a discrete component unit included with Fiduciary Funds per GASB Statement No. 34. MHHEFA 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.

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 121.

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2004
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Maine Health & Higher Educational Facilities Authority	Private Purpose Trusts	Agency Funds
Assets				
Cash and Short-Term Investments	$ 53,494	$ 81,415	$ 624	$ 2,853
Receivables, Net of Allowance for Uncollectibles:				
State and Local Agency Contributions	32,897	-	-	-
Loans to Institutions	-	1,017,230	-	-
Interest and Dividends	2,311	6	-	-
Due from Brokers for Securities Sold	10,560	-	-	-
Other	-	4,750	-	1
Investments at Fair Value:				
Equity Securities	1,408,473	-	-	-
Common/Collective Trusts	6,608,559	-	-	-
Restricted Deposits & Investments	-	97,021	-	-
Other	7,192	47,891	10,617	1,118
Securities Lending Collateral	230,632	-	-	-
Assets Held in Trust	-	-	13,711	2,574,262
Fixed Assets - Net of Depreciation	1,415	3,837	-	-
Total Assets	8,355,533	1,252,150	24,952	2,578,234
Liabilities				
Accounts Payable	911	260	-	39
Due to Brokers for Securities Purchased	11,871	-	-	-
Agency Liabilities	-	-	-	2,578,179
Obligations Under Securities Lending	230,632	-	-	-
Bonds Payable	-	1,117,289	-	-
Other Accrued Liabilities	18,598	27,643	18	16
Total Liabilities	262,012	1,145,192	18	2,578,234
Net Assets				
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	8,093,521	106,958	24,934	-
Total Net Assets	$ 8,093,521	$ 106,958	$ 24,934	$ -

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, 2004
(Expressed in Thousands)

	Pension (and Other Employee Benefit Trusts)	Maine Health & Higher Educational Facilities Authority	Private Purpose Trusts
Additions:			
Contributions:			
Members	$ 140,600	$ -	$ -
State and Local Agencies	300,112	-	-
Investment Income:			
Net Increase (Decrease) in the Fair Value of Investments	1,108,786	(1,231)	478
Interest and Dividends	47,542	7,431	533
Less Investment Expense:			
Investment Activity Expense	11,661	-	-
Cost of Securities Lending	319	-	-
Net Investment Income	1,144,348	6,200	1,011
Bond and Note Proceeds	-	180,925	-
Received from Institutions	-	94,713	-
Miscellaneous Revenues	-	10,955	19,856
Transfers In	-	-	536
Total Additions	1,585,060	292,793	21,403
Deductions:			
Benefits Paid to Participants or Beneficiaries	441,546	-	332
Construction and Program Costs	-	51,953	-
Bond Refunding and Refinancing Escrows	-	129,650	-
Principal Payments on Bonds	-	37,037	-
Interest Expense	-	54,226	-
Refunds and Withdrawals	15,697	1,581	-
Administrative Expenses	9,540	18,502	-
Transfers Out	-	-	17,534
Total Deductions	466,783	292,949	17,866
Net Increase (Decrease)	1,118,277	(156)	3,537
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:			
Beginning of Year	6,975,244	107,114	21,397
End of Year	$ 8,093,521	$ 106,958	$ 24,934

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


DIRIGO
MAINE

COMPONENT UNIT FINANCIAL STATEMENTS

Child Development Services System maintains 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.

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; administers several revolving loan programs on behalf of the State; and administers 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.

The Loring Development Authority is responsible for the acquisition, development and management of the properties within the geographical area of the former Loring Air Force Base.

Maine Community College 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 was created to grant educational loans primarily using funds acquired through issuance of long-term bonds payable.

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.

The Maine Port Authority is responsible for acquiring, financing, constructing and operating port and railroad facilities within the State, to improve the global competitiveness of Maine businesses.

Maine Municipal Bond Bank is authorized to issue bonds providing funds to counties, cities, towns, school districts, or other quasi-municipal corporations within the State.

Maine State Housing Authority is authorized to issue bonds for the purchase of notes and mortgages on single- and multi-family residential units to provide 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 initiates, establishes and maintains regularly scheduled passenger rail service between points within Maine to points within and outside of Maine.

University of Maine System – The State University consists of seven campuses and a central administrative office.

The State has three other component units, which are not included in the discretely presented component unit financial statements. The Maine State Retirement System and Maine Health and Higher Educational Facilities Authority have been included in the State's Fiduciary Fund Statements, and the Maine Governmental Facilities Authority has been blended with the State's Internal Service Funds.

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2004
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Governor Baxter School for the Deaf	Loring Development Authority	Maine Community College System
Assets					
Current Assets:					
Cash and Cash Equivalents	$ 1,304	$ 24,740	$ 175	$ 2,238	$ 1,415
Investments	1,439	92,421	-	-	17,490
Inventories	-	-	-	-	896
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	-	-	13	-
Other Receivables	51	432	99	171	3,069
Due from Other Governments	-	275	-	453	-
Due from Primary Government	985	900	-	338	1,179
Other Current Assets	44	1,234	3	12	504
Total Current Assets	3 823	120 002	277	3 225	24 553
Noncurrent Assets:					
Assets Held in Trust	-	-	2	-	-
Restricted Deposits and Investments	-	-	-	-	579
Investments	-	9,812	426	-	5,229
Receivables, Net of Current Portion:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	27,143	-	1,181	-
Other Receivables	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Due from Primary Government	-	-	-	-	-
Fixed Assets - Net of Depreciation	704	1,890	55	68,345	81,359
Other Noncurrent Assets	-	570	-	-	-
Total Noncurrent Assets	704	39,415	483	69,526	87,167
Total Assets	4,527	159,417	760	72,751	111,720
Liabilities					
Current Liabilities:					
Accounts Payable	1,891	912	155	89	1,945
Accrued Payroll	256	-	435	-	-
Compensated Absences	332	-	133	43	-
Due to Other Governments	-	-	-	696	-
Due to Primary Government	-	-	-	1,000	-
Amounts Held under State & Federal Loan Programs	-	-	-	-	-
Undistributed Grants and Administrative Funds	-	6,312	-	-	-
Allowances for Losses on Insured Commercial Loans	-	10,305	-	-	-
Bonds Payable	-	52	-	-	60
Obligations under Capital Leases	7	-	-	-	-
Accrued Interest Payable	-	79	-	-	-
Deferred Revenue	122	1,715	-	60	1,370
Other Current Liabilities	-	163	15	198	6,196
Total Current Liabilities	2,608	19,538	738	2,086	9,571
Long-Term Liabilities:					
Due to Other Governments	-	-	-	-	-
Amounts Held under State & Federal Loan Programs	-	40,411	-	-	-
Bonds Payable	-	75,733	-	-	-
Obligations under Capital Leases	27	-	-	-	4,490
Deferred Revenue	-	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-	-
Total Long-Term Liabilities	27	116,144	-	-	4,490
Total Liabilities	2,635	135,682	738	2,086	14,061
Net Assets					
Invested in Capital Assets, Net of Related Debt	626	1,890	55	68,345	77,388
Restricted	1,151	228	278	-	11,689
Unrestricted	115	21,617	(311)	2,320	8,582
Total Net Assets	$ 1 892	$ 23 735	$ 22	$ 70 665	$ 97 659

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

Maine Educational Loan Authority	Maine Maritime Academy	Maine Municipal Bond Bank	Maine Port Authority	Maine State Housing Authority	Northern New England Passenger Rail Authority	University of Maine System	Totals
$ 1,974	$ 2,020	$ 342	$ 674	$ 1,420	$ 508	$ 15,957	$ 52,767
-	4,611	8,191	-	438,008	-	109,645	671,805
-	241	-	-	-	38	-	1,175
4,480	240	-	-	24,884	-	-	29,604
-	-	-	-	10	-	-	23
512	792	1,025	4	18,381	5	15,415	39,956
-	-	142,526	-	2,010	1,446	8,833	155,543
-	-	600	-	-	-	7,420	11,422
119	882	2,391	-	-	119	5,657	10,965
7 085	8 786	155 075	678	484 713	2 116	162 927	973 260
-	-	-	-	-	-	-	2
-	1,649	273,803	-	100,134	3,351	37,822	417,338
29,374	10,787	-	-	123,633	-	225,050	404,311
40,042	2,615	-	-	1,092,092	-	-	1,134,749
-	-	-	1,731	2,139	-	38,374	70,568
-	687	-	-	-	-	2,752	3,439
-	-	1,079,801	-	-	-	70	1,079,871
-	-	-	-	-	-	3,400	3,400
-	16,508	864	19,380	564	1,088	440,319	631,076
735	5,105	7,979	-	3,570	-	21,665	39,624
70,151	37,351	1,362,447	21,111	1,322,132	4,439	769,452	3,784,378
77,236	46,137	1,517,522	21,789	1,806,845	6,555	932,379	4,757,638
145	2,219	666	201	31,638	1,150	12,393	53,404
-	-	-	-	-	-	-	691
-	-	-	-	-	5	-	513
119	-	975	-	3,123	-	-	4,913
-	-	-	-	-	-	-	1,000
-	-	26,593	-	-	-	-	26,593
-	-	-	-	-	-	-	6,312
-	-	-	-	-	-	-	10,305
-	37	85,969	-	31,240	-	5,980	123,338
-	-	-	-	-	-	265	272
86	-	8,283	-	9,070	-	-	17,518
241	143	2,643	15	30,176	-	20,348	56,833
-	427	-	-	1,299	-	21,174	29,472
591	2,826	125,129	216	106,546	1,155	60,160	331,164
617	1,668	1,648	-	-	-	-	3,933
-	-	-	-	-	-	-	40,411
72,557	2,590	982,429	-	1,456,041	-	147,076	2,736,426
-	-	-	-	-	-	441	4,958
602	-	-	-	-	-	-	602
-	-	-	-	-	-	74,272	74,272
73,776	4,258	984,077	-	1,456,041	-	221,789	2,860,602
74,367	7,084	1,109,206	216	1,562,587	1,155	281,949	3,191,766
-	13,902	-	19,380	-	1,088	326,859	509,533
1,896	16,422	357,475	218	227,456	4,088	251,935	872,836
973	8,729	50,841	1,975	16,802	224	71,636	183,503
$ 2 869	$ 39 053	$ 408 316	$ 21 573	$ 244 258	$ 5 400	$ 650 430	$ 1 565 872

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

June 30, 2004
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Governor Baxter School for the Deaf	Loring Development Authority	Maine Community College System
Expenses	$ 25,854	$ 30,399	$ 5,791	$ 5,493	$ 88,486
Program Revenues					
Charges for Services	4,561	5,004	39	1,068	20,166
Program Investment Income	17	932	-	-	601
Operating Grants and Contributions	21,182	23,162	100	2,625	24,502
Capital Grants and Contributions	-	-	-	1,394	5,006
Net Revenue (Expense)	(94)	(1,301)	(5,652)	(406)	(38,211)
General Revenues					
Unrestricted Investment Earnings	-	-	49	48	879
Non-program Specific Grants, Contributions and Appropriations	2	-	5,872	635	40,640
Miscellaneous Income	142	-	-	618	-
Gain (Loss) on Assets Held for Sale	-	-	-	33	(36)
Special Item	-	-	-	-	-
Total General Revenues	144	-	5,921	1,334	41,483
Change in Net Assets	50	(1,301)	269	928	3,272
Net Assets, Beginning of the Year	1,842	25,036	(247)	69,737	94,387
Net Assets, End of Year	$ 1,892	$ 23,735	$ 22	$ 70,665	$ 97,659

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

Maine Educational Loan Authority	Maine Maritime Academy	Maine Municipal Bond Bank	Maine Port Authority	Maine State Housing Authority	Northern New England Passenger Rail Authority	University of Maine System	Totals
$ 2,619	$ 20,433	$ 62,765	$ 811	$ 213,913	$ 4,471	$ 564,141	$ 1,025,176
2,445	9,471	47,504	69	86,811	43	220,914	398,095
549	-	(4,577)	-	7,534	-	-	5,056
-	794	1,740	201	115,672	3,564	189,989	383,531
-	2,554	30,775	-	-	489	25,758	65,976
375	(7,614)	12,677	(541)	(3,896)	(375)	(127,480)	(172,518)
-	1,172	77	3	160	49	4,785	7,222
-	7,484	-	-	-	-	181,668	236,301
-	1,012	1,104	-	-	-	-	2,876
-	(429)	-	-	-	-	-	(432)
-	-	-	10,703	-	-	-	10,703
-	9,239	1,181	10,706	160	49	186,453	256,670
375	1,625	13,858	10,165	(3,736)	(326)	58,973	84,152
2,494	37,428	394,458	11,408	247,994	5,726	591,457	1,481,720
$ 2,869	$ 39,053	$ 408,316	$ 21,573	$ 244,258	$ 5,400	$ 650,430	$ 1,565,872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MAINE

NOTES TO THE FINANCIAL STATEMENTS

INDEX
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*, as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units,* 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) has been blended within the financial statements of the primary government.

The MGFA was created in 1997, as a successor to the Maine Court Facilities Authority, for the purpose of assisting in the financing, acquisition, construction, improvement, reconstruction, and equipping of additions to structures designed for use as a court facility, State office or State activity space. The MGFA is included as an internal service 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. Because of their nature, two of the discrete component units are shown in the fiduciary funds. The State of Maine reports the following entities as discrete component units:

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 Potato Marketing Improvement Fund Board, the Nutrient Management Fund Board, the Northern Maine Transmission Corporation, 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 combined financial statements of the School include the activity of the School and its component unit, the Maine Foundation for the Deaf.

The Loring Development Authority 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 approximately 3,600 acres of land, associated facilities, infrastructure and personal property to the Authority. The Governor appoints the 13 voting members of the Board of Trustees, subject to confirmation by the Senate. At least 7 of the members must be residents of Aroostook County; at least 4 must not be residents of Aroostook County; and one shall be a Commissioner of a department of State Government, *ex officio*.

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, the Center for Career Development (including the Maine Career Advantage and Maine Quality Centers programs), and its component unit, Maine Community College Educational Foundations.

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 financial statements of the Academy include the activity of the college and of a wholly-owned subsidiary "Essence Limited", whose purpose is to maintain and charter certain large donated vessels owned by the Academy for use in its programs.

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 Port Authority was established for the general purpose of acquiring, financing, constructing and operating port terminal facilities and railroad facilities within the State. Its mission is to improve the global competitiveness of Maine businesses by developing marine and rail facilities for the intermodal movement of people and cargo. The Governor appoints four of the five members of the Board of Directors. The fifth member is the Commissioner of Transportation.

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 combined financial statements of the System include the activity of seven Universities, eleven centers, the central administrative office, and its component units, which include several foundations and alumni associations that raise funds on the System's behalf.

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

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

Maine Community College System
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 Port Authority
16 State House Station
Augusta, ME 04333-0016

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 04101-4631

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 School of Science and Mathematics, the Maine Technology Institute, and the Maine Rural Development Authority.

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 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 follow 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Revenues are recognized in the governmental funds 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.

The State Tax Assessor levies taxes on properties located in the unorganized territory of Maine by August 1 of each year, and on telecommunications personal properties statewide by May 30 of each year. Unorganized territory property taxes are due on October 1 and telecommunications personal property taxes are due on August 15. Formal collection procedures begin on November 1, and unpaid property taxes become a lien no later than March 15 of the fiscal year for which they are levied.

Expenditures are generally recorded when a liability is incurred. However, expenditures related to claims and judgments, 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 is presented with the State's fiduciary funds per GASB Statement No. 34.

Maine Health & Higher Educational Facilities Authority reports resources held in trust to acquire, construct, improve, equip, and refinance health care and educational facilities. These resources are managed by a discrete component unit included with the private purpose trust funds per 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 $158 million of Workers' Compensation and $19 million of Maine Department of Labor surety bonds and letters of credit that are not reflected on the financial statements.

Restricted Deposits and Investments
Restricted deposits and investments include: Learning Technology Fund funds; unemployment tax receipts deposited with the United States Treasury that are drawn down to pay unemployment benefits; cash and investments of the Maine Governmental 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. 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 food stamps are used (EBT cards), and when 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.

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

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. 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.

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 at 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, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Fixed assets of component units are capitalized upon purchase and depreciated over their estimated useful lives. 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 commodities 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 Balances
The difference between fund assets and liabilities is "Net Assets" on the government-wide, proprietary, and fiduciary fund statements, and "Fund Balances" 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 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.

Budget Stabilization **-** indicates amounts reserved for use when revenues are under budget and critical services must be preserved.

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. For the year ended June 30, 2004, the legislature approved $48.2 million of supplemental appropriations 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 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

Beginning Fund Balance in the General Fund decreased by $4.7 million to record prior period expenditures which were incorrectly recorded as prepaid expenses, decreased by $5.1 million to correct a prior period adjustment for the Temporary Assistance for Needy Families (TANF) program, and decreased by $10.6 million to accrue a year end liability for a required payment to the Maine State Retirement System. The TANF adjustment also reduced the Other Special Revenue Fund balance by $3.4 million and increased the Federal Fund balance by $11.8. Beginning Net Assets of the Governmental Activities decreased by $12 million as a result of these restatements, and decreased by $5.9 million to correct revenues recognized in the prior fiscal year which should have been deferred.

Beginning Fund Balance in the Other Governmental Funds and Beginning Net Assets of the Governmental Activities decreased by $385 thousand because funds held in trust, by the State of Maine reporting entity, for the Governor Baxter School for the Deaf, a discrete component unit, were reported in both the reporting entity and component unit financial statements.

As a result of the above restatements, Beginning Net Assets of the Governmental Activities decreased by $18.3 million.

Beginning Net Assets of the Marine Ports Enterprise Fund and the Business-Type Activities decreased by $8.8 million to correctly reflect the timing of a transfer of assets associated with the Mack Point Pier, between the State of Maine and the Maine Port Authority, a discretely presented component unit.

Restatement for the discretely presented component units on the entity-wide financial statements resulted in a net increase of Beginning Net Assets of $92.7 million. The Maine Health and Higher Educational Facilities Authority was reclassified as a discrete component unit presented with the State's fiduciary funds, resulting in a decrease of $107.1 million in component unit Beginning Net Assets on the entity-wide statements and a corresponding increase in the fiduciary funds. The Governor Baxter School for the Deaf increased by $11 thousand to include a foundation as a component unit, and decreased by $391 thousand to correct amounts recorded as accrued wages; The State included the Loring Development Authority and the Maine Port Authority, which were not previously reported in the financial statements of the State of Maine reporting entity, resulting in increases of $69.7 million and $11.4 million, respectively; and, the Maine Community College System and the University of Maine System increased by $3.6 million and $115.4 million, respectively, to include foundations as component units of those entities, as required due to implementation of GASB #39, *Determining Whether Certain Organizations are Component Units*.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Two internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2004. The Workers' Compensation Fund was at a deficit of $45 million, which reflects accruals for actuarially determined claims payable. The Property Lease Fund was at a deficit of $3.4 million, which reflects the recording of capital lease depreciation. These deficits are expected to be funded by future service charges.

The Alcoholic Beverages enterprise fund shows a deficit of $75 million, which reflects the deferral of license fees that will be amortized over a ten year period.

The General Fund shows a deficit of $2.3 million, due primarily to accrued liabilities for Medicaid claims, which are expected to be paid in the ensuing fiscal year.

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; corporate bonds rated "AAA" that mature within 36 months from the date of investment; banker's acceptances; and "no-load" shares of an investment company registered under the Federal Investment Company Act of 1940, whose shares maintain a constant share price. 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 2004, these disbursements, on average, exceeded $145 million per month. Until the vendor receives payment, the State retains some liability. The funds in transit were not collateralized during FY 2004 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 (including fiduciary component units) and discretely presented component units at the close of fiscal year 2004:

Primary Government Deposits (including Fiduciary Component Units)
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 60,468	$ -	$ 3,845	$ 64,313	$ 9,088
Cash with Fiscal Agent	-	17,207	14,555	31,762	31,762
Restricted Deposits	17,504	83,655	5,415	106,574	105,868
Total	$ 77,972	$ 100,862	$ 23,815	$ 202,649	$ 146,718

Component Unit Deposits
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Cash and Cash Equivalents	$ 6,109	$ 7,348	$ 6,252	$ 19,709	$ 11,802
Restricted Deposits	2	3,351	579	3,932	3,932
Total	$ 6,111	$ 10,699	$ 6,831	$23,641	$ 15,734

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 including fiduciary component units) at June 30, 2004:

Primary Government Investments (including Fiduciary Component Units)
(Expressed in Thousands)

	Category 1	Category 2	Category 3	Fair Value
Cash & Cash Equivalents	$ 69,077	$ 535	$ 3,403	$ 73,015
U.S. Government and Agency Obligations	111,532	-	9,385	120,917
Commercial Paper	112,655	-	-	112,655
Corporate Bonds and Notes	2,482	6,608	4,015	13,105
Equity Securities	-	13,677	36,992	50,669
Other Restricted Investments	1,128,863	144,117	122,418	1,395,398
Totals	$ 1,424,609	$164,937	$176,213	1,765,759
Unemployment Fund Deposits with US Treasury				428,464
Maine State Retirement System non-categorized investments (1)				6,839,499
Assets Held in Trust				2,587,973
Total Investments – Primary Government				$11,621,695

(1) Non-categorized investments are those that do not meet the criteria set forth in Categories 1, 2, or 3 as they are not evidenced by physical securities.

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	$ 89,187	$ 86,702	$ 32,287	$ -	$ 188,742
Business-type activities	588	2,018	428,464	-	-
Fiduciary	-	-	-	2,587,973	-
Fiduciary – MHHEFA (1)	-	-	144,117	-	-
Fiduciary- Pension (1)	-	-	8,024,224	-	37,393
	$ 89,775	$ 88,720	$ 8,629,092	$ 2,587,973	$ 226,135
				Total	$11,621,695

(1) Represents investments of the Maine State Retirement System and Maine Health and Higher Education Facilities Authority, discrete component units 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 2004, 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	$ 20,839	$ 79,616	$ 10	$ 100,465
U.S. Government and Agency Obligations	174,818	193,853	-	368,671
Repurchase Agreements	393,699	69,464	-	463,163
Commercial Paper	24,845	-	-	24,845
Corporate Bonds and Notes	8,519	-	133	8,652
Equity Securities	16,427	-	273	16,700
Investment Contracts	0	8,525	-	8,525
Other	93	-	-	93
Restricted	29,753	19,031	101,466	150,250
Totals	$ 668,993	$ 370,489	$ 101,882	1,141,364
FAME non-categorized investments (1)				74,607
University of Maine System non-categorized short-term investments (1)				107,521
University of Maine System non-categorized restricted investments (1)				206,997
Total Investments – Component Units				$1,530,489

(1) Non-categorized investments are those that do not meet the criteria set forth in Categories 1, 2, or 3 as they are not evidenced by physical securities.

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 21 percent of pool assets. The component units reported their participation as Cash and Cash Equivalents on their financial statements. The State has reclassified $25 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 $17 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	$458,875	$65,592	$ 1	$ (128,755)	$ 395,713
Highway	23,076	2,628	105	(3,012)	22,797
Federal	-	38,950	-	(4,369)	34,581
Other Special Revenue	6,657	70,946	6,454	(3,975)	80,082
Nonmajor Governmental	-	-	-	-	-
Total Governmental Funds	488,608	178,116	6,560	(140,111)	533,173
Allowance for Uncollectibles	(119,334)	(19,941)	(836)		-
Net Receivables	$ 369,274	$ 158,175	$ 5,724		$ 533,173
Proprietary Funds:					
Employment Security	$ -	$ 32,535	$ -	$ (7,946)	$ 24,589
Nonmajor Enterprise	-	17,482	164	(265)	17,381
Internal Service	-	6,549	197,950	(1)	204,498
Total Proprietary Funds	-	56,566	198,114	(8,212)	246,468
Allowance for Uncollectibles	-	(8,047)	(165)		-
Net Receivables	$ -	$ 48,519	$ 197,949		$ 246,468

Component Units - Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance for Uncollectibles	Net Receivables
Child Development Services System	$ 51	$ -	$ -	$ -	$ 51
Finance Authority of Maine	432	-	32,083	(4,940)	27,575
Governor Baxter School for the Deaf	99	-	-	-	99
Loring Development Authority	171	-	1,194	-	1,365
Maine Community College System	3,665	-	-	(596)	3,069
Maine Educational Loan Authority	512	45,467	-	(945)	45,034
Maine Maritime Academy	1,665	3,125	-	(456)	4,334
Maine Municipal Bond Bank	1,025	-	-	-	1,025
Maine Port Authority	4	-	1,731	-	1,735
Maine State Housing Authority	18,381	1,129,034	2,246	(12,155)	1,137,506
Northern New England Passenger Rail Authority	5	-	-	-	5
University of Maine System	20,001	-	38,902	(2,362)	56,541
Total Component Units	46,011	1,177,626	76,156	(21,454)	1,278,339
Allowance for Uncollectibles	(4,666)	(11,223)	(5,565)		-
Net Receivables	$ 41,345	$ 1,166,403	$ 70,591		$ 1,278,339

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, 2004 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds			
Due from Other Funds	**General**	**Highway**	**Federal Fund**	**Other Special Revenue**
General	$ -	$466	$ 11,126	$ -
Highway	-	-	3,808	-
Federal	22,102	-	477	4,492
Other Special Revenue	75,527	190	71,848	362
Employment Security	21	-	-	-
Non-Major Enterprise	95	-	2,246	-
Internal Service	14,305	2,622	1,843	3,055
Total	$112,050	$3,278	$91,348	$7,909

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Total**
General	$ -	$ 4,580	$ 39	$16,211
Highway	-	2	-	3,810
Federal	-	-	1,260	28,331
Other Special Revenue	-	8	816	148,751
Employment Security	-	-	-	21
Non-Major Enterprise	-	-	-	2,341
Internal Service	-	251	482	22,558
Total	$ -	$4,841	$2,597	$222,023

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 $536 thousand to the General Fund for operating capital: Alcoholic Beverages (an enterprise fund) $.4 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 2004, 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	$ -	$ 479
University of Maine System	-	1,559
Loring Development Authority	-	338
FAME	-	900
Highway Fund		
University of Maine System	-	154
Special Revenue Fund		
University of Maine System	-	369
Maine State Housing Authority	-	3,948
Maine Community College System	-	33
Federal Fund		
Child Development Services System	-	506
University of Maine System	-	5,284
Capital Projects Fund		
Loring Development Authority	-	(1,000)
Maine Community College System	-	1,146
Maine Municipal Bond Bank	-	600
University of Maine System	-	3,454
Component Units:		
Child Development Services System		
General Fund	479	-
Federal Fund	506	-
Loring Development Authority		
General Fund	338	-
Capital Projects	(1,000)	-
Maine Municipal Bond Bank		
Capital Projects	600	-
Maine Community College System		
Capital Projects	1,146	-
Special Revenue Fund	33	-
University of Maine System		
General Fund	1,559	-
Highway Fund	154	-
Special Revenue Fund	369	-
Federal Fund	5,284	-
Capital Projects	3,454	-
FAME		
General Fund	900	-
Maine State Housing Authority		
Special Revenue Fund	-	-
Total	$ 13,822	$ 17,770

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 made in accordance with statutory authority. Significant 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 and Lottery Funds, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2004, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers: $38.8 million from the General Fund to the Federal Fund to pay expenditures incorrectly coded to the Federal Fund in the MaineCare program from prior years; $53 million from the General Fund to the Other Special Revenue Fund to capitalize the Dirigo Health Fund; $13.6 million from the Highway Fund to the Other Special Revenue Fund for distribution to municipalities for highway-related purposes; and, $13.6 million from the Other Special Revenue Fund to the General Fund to return amounts that would otherwise have been distributed to municipalities in the absence of the transfer from the Highway Fund.

Interfund transfers for the year ended June 30, 2004, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Non-Major Governmental**
General	$ -	$ 5,690	$11,245	$ 24,308	$ 634
Highway	-	-	138	1,997	-
Federal	41,465	248	13,571	18,907	-
Other Special Revenue	193,937	13,766	4,719	1,166	12,818
Non-Major Governmental	232	-	-	1,079	224
Employment Security	-	-	-	-	-
Non-Major Enterprise	3,003	-	116	-	-
Internal Service	-	-	-	-	-
Fiduciary	-	-	-	536	-
Total	$238,637	$19,704	$29,789	$47,993	$13,676

	Transferred From				
Transferred To	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ -	$68,729	$5	$16,914	$127,525
Highway	-	-	-	-	2,135
Federal	1,747	-	-	-	75,938
Other Special Revenue	-	775	-	620	227,801
Non-Major Governmental	-	-	-	-	1,535
Employment Security	-	-	-	-	-
Non-Major Enterprise	-	-	-	-	3,119
Internal Service	-	-	-	-	-
Fiduciary	-	-	-	-	536
Total	$1,747	$69,504	$5	$17,534	$438,589

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, 2004:

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	$ 303,327	$ 63,238	$ 122	$ 366,443
Construction in progress	50,723	25,390	41,902	34,211
Infrastructure	2,216,788	212,404	-	2,429,192
Total capital assets, not being depreciated	2,570,838	301,032	42,024	2,829,846
Capital assets, being depreciated				
Buildings	418,157	48,527	3,519	463,165
Equipment	215,898	21,848	14,517	223,229
Improvements other than buildings	16,162	8,244	34	24,372
Total capital assets, being depreciated	650,217	78,619	18,070	710,766
Less accumulated depreciation for:				
Buildings	101,751	11,609	4,329	109,031
Equipment	140,923	34,686	14,148	161,461
Improvements other than buildings	5,962	1,695	34	7,623
Total accumulated depreciation	248,636	47,990	18,511	278,115
Total capital assets being depreciated, net	401,581	30,629	(441)	432,651
Governmental Activities Capital Assets, net	$ 2,972,419	$ 331,661	$ 41,583	$ 3,262,497
Business-Type Activities:		**Net Additions**	**Net Deletions**	
Capital assets, not being depreciated				
Land	$ 6,517	$ -	$ -	$ 6,517
Construction in progress	10,831	1,776	10,703	1,904
Total capital assets, not being depreciated	17,348	1,776	10,703	8,421
Capital assets, being depreciated				
Buildings	8,746	1	-	8,747
Equipment	18,905	59	100	18,864
Improvements other than buildings	51,410	-	-	51,410
Total capital assets, being depreciated	79,061	60	100	79,021
Less accumulated depreciation	32,835	3,265	92	36,008
Total capital assets, being depreciated, net	46,226	(3,205)	8	43,013
Business-Type Activities Capital Assets, net	$ 63,574	$ (1,429)	$ 10,711	$ 51,434

***** *As Restated.*

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	$ 85
Business Licensing and Regulation	497
Economic Development and Workforce Training	1,438
Education	263
Governmental Support and Operations	2,347
Health and Human Services	7,961
Justice and Protection	15,008
Natural Resources Development and Protection	4,959
Transportation Safety and Development	13,958
Total Depreciation Expense – Governmental Activities	$46,516

Discretely Presented Component Units
The following table summarizes net capital assets reported by the discretely presented component units:

Component Unit - Capital Assets
(Expressed in Thousands)

Land	$ 26,205
Buildings	643,666
Equipment	141,866
Improvements other than buildings	56,813
Library books and materials	30,228
Construction in progress	62,162
Infrastructure	749
Total	961,689
Less accumulated depreciation	(330,613)
Capital assets, net – discretely presented component units	$ 631,076

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 270 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, 2004, the membership consisted of:

Active vested and nonvested members	52,029
Terminated vested participants	5,652
Retirees and benefit recipients	31,460
Total	89,141

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 an agent multiple employer plan.

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 25 years, 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 2004, this additional contribution was approximately $22.5 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 2004 for participating entities are:

State:	
Employees[1]	7.65-8.65%
Employer[1]	13.39-38.18%
Teachers:	
Employees	7.65%
Employer	16.05%
Participating Local Entities:	
Employees[1]	3.0-8.0%
Employer[1]	1.5-6.5%

[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	$251,483
Interest on net pension obligation	5,301
Adjustment to annual required contribution	(3,502)
Annual pension cost	253,282
Contributions made	273,483
Increase (decrease) in net pension obligation	(20,201)
Net pension obligation beginning of year	66,261
Net pension obligation end of year	$ 46,060

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2004	$253,282	107.98%	$46,060
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, 2002 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 Maritime Academy has a defined contribution plan created under Internal Revenue Code Section 403(b).

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 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, 2004, there were 8,795 retired eligible State employees and 6,814 retired teachers. In fiscal year 2004, the State paid into the Retiree Health Insurance Fund $45.8 million for retired employees and $10.3 million for retired teachers. Premium charges paid were $32 million and $10.1 million, respectively. Overall, Net Assets increased by $14.9 million to $89.3 million at June 30, 2004.

The most recent actuarial study, issued for the fiscal year ended June 30, 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, 2004, claims totaled $1.9 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 8,531 retired State employees and 5,779 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 2004 were:

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

	Balance July 1, 2003	Additions	Retirements	Balance June 30, 2004	Due Within One Year
General Obligation Debt:					
General Fund	$ 293,990	$ 117,275	$ 56,240	$ 355,025	$ 53,440
Special Revenue Fund	64,120	13,000	16,015	61,105	13,280
Self Liquidating	300	-	70	230	70
Total	$ 358,410	$ 130,275	$ 72,325	$ 416,360	$ 66,790

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2004 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2005	$ 66,790	$ 15,018	$ 81,808
2006	71,935	14,076	86,011
2007	59,210	11,095	70,305
2008	50,350	8,633	58,983
2009	42,130	6,480	48,610
2010-2014	125,945	9,783	135,728
Total	$ 416,360	$ 65,085	$ 481,445

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, 2004, general obligations bonds authorized and unissued totaled $220.4 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State has included $198.5 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority, a blended component unit. Payment of the bonds is subject to, and dependent upon, biennial appropriations being made by the State Legislature. Debt issued by the Authority is not debt of the State or any political subdivision within the State; and the State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. The Authority may not issue securities in excess of $218.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2004, the Authority issued the Series 2003 Bonds, $6.8 million of which refunded $6.5 million of the Series 1993 bonds, with an average interest rate 5.07%. The Authority also issued the Series 2004 Bonds, $27.8 million of which refunded $26.9 million of portions of the Series 1996, 1999 and 2000 bonds, with an average interest rate 5.84%. Average interest rates for the new issues were 2.67% and 4.83%, respectively. Net proceeds from the refundings totaled $37.1 million, including bond premiums of $3.2 million and after payment of $645,000 of issuance costs.

Although the advance refunding resulted in the recognition of a deferred accounting loss of $2.8 million, the Authority reduced its aggregate debt service payments by $1.6 million over the next 12 years and obtained an economic gain of $1.8 million. Proceeds were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. At June 30, 2004, there were approximately $34.9 million of advance refunded bonds remaining outstanding.

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, including school buses. 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 and school districts maintain 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, 2004:

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

	Balance July 1, 2003	Additions	Reductions	Balance June 30, 2004	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 196,383	$ 48,332	$ 46,765	$ 197,950	$ 11,045
COP's and Other Financing Arrangements	48,658	9,336	12,648	45,346	15,305
Compensated Absences	39,467	3,134	4,091	38,510	4,112
Net Pension Obligation	66,261	-	20,201	46,060	
Total Governmental Activities	$ 350,769	$ 60,802	$ 83,705	$ 327,866	
Business-Type Activities:					
Compensated Absences	$ 452	$ -	$ 175	$ 277	$ 30
Total Business-Type Activities	$ 452	$ -	$ 175	$ 277	$ 30

Debt service requirements (principal and interest) for all COP's and other financing arrangements of the primary government, from June 30, 2004 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, incl. MGFA		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2005	$ 9,919	$ 1,174	$ 11,093	$ 16,431	$ 9,712	$ 26,143
2006	10,335	724	11,059	18,594	9,070	27,664
2007	4,605	331	4,936	15,894	8,352	24,246
2008	2,547	217	2,764	14,431	7,687	22,118
2009	1,202	120	1,322	13,625	7,066	20,691
2010 - 2014	2,038	137	2,175	61,640	26,525	88,165
2015 - 2019	-	-	-	55,915	11,628	67,543
2020 - 2024	-	-	-	16,120	880	17,000
Total	$ 30,646	$ 2,703	$ 33,349	$ 212,650	$ 80,920	$ 293,570

SHORT TERM OBLIGATIONS

The State of Maine issued and retired $275 million in Tax Anticipation Notes and $130.3 million in Bond Anticipation Notes during fiscal year 2004. At June 30, 2004 there were no outstanding Tax Anticipation Notes or 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, 2004, property acquired under capital leases totaled $60 million in the internal service funds, with related accumulated depreciation of $23.2 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, 2004:

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

Fiscal Year	**Capital Leases**	**Operating Leases**
2005	$ 5,864	$ 1,623
2006	5,477	1,096
2007	5,330	977
2008	5,092	915
2009	4,656	898
2010-2014	17,159	4,979
2015-2019	6,909	443
2020-2024	941	93
2025-2029	78	-
Total Minimum Payments	51,506	$ 11,024
Less: Amount Representing Interest	11,369	
Present Value of Future Minimum Payments	$ 40,137	

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
Finance Authority of Maine	Construction Bonds	1.0 %	1,192	2003 - 2025
	Education Loan Revenue Bonds	1.4 - 1.45%	74,594	2033
Subtotal			75,786	
Maine Municipal Bond Bank	General Tax-Exempt Fund	2.0 - 6.50%	982,190	1994 - 2033
	Sewer and Water Fund	1.05 - 5.85%	85,318	1994 - 2028
	Special Obligation Taxable Fund	10.25%	890	1991 - 2009
Subtotal			1,068,398	
Maine Educational Loan Authority	Educational Loan Revenue Bonds	1.12 - 3.65%	72,557	2005 - 2032
Maine State Housing Authority	Mortgage Purchase Program	1.15 - 6.9%	1,362,636	2004 - 2038
	Housing Finance Revenue Program	4.4 - 5.75%	24,645	2004 - 2030
	General Housing Draw Down Bond	1.22%	100,000	2005
Subtotal			1,487,281	
Maine Maritime Academy	Revenue Bonds and Other Obligations	2.0 - 5.8%	2,627	2004 - 2023
Maine Community College System	Building Construction Bonds	8.16%	60	2005
University of Maine System	1998 Series A Revenue Bonds	3.95 - 4.75%	22,033	2000 - 2011
	2000 Series A Revenue Bonds	4.5 - 5.750%	19,457	2001 - 2015
	2002 Series A Revenue Bonds	2.0 - 5.375%	43,681	2002 - 2012
	2003 Series A Revenue Bonds	3.0 - 4.750%	18,299	2004 - 2032
	2004 Series A Revenue Bonds	2.0 - 5.000%	43,628	2005 - 2029
	Other Obligations		5,958	
Subtotal			153,056	
Total			$2,859,764	

Fiduciary Component Units Bonds Outstanding
(expressed in thousands)

Component Unit	Purpose	Interest Rates	Amount	Maturity Dates
Maine Health and Higher Educational Facilities Authority	General Resolution	4.5 - 7.55%	$ 59,254	1988 - 2043
	Reserve Fund	2.0 - 6.20%	1,023,285	1993 - 2033
	Taxable Reserve Fund	7.03 - 7.03%	28,980	1993 - 2016
	Taxable Reserve Fund II	1.51%	5,770	2014 - 2023
Total			$1,117,289	

On July 1, 2003, the Maine Health and Higher Education Authority (the Authority) issued $59.2 million Series 2003B bonds with an average interest rate of 4.4%, a portion of which was used to refund $10.8 million of outstanding bonds with an average interest rate of 5.86%. On September 1, 2003, the Authority issued $35.9 million Series 2003D bonds with an average interest rate of 4.32% to refund $36.2 million of outstanding bonds with an average interest rate of 5.60%. On June 3, 2004, the Authority issued $72.3 million Series 2004A bonds with an average interest rate of 5.01% to refund $71.8 million of outstanding bonds with an average interest rate of 5.72%. Approximately $2.2 million in issuance costs were paid. Total interest payments over the next 22 years were reduced by approximately $9.3 million. Proceeds were used to purchase U.S. Government securities which will provide for all future debt service payments on the refunded bonds. At June 30, 2004, there were approximately $134.3 million of advance refunded bonds remaining outstanding.

On March 31, 2004, the University of Maine System issued 2004 Series A Revenue Bonds, $21.3 million of which was used to advance refund $19 million of outstanding bonds. The refunding resulted in a deferred amount on refunding of $2.5 million, of which the unamortized balance was $2.4 million as of June 30, 2004. Total interest payments over the next 13 years were reduced by $1 million, and an economic gain of $0.8 million was obtained. At June 30, 2004, the entire $19.0 million of advance refunded bonds remained outstanding.

Debt service principal maturities for outstanding bonds of the discretely presented component units, from June 30, 2004 until maturity, are summarized in the following table:

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MELA	MSHA	MMA	MCCS	UMS	Totals	MHHEFA
2005	$ 52	$ 87,518	$ -	$ 31,240	$ 37	$ 60	$ 5,884	$ 124,791	$ 37,568
2006	52	95,466	5,310	141,075	112	-	6,215	248,230	41,471
2007	52	86,005	-	39,695	105	-	6,194	132,051	42,841
2008	53	84,964	-	41,785	125	-	6,483	133,410	43,919
2009	54	79,583	11,615	46,330	120	-	5,947	143,649	43,580
2010-2014	278	324,120	-	252,065	640	-	60,667	637,770	234,180
2015-2019	292	205,411	-	277,690	855	-	23,999	508,247	226,780
2020-2024	307	100,000	-	298,170	728	-	18,479	417,684	204,215
2025-2029	52	10,220	22,500	217,325	-	-	8,620	258,717	170,155
2030-2034	75,000	295	34,000	133,180	-	-	8,550	251,025	68,465
2035-2039	-	-	-	25,600	-	-	-	25,600	1,885
2040-2044	-	-	-	-	-	-	-	-	2,230
2045-2049	-	-	-	-	-	-	-	-	-
Net unamortized premium or (deferred amount)	(407)	(5,184)	(868)	(16,874)	(95)	-	2,018	(21,410)	-
Total Principal Payments	$75,785	$1,068,398	$72,557	$1,487,281	$2,627	$ 60	$153,056	$2,859,764	$1,117,289

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 Transportation has 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*	3 million	2 million	3 million
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, 2004. 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, 2003, the present value of the claims payable for the State's self-insurance plan was estimated at $4.1 million. At June 30, 2004, the State has estimated the present value of the loss at $3.5 million. The actuary calculated this based on a 1.75 percent yield on investments.

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

	2004	**2003**
Liability at Beginning of Year	$4,073	$3,337
Current Year Claims and Changes in Estimates	449	2,505
Claims Payments	975	1,769
Liability at End of Year	$3,547	$4,073

As of June 30, 2004, fund assets of $14.4 million exceeded fund liabilities of $4.1 million by $10.3 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, 2004.

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 $934 thousand for the fiscal year ended June 30, 2004.

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)

	2004	2003
Liability at Beginning of Year	$ 61,839	$ 75,726
Current Year Claims and Changes in Estimates	9,616	(5,260)
Claims Payments	9,616	8,627
Liability at End of Year	$ 61,839	$ 61,839

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. EMPLOYEE HEALTH INSURANCE

The employee health insurance program is accounted for in an Internal Service Fund. The State became self insured for employee health care coverage on July 1, 2003. A stop loss agreement with Anthem Blue Cross and Blue Shield provides catastrophic coverage for individual claims exceeding $350 thousand.

The State has retained an independent contractor for claims administration, utilization review, and case management services. Premiums are paid to the independent contractor based upon rates established with the technical assistance of the plan's consulting actuary.

There are two primary health plans available. HMO Choice is a point-of-service plan available to all active employees and retirees not eligible for Medicare. The Group Companion Plan is a supplement to Medicare Parts A & B and is available to Medicare eligible retirees. Total enrollment has averaged approximately 41,000 covered individuals. This total includes 30,300 active employees and dependents, 4,200 pre-Medicare retirees and dependents, and, 6,500 Medicare retirees and dependents.

Claims expenses are recorded when premiums are paid to the claims servicing contractor. At the end of the period, the total of these premium payments are compared with the actual claims paid and claims expense is adjusted for any overage or shortage with an offsetting receivable or liability recorded. For the period ending June 30, 2004, the State recorded a receivable of $2.9 million for an overpayment of health care premiums. The State was not able to estimate a liability for health claims incurred but not reported during the period; however, the amount is not believed to be material. Consequently, the State has not accrued a liability in the financial statements for the year ended June 30, 2004.

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 2004, 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	$ 47,109
Noncurrent Assets	156,238
Total Assets	$ 203,347
Current Liabilities	$ 42,341
Long-term Liabilities	141,554
Total Liabilities	183,895
Designated Prize Reserves	4,096
Unrealized Gain on Investments Held for Installment Prize Obligations	15,356
Total Net Assets	19,452
Total Liabilities and Net Assets	$ 203,347
Total Revenue	$ 70,392
Total Expenses	48,441
Allocation to Member States	22,851
Change in Unrealized Gain on Investments Held for Resale	(12,842)
Change in Net Assets	$ (13,742)

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

Title 20 M.R.S.A. § 11473 establishes the Maine College Savings Program Fund (the Fund), administered by the Finance Authority of Maine (FAME). The Fund holds all monies associated with the Maine College Savings Program doing business as the NextGen College Investing Plan (NextGen). NextGen is the primary program of the Fund and was established to encourage the investment of funds to be used for qualified higher education expenses at institutions of higher education. The program has been designed to comply with the requirements for treatment as a "Qualified State Tuition Program" under Section 529 of the Internal Revenue Code.

By statute, the program assets and liabilities are held by the Treasurer of the State of Maine. FAME and the Treasurer of the State of Maine have entered into a management agreement for the Treasurer to act as a fiduciary of the Fund. The Treasurer is responsible for investment of the Fund and determining, with the advice of the Advisory Committee on College Savings, the proper allocation of the investments of the Fund. The NextGen College Investing Plan had approximately $2.5 billion in net assets at June 30, 2004, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include $230 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 2004, the State of Maine paid $10.8 million for services under these contracts; $3.4 million from the General Fund, $6.7 million from the Federal Fund and $700 thousand from the Other Special Revenue Fund. At fiscal year end, the State accrued a total of $1.576 million as accounts payable for services provided under these contracts: $745 thousand in the General Fund, $758 thousand in the Federal Fund; and $73 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 2004, the State paid $19.2 million to this company; $7.2 million from the General Fund and $12 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 2004, the State paid $9.5 million for these services; $4 million from the General Fund and $5.5 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, $205.6 million; Child Development Services, $23.9 million; Maine Community College System, $49.8 million; Maine Municipal Bond Bank, $13.9 million; Finance Authority of Maine, $14.3 million; Maine Maritime Academy, $7.7 million; Maine State Housing Authority, $4.6 million; Loring Development Authority, $2.3 million; and the Governor Baxter School for the Deaf, $5.8 million. FAME returned $1.4 million to the State from the Underground Storage, Waste Reduction & Recycling and Occupational Safety Program funds.

The Finance Authority of Maine (FAME) administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $31.7 million at June 30, 2004, 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 2004, the State expended $0 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 2004, FAME paid approximately $6.1 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 transferred capitalized costs associated with Mack Point pier facilities to the Maine Port Authority, a component unit of the State. Through 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. 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 2004.

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 $259 thousand for FY 2004.

During the 2004 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 2004 fiscal year, the State expended $259 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, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs to be as high as $5 million, based on current site knowledge and the increasing frequency of residential development near closed municipal landfills and the discovery of older abandoned dump sites now occupied by residential homes.

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 $22.1 million. This consists of approximately $13.1 million for State-owned facilities and approximately $9 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 2004 fiscal year, $5.82 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2004, amounts encumbered for pollution abatement projects totaled $1.79 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $8.77 million. At June 30, 2004, DEP estimated the total cost (federal, State, and local) of future projects to be $411 million.

DESIGNATION AS A POTENTIALLY RESPONSIBLE PARTY BY THE ENVIRONMENTAL PROTECTION AGENCY

The State has been identified as a potentially responsible party at four hazardous waste clean-up sites in Maine. These sites are located in Plymouth, Casco, Ellsworth and Brooksville. 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 M.R.S.A. § 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 thousand 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, 2004 there were 368 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, 2004, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $826.5 million.

At June 30, 2004, the Department of Transportation had contractual commitments of approximately $70.4 million for construction of various highway projects. The State's share of that amount is expected to be approximately $12.1 million. Of these amounts, $13.9 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 a 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. In Chapter 673 PL 2003, the Legislature provided an additional $6 million on a one-time basis to pay additional claims that may come forward. Chapter 3 PL 2005 further provides an additional transfer of up to $8.1 million from the available unappropriated surplus of the General Fund at the close of fiscal year 2005. As of June 30, 2004, the Authority paid claims of $4.3 million, and the State accrued an additional $6 million in claims payable. The Authority has a statutory sunset of July 1, 2007.

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), started 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, 2004, HUD completed refinancings for nine institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately $43.2 million. As part of the refinancing completed by HUD, MHHEFA agreed to issue 8% subordinated notes receivable to these nine institutions from its operating fund. These notes totaled $6.7 million at June 30, 2004, 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 two other facilities, with combined amounts due the Authority of approximately $6.1 million at June 30, 2004, will complete refinancings during fiscal 2005. 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 nine institutions described above, the Authority has advanced approximately $3.3 million from the operating fund as of June 30, 2004, to certain financially troubled institutions. The outstanding loans owed to the Authority total approximately $18.4 million. These advances were made to assist these institutions in meeting debt service requirements. The Authority established a $2.1 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 resident Maine veterans. The aggregate of these obligations, at any one time, may not exceed $90 million, $1 million, and $4 million, respectively. At June 30, 2004, loans outstanding pursuant to these authorizations are $41.2 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, 2004.

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, 2004.

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	$ 1,058,035	$ 88,257	no limit	22 MRSA § 2075
Finance Authority of Maine	113,333	35,470	741,274	10 MRSA §1032, 1053*
	-	-	50,000	20-A MRSA §11449
	-	-	50,000	38 MRSA §2221
Loring Development Authority	-	-	100,000	5 MRSA §13080-N
Maine Municipal Bond Bank	1,068,398	128,833	no limit	30-A MRSA §6006
Maine Educational Loan Authority	32,115	1,285	50,000	20-A MRSA §11424
Maine State Housing Authority	1,387,281	119,935	2,150,000	30-A MRSA §4906
Total	$ 3,659,162	$ 373,780		

***** Under 10 MRSA §1053, FAME may issue up to $330 million of bonds for the electric rate stabilization program. However, per 35-A MRSA §3156, as of July 31, 1998 no new approvals for bonds could be made under this program. Therefore, the moral obligation of the State is reported to be the amount of bonds currently outstanding.

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. 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.

Hospital Medicaid Reimbursement. These cases are in State court and DHHS administrative hearings. The claims cover the fiscal years 1993 through 2001. There are 21 hospitals (out of a total of 39 Maine hospitals) appealing some or all of the following issues: whether third party liability adjustments were made properly; whether the hospitals should have been re-based; whether the Department should have calculated the eligibility of the hospitals for disproportionate share payments (DSH); and, if the hospitals were eligible for DSH, whether the Department is obligated to make a DSH payment to eligible hospitals. Total potential cost of the hospital cases is $181 million for the 21 hospitals that have appealed these issues; of which, the State share of the cost would be approximately $60 million, and the federal share would be approximately $120 million. The potential for expenditure in this matter is probable. The State accrued a liability related to the DSH portion of these cases of $61.8 million in the Governmental Activities: $21 million in State funds and $40.8 million in federal funds. No further liability can be reasonably estimated on these cases.

Callahan Mine Superfund Site. Earlier this year, the U.S. EPA identified the State of Maine as a Potentially Responsible Party for a Superfund site – the Callahan Mine Site in Brooksville, Maine. The mining occurred pursuant to a lease from 1968 to 1972 in part on state-owned submerged land that had been drained. No court action has been filed by EPA at this time. If the State is found liable as a Responsible Party for the site, costs could exceed $1 million just for the work conducted by EPA to date. Potential liability for remedial actions could greatly exceed $1 million. The potential for expenditure regarding this matter is probable; however, the State cannot reasonably estimate the amount of potential loss.

Buchanan v. State of Maine. The case is in State court, and arises out of the shooting death of Michael Buchanan on February 25, 2002. He was shot by a Lincoln County deputy sheriff after he stabbed the deputy sheriff's partner. The theory of the liability against the State is that we failed to provide him with sufficient mental health services, which led him to engage in erratic and dangerous behavior, which caused him to be shot by the police. Claims are brought under section 1983 and the American Disabilities Act. Plaintiff's theory of the case is somewhat novel. The Attorney General has a motion to dismiss pending.

Irving Pulp & Paper, Ltd. V. State Tax Assessor. This case is now in the Law Court. It was brought by a corporate taxpayer, and relates to an assessment of roughly $1 million of Maine corporate income tax. We prevailed in the lower court.

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, October 7, and December 9, 2004, the State issued $41.1 million, $43.3 million and $37.9 million respectively of Bond Anticipation Notes. The BAN's will mature on June 23, 2005.

On July 1, 2004 the State issued $190 million of Tax Anticipation Notes which become due on June 30, 2005.

On December 16, 2004, the Maine Municipal Bond Bank issued $48.4 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation. The bonds bear interest rates from 2.5% to 5.0%, and maturities from 2005 to 2015. The bonds are secured by future receipt of federal transportation funds, subject to continuing federal appropriations of those funds. Payment of principal and interest, when due, is insured by a financial guaranty insurance policy. The Bonds do not constitute a debt or obligation of the State.

Chapter 673 PL 2003, which became effective July 30, 2004, requires the State to manage the Retiree Health Insurance Fund, an internal service fund, on a cost-reimbursement basis beginning June 30, 2005. It further requires the State to calculate and return the amount of excess equity due each fund and ancillary group contributing to the Fund, after retaining a reasonable amount of working capital, no later than June 30, 2005. After retaining $7 million in the Fund for working capital, the State estimates the amount of excess equity that will be available for distribution to all groups is $105.8 million, of which the General Fund's share

Is estimated to be $57.6 million. The estimates are subject to change based on the actual results of operations for the fiscal year ending June 30, 2005 and final approval of the amount of working capital to be retained.

COMPONENT UNITS

In January 2004 the Maine State Housing Authority (MSHA) redeemed $12.7 million of its 2003-B General Housing Draw Down bonds, with variable interest rates maturing in 2005. In January, February and March 2004, MSHA redeemed a combined total of $180.4 million of various series of its Mortgage Purchase Program bonds, with interest rates from 3.65% to 6.9%, and maturities from 2004 to 2035. $123.2 million of the Mortgage Purchase Program bonds were redeemed at 102%; the balance of $57.2 million was redeemed at par. In March 2004, MSHA committed to redeem a further $33.8 million of Mortgage Purchase Program bonds at par, and $2.8 million of General Housing Draw Down bonds. On March 2, 2004, MSHA issued $47.3 million of its 2004 Series A bonds. These bonds carry interest rates ranging from 1.5% to 5.0%, with maturities from 2005 to 2029.

In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine purchased FFELP student loan portfolios totaling approximately $16.0 million and $10.2 million in July 2004 and August 2004, respectively.

NOTE 18 – SPECIAL ITEMS

In accordance with statutory authority, the State of Maine entered into a contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. Although considered a remote possibility, the contract provides for rescission by either party, which would result in a prorated return of the purchase price. The State recorded the transfer of $75 million of proceeds from the license fee from the Alcoholic Beverages enterprise fund to the General Fund as a Special Item.

In accordance with Chapter 93, Resolves 2003, the State of Maine entered into a contract to purchase a landfill, payable solely from proceeds provided by a third party. Contemporaneously with the execution of that agreement, the State entered into a contract to sell the capacity of that landfill to a third party operator for a 30-year term. Consistent with the provisions of both agreements, the third party operator paid $26 million, on the State's behalf, to the seller of the landfill. The Operator assumed all liability for closure and post-closure costs associated with the landfill, and all liability for payment to the Seller. The State shall retain title to the property at the end of the contract term. Both the Seller and Operator are considered third party beneficiaries to each agreement with the State. Unwind provisions in both agreements specify that the State has no liability in either matter and that the Seller and Operator look to each other for repayment and/or dispute resolution. The State recorded the proceeds from the sale of the landfill capacity to the Operator and the distribution of those proceeds to the Seller for purchase of the landfill as Special Items in the General Fund.

During the fiscal year, the State transferred the remaining $10.7 million of assets associated with the construction of the Mack Point Pier facility from the Marine Ports enterprise fund to the Maine Port Authority, a discretely presented component unit. The transfer is recorded as a Special Item in the Statement of Activities for the Business-Type Activities and Component Units

REQUIRED SUPPLEMENTARY INFORMATION

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2004
(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	$ 2,399,929	$ 2,410,058	$ 2,460,549	$ 50,491	$ 211,786	$ 210,496	$ 212,587	$ 2,091
Assessments and Other	73,124	76,135	78,786	2,651	83,385	85,190	89,220	4,030
Federal Grants	23,591	23,677	25,230	1,553	-	-	-	-
Service Charges	35,755	38,110	44,195	6,085	4,368	4,368	6,649	2,281
Income from Investments	1,652	1,288	2,452	1,164	1,128	425	720	295
Miscellaneous Revenue	79,830	82,708	72,834	(9,874)	-	2,404	3,009	605
Total Revenues	2,613,881	2,631,976	2,684,046	52,070	300,667	302,883	312,185	9,302
Expenditures								
Government Support and Operations	317,500	312,758	315,688	(2,930)	34,274	32,966	49,810	(16,844)
Economic Development and Workforce Training	50,904	51,883	48,019	3,864	-	-	-	-
Education	1,184,150	1,157,450	1,145,856	11,594	-	-	-	-
Health and Human Services	744,156	865,764	798,522	67,242	-	-	-	-
Business Licensing and Regulation	-	-	-	-	-	-	-	-
Natural Resources Development and Protection	72,283	69,886	66,608	3,278	36	36	35	1
Justice and Protection	221,707	213,257	204,628	8,629	36,306	36,088	33,116	2,972
Arts, Heritage and Cultural Enrichment	9,056	8,474	8,355	119	-	-	-	-
Transportation Safety and Development	3,829	3,601	3,601	-	232,468	278,716	200,400	78,316
Total Expenditures	2,603,585	2,683,073	2,591,277	91,796	303,084	347,806	283,361	64,445
Revenues Over (Under) Expenditures	10,296	(51,097)	92,769	143,866	(2,417)	(44,923)	28,824	73,747
Other Financing Sources (Uses)								
Operating Transfers Net	(13,420)	(11,815)	(49,728)	(37,913)	2,729	1,891	(18,551)	(20,442)
Net Other Financing Sources (Uses)	(13,420)	(11,815)	(49,728)	(37,913)	2,729	1,891	(18,551)	(20,442)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (3,124)	$ (62,912)	$ 43,041	$ 105,953	$ 312	$ (43,032)	$ 10,273	$ 53,305
Fund Balances at Beginning of Year			108,825				83,837	
Fund Balances at End of Year			$ 151,866				$ 94,110	

	Federal Funds				Other Special Revenue Fund			
	Original Budget	**Final Budget**	**Actual**	**Variance with Final Budget**	**Original Budget**	**Final Budget**	**Actual**	**Variance with Final Budget**
	$ -	$ -	$ -	$ -	$ 53,469	$ 93,588	$ 95,135	$ 1,547
	-	-	-	-	97,203	99,158	89,104	(10,054)
	2,055,625	2,646,874	2,242,318	(404,556)	10,168	10,319	6,143	(4,176)
	88,268	89,645	75,247	(14,398)	146,431	145,758	128,503	(17,255)
	-	-	337	337	2,841	2,834	696	(2,138)
	7,983	9,243	6,530	(2,713)	148,425	152,792	133,651	(19,141)
	2,151,876	2,745,762	2,324,432	(421,330)	458,537	504,449	453,232	(51,217)
	6,424	36,559	28,930	7,629	141,423	144,720	134,402	10,318
	134,773	159,911	106,915	52,996	25,282	25,837	19,090	6,747
	149,026	206,231	167,946	38,285	15,844	16,430	13,683	2,747
	1,600,816	1,975,190	1,721,871	253,319	255,444	294,325	256,379	37,946
	556	1,999	849	1,150	57,747	60,234	46,211	14,023
	32,659	67,025	50,737	16,288	95,020	103,978	71,127	32,851
	49,430	95,890	66,154	29,736	29,856	32,194	26,294	5,900
	2,724	3,181	2,504	677	961	1,619	1,113	506
	213,891	237,405	200,251	37,154	15,581	15,746	8,459	7,287
	2,190,299	2,783,391	2,346,157	437,234	637,158	695,083	576,758	118,325
	(38,423)	(37,629)	(21,725)	15,904	(178,621)	(190,634)	(123,526)	67,108
	(11,003)	(11,420)	49,625	61,045	162,825	163,960	165,525	1,565
	(11,003)	(11,420)	49,625	61,045	162,825	163,960	165,525	1,565
	$ (49,426)	$ (49,049)	$ 27,900	$ 76,949	$ (15,796)	$ (26,674)	$ 41,999	$ 68,673
			(100,606)				218,678	
			$ (72,706)				$ 260,677	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2004
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 151,866	$ 94,110	$ (72,706)	$ 260,678
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	165,822	1,144	-	5,192
Intergovernmental Receivables	1,463	-	443,131	-
Other Receivables	21,786	(14,819)	61,335	65,754
Due from Other Funds	8,081	10,310	24,714	14,082
Other Assets	(4,160)	-	(17,843)	(643)
Deferred Revenues	(37,264)	(7,211)	17,843	(23,977)
Total Revenue Accruals/Adjustments	155,728	(10,576)	529,180	60,408
Expenditure Accruals/Adjustments:				
Accounts Payable	(136,627)	(19,344)	(314,135)	(24,373)
Due to Component Units	(3,276)	(154)	(5,790)	(4,350)
Bonds Issued	2,335	1,205	-	-
Accrued Liabilities	(26,455)	(8,419)	(4,573)	(5,629)
Taxes Payable	(119,034)	-	-	-
Due to O her Funds	(26,803)	(6,373)	(98,051)	(10,041)
Total Expenditure Accruals/Adjustments	(309,860)	(33,085)	(422,549)	(44,393)
Fund Balances - GAAP Basis	$ (2,266)	$ 50,449	$ 33,925	$ 276,693

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 2003-2004, 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 6, 2003, 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 April 30, 2004, 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

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) – Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 2004	6,498,608,717	9,485,605,608	2,986,996,891	68.5%	1,472,429,214	202.9%
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
2004	251,482,848	273,482,848	108.7%
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%

Required Supplementary Information – Participating Local District 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, 2004	1,774,950,786	1,582,991,084	(191,959,702)	112.1%	292,321,815	-65.7%
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
2004	7,664,957	17,089,419	223.0%
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, 2002 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. In 2003, the Legislature relengthened the period to 25 years, 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. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 14 years remained at June 30, 2004.

The IUUAL of PLDs are amortized over periods established for each PLD separately. During fiscal year 2004 and 2003, various PLD’s contributed approximately $9.4 million and $13.9 million to decrease their initial unpooled unfunded actuarial liability, respectively.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2004 are as follows:

Investment Return – 8% per annum, compounded annually

Salary Increases – 5.5% to 9.5% per year (included inflation of 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, 2004 and 2003, the net assets held in trust for group life insurance benefits were $40.0 million and $39.0 million, respectively. At June 30, 2004 and 2003, the plan had the following actuarially determined liabilities:

	(In millions) 2004	2003
Actuarial Liabilities:		
Active Members	$ 49.2	$ 44.6
Retired Members	42.5	42.7
Total	$ 91.7	$ 87.3

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 8,716 highway miles or 17,707 lane miles of roads and approximately 2,968 bridges having a total deck area of 11.3 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.

Highways

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.

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

MDOT intends to maintain highways and bridges at an adequacy rating of 60 or higher. The following table shows adequacy ratings achieved by MDOT.

Fiscal Year	Highways	Bridges
2004	78 2	77 0
2003	77.6	76.0
2002	76.6	77.0

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
2005	$ 31	$ -
2004	30	29.7
2003	36	34.3
2002	-	41.4
2001	-	29 4
2000	-	28.9

Transportation Bonds

Chapter 38, P&S 2001, authorized $37.4 million for improvements to highways and bridges. Chapter 33, P&S 2003, authorized $42 million for improvements to highways and bridges. At June 30, 2004 $57.4 million in transportation bonds were issued. After year end the State issued an additional $22.2 million in bonds.

STATE OF MAINE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2004

STATE OF MAINE
DEPARTMENT OF AUDIT
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AUGUSTA, MAINE 04333-0066

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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, 2004, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated March 18, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Maine Educational Loan Authority, the Maine Governmental Facilities Authority, and the Maine Port 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 March 18, 2005.

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 opinions 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 04-01 through 04-04.

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, we believe that none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to management of the State of Maine in a separate letter dated March 18, 2005.

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.

Neria R Douglass

Neria R. Douglass, JD
State Auditor

March 18, 2005

STATE OF MAINE
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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, 2004. 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 Loring Development Authority, 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 Port Authority, 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, 2004. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

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

As described in items 04-40, 04-43, 04-45, 04-46, 04-50, 04-62 in the accompanying schedule of findings and questioned costs, the State of Maine did not comply with requirements regarding reporting that are applicable to its Child Care Cluster; with requirements regarding allowable costs, cash management, eligibility and reporting that are applicable to its Foster Care: Title IV-E program; and requirements regarding allowable costs and earmarking that are applicable to its Social Services Block Grant program.

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, 2004. 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 04-09, 04-30, 04-36, 04-41, 04-42, 04-44, 04-47, 04-52, 04-55, 04-62, 04-74.

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 04-05 through 04-40, 04-42 through 04-81.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 04-27, 04-40, 04-43, 04-45, 04-46, 04-50, 04-62 and 04-67 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.

Neria R Douglass

Neria R. Douglass, JD
State Auditor

May 16, 2005

STATE OF MAINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
U.S. Department of Agriculture				
Animal & Plant Health Inspection Service				
10.025	Plant & Animal Disease, Pest Control & Animal Care	Agriculture	288,523	
10.025	Plant & Animal Disease, Pest Control & Animal Care	Conservation	29,987	
10.025	Plant & Animal Disease, Pest Control & Animal Care	Inland Fisheries	44,648	
10.028	Wildlife Services	Inland Fisheries	16,718	
Natural Resources Conservation Service				
10.064	Forestry Incentives Program	Conservation	2,396	
Agricultural Marketing Service				
10.156	Federal-State Marketing Improvement Program	Agriculture	27,990	
10.162	Inspection Grading & Standardization	Agriculture	560,774	
10.163	Market Protection and Promotion	Agriculture	62,427	
Education and Extension Service				
10.200	Grants for Agricultural Research, Special Research Grants	Agriculture	7,637	
Food & Nutrition Service				
10.550	Food Donation	Corrections	80,406	
10.550	Food Donation	Education	3,641,182	
10.557	Special Supplemental Nutrition Program for WIC	Human Services	12,199,430	
10.558	Child and Adult Care Food Program	Human Services	9,408,882	**
10.560	State Administrative Expenses for Child Nutrition	Human Services	236,479	
10.560	State Administrative Expenses for Child Nutrition	Education	403,357	
10.570	Nutrition Services Incentive	Human Services	744,294	
10.572	WIC Farmers' Market Nutrition Program	Human Services	123,777	
10.574	Team Nutrition Grants	Education	85,952	
10.576	Senior Farmers Market Nutrition Program	Agriculture	904,100	
Forest Service				
10.652	Forestry Research	Conservation	600,159	
10.664	Cooperative Forestry Assistance	Conservation	20,853,251	**
10.672	Rural Development, Forestry and Communities	Conservation	29,257	
10.676	Forest Legacy Program	Conservation	1,975,300	
Natural Resources Conservation Service				
10.913	Farm and Ranch Lands Protection Program	Agriculture	1,560,753	
Food Stamp Cluster				
Food & Nutrition Service				
10.551	Food Stamps	Human Services	136,825,876	**
10.561	State Administrative Matching Grants for Food Stamp Program	Human Services	9,972,372	**
10.561	State Administrative Matching Grants for Food Stamp Program	Agriculture	2,335	**
Child Nutrition Cluster				
Food & Nutrition Service				
10.553	School Breakfast Program	Education	4,537,519	**
10.555	National School Lunch Program	Education	19,708,451	**
10.555	National School Lunch Program	Corrections	(722)	**
10.556	Special Milk Program for Children	Education	81,479	**
10.559	Summer Food Service Program for Children	Education	773,164	**
Emergency Food Assistance Cluster				
Food & Nutrition Service				
10.568	Emergency Food Assistance Program (Administrative Costs)	Agriculture	238,348	
10.569	Emergency Food Assistance Program (Commodities)	Agriculture	2,391,604	
Total U.S. Department of Agriculture Federal Programs			228,418,105	
U.S. Department of Commerce				
Economic Development Administration				
11.302	Economic Development: Support for Planning Organizations	Economic Devel	544,106	
National Oceanic & Atmospheric Administration				
11.405	Anadromous Fish Conservation Act Program	Marine Resource	56,989	
11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	148,134	
11.417	Sea Grant Support	Marine Resource	4,556	
11.419	Coastal Zone Management Administration Awards	Environment	660,817	
11.419	Coastal Zone Management Administration Awards	Marine Resource	281,035	

Federal Department Major Sub-Division Federal Catalog Number	Program Title	State Agency	Expenditures	
11.419	Coastal Zone Management Administration Awards	Agriculture	21,494	
11.419	Coastal Zone Management Administration Awards	State Planning	2,033,409	
11.420	Coastal Zone Management Estuarine Research Reserves	Conservation	170	
11.472	Unallied Science Program	Salmon Comm	1,036,195	
11.472	Unallied Science Program	Marine Resource	146,996	
11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	365,689	
National Telecommunications & Information Administration				
11.552	Technology Opportunities Program	Corrections	29,598	
National Oceanic & Atmospheric Administration				
11.999	Developing a Whiting Fishery in the Gulf of Maine	Marine Resource	1,079	
11.999	Gulf of Maine Inshore Trawl Survey	Marine Resource	235,105	
11.999	Study the Role of Seals in the Escapement of Atlantic Salmon	Marine Resource	610	
11.999	State of Maine Large Whale Take Reduction Plan	Marine Resource	31,050	
11.999	Gulf of Maine Ocean Quahog Assessment	Marine Resource	8	
11.999	Large Whale Management Plan NFWF	Marine Resource	80,511	
11.999	Large Pelagic Survey	Marine Resource	11,916	
11.999	Seasonal Movement of Atlantic Cod in the Gulf of Maine	Marine Resource	317,317	
11.999	GOM Abundance, Migration and Recruitment of Northern Shrimp	Marine Resource	34,958	
11.999	Improving Size Selectively for Northern Shrimp	Marine Resource	19,300	
11.999	Jonah Crab Survey	Marine Resource	95,102	
11.999	Jonah Crab Tags	Marine Resource	20,433	
11.999	U.S. Dept. of Commerce, NOAA, NMFS, Office of Law Enforcement	Marine Resource	361,101	
11.999	MEMA, Law Enforcement Terrorism Program	Marine Resource	233	
11.999	Right Whale Entanglement	Marine Resource	20,500	
11.999	An Evaluation of Maine Sea Cucumbers Resources	Marine Resource	4,003	
11.999	Presumpscot River Restoration	Marine Resource	264	
11.999	URI use of DODS Servers	Marine Resource	6,412	
11.999	NMFS Whale Take Reduction	Marine Resource	7,997	
11.999	Develop GEO Info Atlantic Cod	Marine Resource	88,750	
11.999	Mortality ME Lobster Fishery	Marine Resource	22,816	
11.999	NEC Scallop Enhancement	Marine Resource	54,217	
11.999	Pingguo NEC Kites	Marine Resource	20	
11.999	Kelo NEC Northern	Marine Resource	18,227	
11.999	NFWF Groundline Arc Profile Study	Marine Resource	53,290	
11.999	NFWF Maine Right Whale Recovery Plan	Marine Resource	10,519	
Total U.S. Department of Commerce Federal Programs			6,824,926	
U.S. Department of Defense				
Office of the Chief Engineers				
12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment	533,699	
National Guard Bureau				
12.400	Military Construction, National Guard	Defense	1,545,127	
12.401	National Guard Military Operations & Maintenance (O&M) Projects	Defense	11,012,999	**
12.404	National Guard Civilian Youth Opportunities	Defense	226,641	
12.999	Readiness Sustainment Maintenance Center	Defense	27,236,155	**
Total U.S. Department of Defense Federal Programs			40,554,621	
U.S. Department of Housing & Urban Development				
Housing, Department of Housing and Urban Develop.				
14.171	Manufactured Home Construction and Safety Standards	Professional Reg	75,217	
Community Planning and Development				
14.228	Community Development Block Grants / State's Program	Economic Devel	15,216,434	**
14.238	Shelter Plus Care	Human Services	3,053,633	

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures
Office of Fair Housing and Equal Opportunity			
14.401	Fair Housing Assistance Program: State and Local	Human Rights	71,709
Total U.S. Department of Housing & Urban Development Federal Programs			18,416,993
U.S. Department of the Interior			
U.S. Fish & Wildlife Service			
15.615	Cooperative Endangered Species Conservation Fund	Conservation	7,246
15.615	Cooperative Endangered Species Conservation Fund	Inland Fisheries	60,485
15.615	Cooperative Endangered Species Conservation Fund	Salmon Comm	2,000,000
15.616	Clean Vessel Act	Environment	386,044
15.622	Sportfishing and Boating Safety Act	Transportation	111,759
15.623	North American Wetlands Conservation Act	Inland Fisheries	22,762
15.625	Wildlife Conservation and Restoration	Inland Fisheries	403,733
15.633	Landowner Incentive	Conservation	14,892
Geological Survey			
15.808	U. S. Geological Survey: Research and Data Collection	Marine Resource	1,209
15.808	U. S. Geological Survey: Research and Data Collection	Financial Services	158,000
15.808	U. S. Geological Survey: Research and Data Collection	Conservation	645
15.810	Nat'l Cooperative Geologic Mapping Program	Conservation	94,634
National Park Service			
15.904	Historic Preservation Fund Grants-in-Aid	Historic Preserve	517,397
15.916	Outdoor Recreation: Acquisition, Development & Planning	Conservation	465,728
U.S. Fish & Wildlife Service			
15.999	Atlantic Salmon Management Project	Salmon Comm	239,965
15.999	Flag Island Cooperative Agreement	Inland Fisheries	7,113
15.999	North Cape Oil Spill/Loon Mitigation Fund	Salmon Comm	50,000
Fish and Wildlife Cluster			
U.S. Fish & Wildlife Service			
15.605	Sport Fish Restoration	Marine Resource	492,521
15.605	Sport Fish Restoration	Inland Fisheries	2,003,237
15.611	Wildlife Restoration	Inland Fisheries	1,782,407
Total U.S. Department of the Interior Federal Programs			8,819,777
U.S. Department of Justice			
Drug Enforcement Administration			
16.005	Public Education on Drug Abuse: Information	Public Safety	67,528
Office of Justice Programs			
16.007	State Domestic Preparedness Equipment Support Program	Defense	4,741,008
16.202	Offender Reentry Program	Corrections	274,730
16.523	Juvenile Accountability Incentive Block Grants	Corrections	1,336,008
16.523	Juvenile Accountability Incentive Block Grants	Judicial	407,067
16.523	Juvenile Accountability Incentive Block Grants	Human Services	321,800
16.541	Developing, Testing and Demonstrating Promising New Programs	Corrections	624,534
Bureau of Justice Statistics			
16.550	State Justice Statistics Program for Statistical Analysis Centers	Corrections	57,196
Office of Justice Programs			
16.554	National Criminal History Improvement Program	Public Safety	26,241
16.560	Research Evaluation and Development Project Grants	Public Safety	3,500
16.564	Crime Lab: Comb. Offender DNA Index System Backlog Reduction	Public Safety	226,989
16.575	Crime Victim Assistance	Human Services	1,813,945
16.575	Crime Victim Assistance	Corrections	4,531
16.576	Crime Victim Compensation	Attorney General	63,175
16.579	Byrne Formula Grant Program	Public Safety	1,946,516
16.579	Byrne Formula Grant Program	Attorney General	574,530
16.580	Byrne Memorial Discretionary Grant	Human Services	67,423
16.585	Drug Court Discretionary Grant Program	Human Services	25,527
16.588	Violence Against Women Formula Grants	Public Safety	1,103,901
16.588	Violence Against Women Formula Grants	Attorney General	16,549

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
16.588	Violence Against Women Formula Grants	Judicial	83,141	
16.590	Arrest Policies and Enforcement of Protection Orders Grants	Judicial	61,383	
16.592	Local Law Enforcement Block Grants Program	Public Safety	164,634	
16.593	Residential Substance Abuse Treatment for State Prisoners	Public Safety	180	
16.593	Residential Substance Abuse Treatment for State Prisoners	Corrections	265,505	
16.606	State Criminal Alien Assistance Program	Corrections	61,363	
16.607	Bulletproof Vest Partnership Program	Financial Services	19,126	
16.609	Community Prosecution and Project Safe Neighborhoods	Public Safety	31,087	
Office of Community Oriented Policing Services				
16.710	Public Safety Partnership and Community Policing Grants	Public Safety	680,913	
Office of Juvenile Justice & Delinquency Prevention				
16.727	Enforcing Underage Drinking Laws Program	Human Services	324,251	
16.730	Reduction and Prevention of Children's Exposure to Violence	Human Services	582,749	
16.733	National Incident Based Reporting System	Public Safety	35,379	
16.999	Healthy Partners of Maine	Public Safety	57	
Pass Through Federal Programs				
Office of Justice Programs				
(through Cumberland County, Maine)				
16.579	Byrne Formula Grant Program	Corrections	72,875	
16.590	Arrest Policies and Enforcement of Protection Orders Grants	Corrections	1,141	
Total U.S. Department of Justice Federal Programs			16,086,482	
U.S. Department of Labor				
Bureau of Labor Statistics				
17.002	Labor Force Statistics	Labor	1,277,703	
17.005	Compensation and Working Conditions	Labor	101,910	
Employment & Training Administration				
17.202	Certification of Foreign Workers for Temporary Agricultural Employment	Labor	294,507	
17.225	Unemployment Insurance	Labor	149,535,832	**
17.235	Senior Community Service Employment Program	Human Services	471,114	
17.245	Trade Adjustment Assistance: Workers	Labor	14,236,560	**
17.253	Welfare-to-Work Grants to States & Localities	Labor	433,623	
17.261	Employment and Training Admin Pilots, Demos and Research	Labor	135,457	
17.262	Employment and Training Administration Evaluations	Labor	240	
17.267	Workforce Investment Act Incentive Grants, Grants to States	Labor	721,582	
Occupational Safety & Health Administration				
17.502	Occupational Safety and Health: Susan Harwood Training Grants	Labor	4,372	
17.504	Consultation Agreements	Labor	553,535	
Mine Safety & Health Administration				
17.600	Mine Health and Safety Grants	Labor	45,723	
Office of the Asst Sec for Veterans' Employment & Training				
17.802	Veterans' Employment Program	Labor	991,962	
Employment Service Cluster				
Employment & Training Administration				
17.207	Employment Service	Labor	5,168,003	
Office of the Asst Sec for Veterans' Employment & Training				
17.801	Disabled Veterans' Outreach Program	Labor	483,744	
17.804	Local Veterans' Employment Representative Programs	Labor	356,556	
WIA Cluster				
Employment & Training Administration				
17.258	WIA Adult Program	Labor	2,166,104	**
17.259	WIA Youth Activities	Labor	2,870,543	**

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
17.260	WIA Dislocated Workers	Labor	12,143,162	**
17.260	WIA Dislocated Workers	Financial Services	20,438	**
Total U.S. Department of Labor Federal Programs			192,012,670	
U.S. Department of Transportation				
United States Coast Guard				
20.005	Boating Safety Financial Assistance	Public Utilities	84,089	
Aviation Administration				
20.106	Airport Improvement Program	Transportation	606,743	
Federal Motor Carrier Safety Administration				
20.217	Motor Carrier Safety	Public Safety	113,889	
20.218	National Motor Carrier Safety	State	118,561	
Federal Highway Administration				
20.219	Recreational Trails Program	Conservation	796,703	
Federal Transit Administration				
20.505	Federal Transit: Metropolitan Planning Grants	Transportation	369,855	
20.509	Formula Grants for Other Than Urbanized Areas	Transportation	2,970,145	
20.513	Capital Assistance Program for Elderly Persons & Disabled Persons	Transportation	636,488	
20.514	Transit Planning and Research	Transportation	144,333	
Federal Rail Administration				
20.999	Local Freight Assistance	Transportation	1,807	
Highway Planning and Construction Cluster				
Federal Highway Administration				
20.205	Highway Planning and Construction	Transportation	182,490,366	**
Federal Transit Cluster				
Federal Transit Administration				
20.500	Federal Transit: Capital Investment Grants	Transportation	1,836,169	
20.507	Federal Transit: Formula Grants	Transportation	1,738,812	
Highway Safety Cluster				
National Highway Traffic Safety Administration				
20.600	State and Community Highway Safety	Human Services	186,330	
20.600	State and Community Highway Safety	Public Safety	467,094	
20.603	Federal Highway Safety Data Improvement Incentive Grants	Public Safety	346,171	
20.604	Safety Incentive Grants for Use of Seatbelts	Public Safety	13,029	
20.605	Prevent Operation of Motor Vehicles by Intoxicated Persons	Public Safety	212,567	
Total U.S. Department of Transportation Federal Programs			193,133,151	
U. S. Department of Treasury				
21.999	Job and Growth Tax Relief	Financial Services	25,000,000	**
Total U.S. Department of Treasury Federal Programs			25,000,000	
Equal Employment Opportunity Commission				
30.002	Employment Discrimination: Fair Employment Practices Agency Contracts	Human Rights	242,667	
Total Equal Employment Opportunity Commission Federal Programs			242,667	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures
General Services Administration			
Office of the Secretary			
39.003	Donation of Federal Surplus Personal Property	Financial Services	577,175
39.011	Election Reform Payments	State	237,244
Total General Service Administration Federal Programs			814,419
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	59,728
45.025	Promotion of the Arts: Partnership Agreements	Arts Commission	363,462
45.026	Promotion of the Arts: Leadership Initiatives	Arts Commission	381,558
45.149	Promotion of the Humanities: Division of Preservation & Access	State Museum	57,867
45.164	Promotion of the Humanities: Public Programs	State Museum	45,000
Institute of Museum & Library Services			
45.301	Museum for America Grants	State Museum	19,363
45.302	Museum Assessment Program	State Museum	1,821
45.310	State Library Program	State Library	1,058,224
Total National Foundation on the Arts & the Humanities Federal Programs			1,987,023
U.S. Department of Veterans Affairs			
Veterans Benefits Administration			
64.101	Burial Expenses Allowance for Veterans	Defense	59,525
National Cemetery Administration			
64.203	State Cemetery Grants	Defense	222,348
Total U.S. Department of Veterans Affairs Federal Programs			281,873
U.S. Environmental Protection Agency			
Office of Air & Radiation			
66.032	State Indoor Radon Grants	Human Services	152,372
66.034	Surveys, Studies, Investigations, Demonstrations: Clean Air Act	Environment	46,508
Office of Water			
66.432	State Public Water System Supervision	Human Services	862,624
66.436	Surveys, Studies, Investigations, Demonstrations: Clean Water Act	Environment	13,897
66.454	Water Quality Management Planning	Environment	112,316
66.461	Wetland Program Grants	Environment	47,652
66.461	Wetland Program Grants	Conservation	16,965
66.463	Water Quality Cooperative Agreements	Environment	124,014
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	Environment	12,303
66.468	Capitalization Grants For Drinking Water State Revolving Fund	Human Services	1,134,028
66.472	Beach Monitoring & Notification Program Development Grants	State Planning	236,095
Office of Administration			
66.500	Environmental Protection - Consolidated Research	Conservation	63,179
66.605	Performance Partnership Grants	Environment	7,316,319
66.605	Performance Partnership Grants	Agriculture	402,401
66.606	Surveys, Studies, Investigations and Special Purpose Grants	Environment	323,903
Office of Environmental Information			
66.608	Environmental Information Exchange Network Grant Program	Environment	408,832
Office of Enforcement & Compliance Assurance			
66.709	Capacity Bldg. Grants & Cooperative Agreements for States & Tribes	Environment	154,695
Office of Prevention, Pesticides, Toxic Substances			
66.714	Pesticide Environmental Stewardship: Regional Grants	Agriculture	31,086
Office of Solid Waste & Emergency Response			
66.802	Superfund State: Specific Cooperative Agreements	Environment	221,012
66.804	State and Tribal Underground Storage Tanks Program	Environment	18,513
66.805	Leaking Underground Storage Tank Trust Fund Program	Environment	637,924
66.809	Superfund State Core Program Cooperative Agreements	Environment	261,450

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
66.817	State and Tribal Response Program Grants	Environment	336,001	
Office of Water				
66.999	Water Pollution Control: State and Local Manpower Development	Environment	34,458	
Total U.S. Environmental Protection Agency Federal Programs			12,968,547	
Nuclear Regulatory Commission				
77.001	Radiation Control: Training Assistance and Advisory Counseling	Human Services	11,852	
Total Nuclear Regulatory Commission Federal Programs			11,852	
U.S. Department of Energy				
Office of Energy Efficiency & Renewable Energy				
81.041	State Energy Program	Public Utilities	455,685	
81.117	Energy Efficiency & Renewable Energy Information Dissemination	Public Utilities	73,516	
81.119	State Energy Program Special Projects	Public Utilities	341,394	
81.999	State Housing Oil and Propane Program	State Planning	9,021	
Total U.S. Department of Energy Federal Programs			879,616	
Federal Emergency Management Agency				
Mitigation Directorate				
83.105	Community Assistance Program: State Support Services Element	State Planning	41,921	
83.536	Flood Mitigation Assistance	Defense	46,036	
Response & Recovery Directorate				
83.544	Public Assistance Grants	Defense	1,560,848	
83.544	Public Assistance Grants	Transportation	1,378,946	
83.544	Public Assistance Grants	Corrections	14,467	
83.544	Public Assistance Grants	State Planning	179,501	
Mitigation Directorate				
83.548	Hazard Mitigation Grant	Defense	420,011	
83.550	National Dam Safety Program	Defense	44,381	
Office of Financial Management				
83.552	Emergency Management Performance Grants	Defense	1,780,408	
83.557	Pre-Disaster Mitigation	Defense	231,687	
83.562	State and Local All Hazards Emergency Operations Planning	Defense	214,865	
83.563	Emergency Operations Centers	Defense	4,043	
83.564	Citizen Corps	Defense	171,699	
Total Federal Emergency Management Agency Federal Programs			6,088,813	
U.S. Department of Education				
Office of Vocational & Adult Education				
84.002	Adult Education: State Grant Program	Education	2,007,672	
84.002	Adult Education: State Grant Program	Corrections	34,206	
84.002	Adult Education: State Grant Program	Human Services	18,935	
Office of Elementary & Secondary Education				
84.010	Title I Grants to Local Educational Agencies	Education	46,429,057	**
84.011	Migrant Education: Basic State Grant Program	Education	2,354,409	
84.013	Title I Program for Neglected and Delinquent Children	Corrections	160,974	
Office of Assistant Secretary for Vocational & Adult Ed				
84.048	Vocational Education: Basic Grants to States	Education	6,363,114	
84.048	Vocational Education: Basic Grants to States	Corrections	53,040	
Office of Special Education & Rehabilitative Services				
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	Labor	15,627,045	**
84.161	Rehabilitation Services: Client Assistance Program	Labor	122,459	
84.169	Independent Living: State Grants	Labor	222,369	

Federal Department Major Sub-Division Federal Catalog Number	Program Title	State Agency	Expenditures	
84.177	Independent Living Service for Older Individuals Who are Blind	Labor	319,552	
84.181	Special Education: Grants for Infants and Families with Disabilities	Education	2,286,043	
Office of Safe and Drug-Free Schools				
84.184	Safe and Drug-Free Schools and Community: National Program	Education	62,848	
84.184	Safe and Drug-Free Schools and Community: National Program	Human Services	99,442	
Office of the Assistant Secretary for Postsecondary Ed				
84.185	Byrd Honors Scholarships	Education	174,000	
Office of Elementary & Secondary Education				
84.186	Safe and Drug-Free Schools and Community: State Grants	Education	225,901	
84.186	Safe and Drug-Free Schools and Community: State Grants	Corrections	2,992	
84.186	Safe and Drug-Free Schools and Community: State Grants	Human Services	2,303,556	
Office of Special Education & Rehabilitative Services				
84.187	Employment Services for Individuals with Severe Disabilities	Labor	434,292	
Office of Elementary & Secondary Education				
84.196	Education for Homeless Children and Youth	Education	234,440	
84.213	Even Start: State Educational Agencies	Education	933,588	
84.214	Even Start: Migrant Education	Education	249,913	
84.215	Fund for the Improvement of Education	Education	144,936	
Office of Special Education & Rehabilitative Services				
84.224	Assistive Technology	Education	403,791	
Office of Safe and Drug-Free Schools				
84.255	Literacy Program for Prisoners	Corrections	34,512	
Office of Special Education & Rehabilitative Services				
84.265	State Vocational Rehabilitation Unit In-Service Training	Labor	22,068	
Office of Elementary & Secondary Education				
84.287	Twenty First Century Community Learning Centers	Education	2,528,913	
84.298	State Grants for Innovative Programs	Education	1,862,766	
84.298	State Grants for Innovative Programs	Corrections	5,993	
84.318	Education Technology State Grants	Education	3,038,389	
84.318	Education Technology State Grants	Corrections	40,377	
84.323	Special Ed: State Program Improvement Grants for Children w/Disabilities	Education	773,624	
84.326	Tech Assist. to Improve Services & Results for Children w/ Disabilities	Education	158,251	
84.330	Advanced Placement Program	Education	503,576	
Office of Vocational & Adult Education				
84.331	Grants to States for Incarcerated Youth Offenders	Corrections	43,235	
Office of Elementary & Secondary Education				
84.332	Comprehensive School Reform Demonstration	Education	1,015,273	
Office of the Asst Sec for Postsecondary Education				
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	Education	1,368,177	
84.336	Teacher Quality Enhancement Grants	Education	421,174	
Office of Vocational & Adult Education				
84.346	Voc. Ed.: Occupational and Employment Information State Grants	Labor	143,562	
Office of Elementary & Secondary Education				
84.352	School Renovations Grants	Education	4,594,446	**
84.357	Reading First State Grants	Education	111,987	
84.358	Rural Education	Education	1,692,954	
84.365	English Language Acquisition Grants	Education	493,527	
84.367	Improving Teacher Quality State Grants	Education	13,128,126	
84.367	Improving Teacher Quality State Grants	Corrections	20,957	
84.369	Grants for State Assessments and Related Activities	Education	1,110,254	
84.999	Eisenhower Professional Development State Grants	Education	102,441	
84.999	Class Size Reduction	Education	7,797	
84.999	Title I Accountability Grants	Education	60,182	
84.999	Goals 2000: State and Local Education Systemic Improvement Grants	Corrections	698	
Special Education Cluster				
Office of Special Education & Rehabilitative Services				
84.027	Special Education: Grants to States	Education	43,383,504	**

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
84.027	Special Education: Grants to States	Corrections	38,506	**
84.173	Special Education: Preschool Grants	Education	2,573,819	**
Total U.S. Department of Education Federal Programs			160,547,662	
National Archives & Records Administration				
89.003	National Historical Publications and Records Grants	State	51,968	
Total National Archives & Records Administration Federal Programs			51,968	
U.S. Department of Health & Human Services				
Administration on Aging				
93.003	Public Health and Social Services Emergency Fund	Public Safety	26,963	
93.041	Title VII, Programs for Prevention of Elder Abuse, Neglect and Exploitation	Human Services	21,798	
93.042	Title VII, Long Term Care Ombudsman Services for Older Individuals	Human Services	67,683	
93.043	Title III, Part D-Disease Prevention and Health Promotion Services	Human Services	100,577	
93.048	Special Programs for the Aging-Title IV-and Title II-Discretionary Projects	Human Services	196,947	
93.051	Alzheimer's Disease Demonstration Grants	Human Services	151,086	
93.052	National Family Caregiver Support	Human Services	639,253	
Health Resources & Services Administration				
93.110	Maternal and Child Health Federal Consolidated Programs	Human Services	857,000	
93.110	Maternal and Child Health Federal Consolidated Programs	Health Data	70,049	
Centers for Disease Control & Prevention				
93.116	Project Grants and Cooperative Agreements for Tuberculosis Control Program	Human Services	264,081	
Administration for Children & Families				
93.127	Emergency Medical Services for Children	Public Safety	55,491	
Health Resources & Services Administration				
93.130	Primary Care Services Resource Coordination and Development	Human Services	243,382	
Centers for Disease Control & Prevention				
93.136	Injury Prevention and Control Research and State and Community Based Programs	Human Services	29	
Substance Abuse & Mental Health Service Administration				
93.150	Projects for Assistance in Transition from Homelessness	Human Services	308,934	
Health Resources & Services Administration				
93.165	Grants for State Loan Repayment	Human Services	176,313	
Centers for Disease Control & Prevention				
93.197	Childhood Lead Poisoning Prevention Projects	Human Services	262,146	
Substance Abuse & Mental Health Service Administration				
93.230	Consolidated Knowledge Development and Application Program	Human Services	3,865,035	
93.230	Consolidated Knowledge Development and Application Program	Corrections	20,896	
Health Resources & Services Administration				
93.235	Abstinence Education	Human Services	171,629	
Substance Abuse & Mental Health Service Administration				
93.238	Treatment Outcomes & Performance Pilot Studies Enhancement	Human Services	90,620	
93.238	Treatment Outcomes & Performance Pilot Studies Enhancement	Human Services	26,384	
Health Resources & Services Administration				
93.241	State Rural Hospital Flexibility Program	Human Services	174,190	
National Institutes of Health				
93.242	Mental Health Research Grants	Human Services	13,461	
Substance Abuse & Mental Health Service Administration				
93.243	Projects of Regional & National Significance	Judicial	242,021	
93.243	Projects of Regional & National Significance	Human Services	85,786	
Health Resources & Services Administration				
93.259	Rural Access to Emergency Devices Grant	Public Safety	261,993	
Centers for Disease Control & Prevention				
93.268	Immunization Grants	Human Services	8,645,695	**
93.283	CDC: Investigations and Tech Assistance	Education	69,581	
93.283	CDC: Investigations and Tech Assistance	Human Services	7,408,608	
93.283	CDC: Investigations and Tech Assistance	Conservation	9,960	

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
Administration for Children & Families				
93.556	Promoting Safe and Stable Families	Human Services	1,038,128	
93.556	Promoting Safe and Stable Families	Corrections	64,293	
93.558	Temporary Assistance for Needy Families	Human Services	65,377,087	**
93.563	Child Support Enforcement	Human Services	15,500,971	**
93.566	Refugee and Entrant Assistance: State Administered Programs	Human Services	419,197	
93.569	Community Services Block Grant	Human Services	3,286,795	
93.571	Community Services Block Grant Discretionary Awards	Human Services	13,772	
93.576	Refugee and Entrant Assistance: Discretionary Grants	Education	111,763	
93.586	State Court Improvement Program	Judicial	121,629	
93.597	Grants to States for Access and Visitation Programs	Human Services	100,000	
93.597	Grants to States for Access and Visitation Programs	Judicial	127,606	
93.600	Head Start	Human Services	103,185	
93.603	Adoption Incentive Payments	Human Services	92,414	
93.617	Voting Access for Individuals with Disabilities: Grants to States	State	36,478	
93.630	Development Disabilities Basic Support and Advocacy Grants	Human Services	565,744	
93.631	Developmental Disabilities Projects of National Significance	Human Services	25,000	
93.643	Children's Justice Grants to States	Human Services	62,592	
93.645	Child Welfare Services: State Grants	Human Services	152,562	
93.645	Child Welfare Services: State Grants	Attorney General	606,023	
93.658	Foster Care: Title IV-E	Human Services	10,662,431	**
93.659	Adoption Assistance	Human Services	12,704,947	**
93.667	Social Services Block Grant	Human Services	12,994,223	**
93.669	Child Abuse and Neglect State Grants	Human Services	57,923	
93.669	Child Abuse and Neglect State Grants	Judicial	65,003	
93.671	Family Violence Prevention & Services/Grants for Battered Women's Shelters	Human Services	715,220	
93.674	Chafee Foster Care Independent Living	Human Services	695,572	
Centers for Medicare and Medicaid Services				
93.767	State Children's Insurance Program	Human Services	23,206,419	
93.779	CMS Research, Demonstrations and Evaluations	Human Services	201,240	
93.779	CMS Research, Demonstrations and Evaluations	Governor	55,318	
Health Resources & Services Administration				
93.913	Grants to States for Operation of Offices of Rural Health	Human Services	80,493	
Centers for Disease Control & Prevention				
93.919	State Based Comprehensive Breast & Cervical Cancer Early Detection Programs	Human Services	1,860,824	
93.938	Comprehensive School Health Programs	Education	626,679	
93.940	HIV Prevention Activities: Health Department Based	Human Services	2,016,447	
93.944	HIV/AIDS Surveillance	Human Services	120,650	
93.945	Assistance Programs for Chronic Disease Prevention and Control	Human Services	1,094,274	
Health Resources & Services Administration				
93.952	Improving EMS/Trauma Care in Rural Areas	Public Safety	28,483	
Substance Abuse & Mental Health Service Administration				
93.958	Block Grants for Community Mental Health Services	Human Services	1,614,185	
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Human Services	6,544,011	
Centers for Disease Control & Prevention				
93.977	Prevention Health Services: Sexually Transmitted Diseases Control Grant	Human Services	306,615	
93.988	Diabetes Control Programs & Evaluation of Surveillance Systems	Human Services	337,438	
93.991	Preventive Health and Health Services Block Grant	Human Services	1,093,303	
93.991	Preventive Health and Health Services Block Grant	Education	40,000	
Health Resources & Services Administration				
93.994	Maternal and Child Health Services Block Grant to the States	Human Services	3,493,310	
93.994	Maternal and Child Health Services Block Grant to the States	Education	147,754	
Health & Human Services				
93.999	Implementation of Uniform Alcohol & Drug Abuse Data Collection System	Human Services	1,908	
Aging Cluster				
Administration on Aging				
93.044	Grants for Supportive Services & Senior Centers	Human Services	1,999,732	
93.045	Special Programs for the Aging: Title III, Part C: Nutrition Service	Human Services	2,813,095	
93.045	Special Programs for the Aging: Title III, Part C: Nutrition Service	Attorney General	37,537	

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
Child Care Cluster				
Administration for Children & Families				
93.575	Child Care & Development Block Grant	Human Services	15,647,936	**
93.596	Child Care Mandatory & Matching Funds of the Child Care and Dev. Fund	Human Services	8,811,475	**
Medicaid Cluster				
Office of the Secretary				
93.775	State Medicaid Fraud Control Units	Attorney General	371,490	**
Centers for Medicare and Medicaid Services				
93.777	State Survey and Certification of Health Care Providers and Suppliers	Human Services	718,397	**
93.778	Medical Assistance Program	Human Services	1,439,542,052	**
93.778	Medical Assistance Program	Attorney General	241,526	**
Total U.S. Department of Health & Human Services Federal Programs			1,663,280,740	
Corporation for National & Community Service				
94.003	State Commissions	State Planning	131,539	
94.004	Learn and Serve America: School and Community Based Programs	Education	350,975	
94.006	AmeriCorps	State Planning	353,435	
94.006	AmeriCorps	Labor	568,360	
94.007	Planning and Program Development Grants	State Planning	32,524	
94.009	Training and Technical Assistance	State Planning	96,136	
94.013	Volunteers in Service to America (VISTA)	State Planning	119,611	
94.013	Volunteers in Service to America (VISTA)	Human Services	303,178	
Total Corporation for National & Community Service Federal Programs			1,955,758	
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security				
96.001	Social Security: Disability Insurance	Human Services	7,722,616	**
Total Social Security Administration Federal Programs			7,722,616	
Department of Homeland Security				
97.004	State Domestic Preparedness Equipment Support	Defense	569,708	
97.004	State Domestic Preparedness Equipment Support	Public Safety	103,586	
97.005	State and Local Homeland Security Training Program	Public Safety	63,931	
97.012	Boating Safety Financial Assistance	Inland Fisheries	503,804	
97.021	Hazardous Materials Assistance Program	Defense	20,000	
97.036	Public Assistance Grants	Defense	4,180,324	
Total Department of Homeland Security Federal Programs			5,441,353	
Total State Expenditures of Federal Awards			2,591,541,632	

State of Maine
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2004

Legend of State Agency Abbreviations

Abbreviation	**State Agency Name**
Agriculture	Department of Agriculture
Arts Commission	Maine Arts Commission
Attorney General	Department of the Attorney General
Conservation	Department of Conservation
Corrections	Department of 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
Governor	Governor’s Office
Health Data	Department of Health Data Organization
Historic Preserve	Maine Historical Preservation Commission
Human Rights	Maine Human Rights Commission
Human Services	Department of Health and Human Services
Inland Fisheries	Department of Inland Fisheries and Wildlife
Judicial	Judicial Branch
Labor	Department of Labor
Marine Resource	Department of Marine Resources
Professional Reg	Department of Professional and Financial Regulation
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	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, 2004

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. On October 1, 2003, the federal government established the Department of Homeland Security. Federal funds expended prior to the department's existence have been reported using the CFDA numbers then in effect.

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, 2004, with the exception of the discrete component units identified in Note 1 to the BFS. The discrete 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, food stamp EBT cards 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 $7.8 million in expenditures, distributions, or issuances for the year ended June 30, 2004. Programs audited as major programs are 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.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONT.)

3. Program Information

A. Department of Education - Food Donation Program (CFDA 10.550): The reported total of federal financial assistance represents the $3,641,182 value of food commodities distributed to various schools, institutions, and other qualifying entities. No inventory was on hand at June 30, 2004.

B. Department of Health and Human Services - Food Stamps (CFDA 10.551): The food stamp program is administered through Electronic Benefit cards that provide each eligible client with an authorized limit of service (specific food products). There are instances when clients move out of state and the use of the EBT card is not possible. These out-of-state clients are converted to the use of Food Stamp coupons. The reported total federal financial assistance of $136,825,876 consists of actual disbursements for client purchases of authorized food products via the EBT card program, plus the dollar value of Food Stamp coupons issued.

C. Department of Health and Human Services - Nutrition Services Incentive (CFDA 10.570): Of the amount reported, $671,045 represents cash in lieu of commodities expended in the program.

D. Department of Health and Human Services –Immunization Grants (CFDA 93.268): The reported total of federal financial assistance represents $2,530,190 for administrative costs and $6,115,505 for the value of vaccines disbursed. The value of inventory as of June 30, 2004 was $1,318,097.

E. Department of Agriculture - Emergency Food Assistance Cluster - The reported total of federal financial assistance includes administrative costs of $238,348 (CFDA 10.568) and commodities of $2,391,604 (CFDA 10.569). The value of inventory at June 30, 2004 was $470,804.

F. Department of Defense, Veterans and Emergency Management - National Guard Military Operations & Maintenance Projects (CFDA 12.401), and Readiness Sustainment Maintenance Center Project (CFDA 12.999): The amount recorded as expenditures includes $2,086,533, and $1,880,480 of in-kind expenditures, respectively.

G. General Service Administration – Donation of Federal Surplus Property (CFDA 39.003): During fiscal year 2004 the state received $497,586 worth of federal property and disbursed $577,175. The value of inventory at June 30, 2004 was $570,375.

4. Unemployment Insurance Program

The expenditures reported on the Schedule for Unemployment Insurance (CFDA 17.225), include:

State Funds	$118,966,357
Federal Funds	30,569,475
Total	$149,535,832

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

Section I – Summary of Auditor's Results

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified	
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:	Qualified	
Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	YES ☑	NO ☐

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
Food Stamp Cluster	
10.551	Food Stamps
10.561	State Administrative Matching Grants for Food Stamp Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
Workforce Investment Act Cluster	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers

Section I – Summary of Auditor's Results

<u>Identification of Major Programs (continued)</u>

<u>Special Education Cluster</u>

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

<u>Child Care Cluster</u>

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

<u>Medicaid Cluster</u>

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)

<u>Other Programs</u>

10.558	Child and Adult Care Food Program
10.664	Cooperative Forestry Assistance
12.401	National Guard Military Operations Maintenance Projects
12.999	Readiness, Sustainment Maintenance Center (Loring Rebuild)
14.228	Community Development Block Grants/State's Programs
17.225	Unemployment Insurance
17.245	Trade Adjustment Assistance - Workers
20.205	Highway Planning and Construction
21.999	Job and Growth Tax Relief
84.010	Title I Grants to Local Educational Agencies
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.352	School Renovation 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
96.001	Social Security - Disability Insurance

Dollar threshold used to distinguish between type A and type B programs: $7,774,625

Does the auditee qualify as low risk? YES ☐ NO ☑

Section I – Summary of Auditor's Results

<u>Summary of Questioned Costs:</u>

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Education • Department of Labor, Division of Rehabilitative Services	84.126	Vocational Rehabilitation Grants to States	$13,025	04-74
U.S. Department of Health and Human Services • Department of Health and Human Services, Division of Program Accounting and Cash Management Operations	93.268	Immunization Grants	$390,085	04-30
U.S. Department of Health and Human Services • Department of Health and Human Services, Division of Program Accounting and Cash Management Operations	93.558	Temporary Assistance for Needy Families	$931,742	04-62
U.S. Department of Health and Human Services • Department of Health and Human Services, Division of Program Accounting and Cash Management Operations	93.563	Child Support Enforcement	$101,331	04-36

Section I – Summary of Auditor's Results

Summary of Questioned Costs (continued):

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Health and Human Services				
• Department of Health and Human Services, Bureau of Child and Family Services	93.658	Foster Care	$18,999 $19,196 $38,267	04-41 04-42 04-43
	93.659	Adoption Assistance	$34,831	04-47
• Department of Health and Human Services, Division of Program Accounting and Cash Management Operations	93.658	Foster Care	$530,340 $12,400,000 $420,224 $22,881	04-44 04-45 04-46 04-62
U.S. Department of Health and Human Services				
• Department of Health and Human Services, Community Services Center	93.667	Social Services Block Grant	$1,900,000	04-50
• Department of Health and Human Services, Division of Program Accounting and Cash Management Operations	93.667	Social Services Block Grant	$766,758	04-62

Section I – Summary of Auditor's Results

Summary of Questioned Costs (continued):

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Health and Human Services				
• Department of Health and Human Services, Bureau of Medical Services/Bureau of Child and Family Services	93.778	Medical Assistance Program	$7,462	04-55
• Department of Health and Human Services, Bureau of Family Independence/Division of Technology Services	93.778	Medical Assistance Program	$40,266	04-52
• Department of Health and Human Services, Division of Program Accounting and Cash Management Operations	93.778	Medical Assistance Program	$257,907	04-62
U.S. Department of Health and Human Services				
• Department of Administrative and Financial Services, Bureau of Information Services	Various	Various	$788,965	04-09
	Total Questioned Costs		**$18,682,279**	

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

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 financial condition. However, we identified weaknesses in the State's controls over financial reporting that limit the State's ability to capture accurate and complete information from its accounting system.

We note that 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.

Capital Assets

The Office of the State Controller did not have controls in place to ensure accurate compilation of capital assets. Construction in progress and equipment were overstated by $3.5 and $1.6 million respectively. Of this amount, $2.8 million was corrected for financial statement presentation. Additionally, the draft note to the financial statements contained material errors in the section which details the capital additions and deletions. All identified errors were corrected for note presentation.

Lottery Accounts Receivable

The Division of Financial and Personnel Services has insufficient procedures to reconcile accounts receivable recorded in the State's accounting system to reports provided by the service provider for on-line instant lottery games. Furthermore, as of June 30, 2004, the amended reconciliation revealed an unspecified variance of $1.3 million.

Interfund Payables, Receivables and Transfers

Statewide procedures to record interfund payables, receivables, and transfers do not ensure complete and accurate recording of financial statement balances required by *Generally Accepted Accounting Principles (GAAP).* Audit adjustments were required to properly reflect a decrease in Fund balance for the General Fund of $19.5 million, an increase in Fund Balance for the Federal Expenditure Fund of $10.1 million and an increase in Net Assets for Non-Major Enterprise Funds of $1.3 million. The Office of State Controller did not provide sufficient analysis to support the detailed presentation of interfund transfers in the Notes to the Financial Statements.

State of Maine
Department of Administrative and Financial Services

(04-01) Office of the State Controller

<u>Finding</u>: Inadequate controls for accurate recording of capital assets **(Prior Year Finding)**

The Office of the State Controller is responsible for monitoring agencies for compliance with the State's fixed asset policies that are designed to ensure complete and accurate recording of the State of Maine's capital assets. Agency employees responsible for oversight of agency capital assets did not demonstrate a clear understanding of State policies, particularly: proper valuation of assets, performing physical inventories, and timely addition or deletion of new or retired capital assets.

The Office of the State Controller relied on the Division of Financial and Personnel Services for information on the State's construction projects in progress as of June 30, 2004. Controls were not in place to ensure an accurate compilation of this listing, resulting in the overstatement of construction-in-progress by $3.5 million. Of this amount, $1.2 million was corrected for financial statement presentation.

The Office of the State Controller incorrectly capitalized internally-developed software associated with the new Medicaid computer system. Controls were lacking, resulting in equipment assets being overstated by $1.6 million. The identified error was corrected for financial statement presentation.

Additionally, the draft note to the financial statements contained material errors in the section which details the capital assets additions and deletions. Ending balances of those assets were materially correct. Additions to the value of construction-in-progress were understated by $24 million and deletions were understated by $26 million. Additions to the value of buildings were understated by $28 million and deletions were overstated by $4 million. Additions to the value of equipment were overstated by $9 million and deletions were understated by $3 million. Accumulated depreciation was also misstated, though less significantly. The identified errors were corrected for note presentation.

<u>Recommendation:</u>

We recommend that the Office of the State Controller direct each agency to follow the internal control policies established in the fixed asset manual, and provide complete and accurate information for its financial reporting. The Office of the State Controller should monitor agencies and determine whether recorded amounts appear reasonable.

Auditee Response/Corrective Action Plan:

Contact: Douglas Cotnoir, Manager, Financial Reporting, 626-8428

We are continuing to refine the process to ensure that agencies reconcile their fixed assets records at year end. Likewise, we have devoted specific resources to monitoring agencies' compliance with internal control and reporting requirements related to fixed assets, as well as providing guidance to agencies in carrying out their responsibilities related to fixed asset management and reporting. Additionally, we will work with the auditors earlier in the process to ensure that the methodologies and assumptions used to calculate fixed asset-related adjustments and balances are acceptable.

(04-02) Office of the State Controller

Finding: Inadequate controls for accurate recording of interfund payables and receivables

The procedures of the Office of the State Controller for recording interfund payables and receivables did not ensure complete and accurate recording of financial statement balances as required by Generally Accepted Accounting Principles (GAAP).

To properly reflect interfund balances, the Department of Audit proposed six adjustments totaling approximately $25 million. These adjustments had the net effect of decreasing Fund Balance for the General Fund by $19.5 million, increasing Fund Balance for the Federal Fund by $10.1 million, and increasing Net Assets for Non-Major Enterprise Funds by $1.3 million.

The current procedure used by the State Controller's Office to record interfund balances is susceptible to misstatement because of the complex nature of items comprising interfund balances and limited resources for adequate review and verification of such complex transactions.

Recommendation:

We recommend that the Office of the State Controller evaluate alternatives to the current accounting methodology and implement more efficient and effective procedures.

Auditee Response/Corrective Action Plan:

Contact: Douglas Cotnoir, Manager, Financial Reporting, 626-8428

We have modified the year end "closing package" for State agencies to include the types of items listed above as part of the necessary reporting and reconciliation packages. We are also looking into developing more efficient methods for calculating and reporting interfund balances at year end, including data extracts and audit control language (ACL) software functionality to summarize and cross-match related data.

(04-03) Office of the State Controller

Finding: Inadequate controls for accurate reporting of interfund transfers

The Office of the State Controller lacked procedures to ensure that interfund transfers were completely and accurately reported on the financial statements. The required detail for proper note disclosure and financial statement presentation was insufficient.

Recommendation:

We recommend that the Office of the State Controller develop procedures to improve interfund transfers and ensure complete and accurate reporting of interfund transfers with detailed notes.

Auditee Response/Corrective Action Plan:

Contact: Douglas Cotnoir, Manager, Financial Reporting, 626-8428

Unfortunately, the individual responsible for reconciling and reporting transfers left during the course of the audit. Although a significant amount of work had been completed to document and reconcile transfers, an unrecoverable computer failure corrupted most of the data supporting the calculations. Since the close of the audit, we have reassigned responsibility for and completely redesigned the process for reconciling and reporting transfers. Information necessary for audit will be made available much earlier in the process than ever before.

Department of Administrative and Financial Services

(04-04) Division of Financial and Personnel Services

<u>Finding</u>: Insufficient controls over account receivable

The Division of Financial and Personnel Services (DFPS) did not adequately reconcile the State's accounts receivable detail to reports of on-line and instant lottery games service-providers. Further, a $1.3 million account receivable variance existed between the State and the service-provider at fiscal year end.

DFPS did not timely identify lottery ticket sales missing from the State's accounting system, nor did they properly reflect them as a reconciling item after discovery. In addition, the State's lottery service provider does not provide the State a report detailing the total accounts receivable by lottery agent.

<u>Recommendation:</u>

We recommend that the Division:

- Work with the lottery service provider to develop a detailed receivable report by lottery agent;
- Identify the cause of the $1.3 million variance.

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

Contact: Carol W. Cody, Managing Staff Accountant, 624-7385

DFPS agrees that there should be a receivable report as part of the software developed by the outside vendor. They have been in contact with the Director of the Bureau of Alcoholic Beverages & Lottery Operations regarding the unavailability of a receivable report by lottery agent. At this time, there are no plans to implement a change to the software. DFPS accounting plans to meet with the outside vendor at the beginning of fiscal year 2006 to explore the possibility of using different reports from the lottery system to arrive at an accurate instant and online receivable balance.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

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 five exceptions that effect their operations.

The Department accumulated working capital reserves in an Internal Service Fund in excess of those allowed by federal regulations. The Fund had an excess reserves balance of $4,327,581, of which $788,965 is attributable to federal charges. This finding was reported in the prior year's report, and the Department took corrective actions to reduce the excess reserve balance to comply with federal regulations. The timing and issuance of our report, requires that the finding be repeated in the current year.

The Office of State Controller (OSC) is responsible for the preparation of the Schedule of Expenditures of Federal Awards (SEFA) detailing total federal financial assistance expended for the State fiscal year. They rely on information submitted by various State agencies to prepare the document. The information submitted by the Department of Health and Human Services was not complete or accurate in ten of the federal programs we audited. The amount initially reported to the OSC as expenditures, exceeded the actual expenditures as determined by our audit by $46,528,870. As a result, the SEFA was materially misstated as originally prepared. Adjustments were made by both the OSC and the Department of Audit to correct the SEFA.

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 conditions to the Division:

The Department of Education did not draw funds for the Special Education-Grants to States program in accordance with the Cash Management Improvement Act (CMIA) agreement between the State of Maine and the U.S. Department of the Treasury. The Division does not have internal control procedures in place to ensure that draws are made four days after the disbursement of funds as required by the CMIA agreement; the draw of funds varied from seven days before to 14 days after the related disbursement for the five transactions selected for testing. In addition, internal control procedures developed to ensure that subrecipients comply with federal cash management requirements were not followed. The division is now responsible for monitoring subrecipient cash balances, for the DOE, and withholding payments for those subrecipients with excessive cash balances. The process was not followed in five of 21 instances tested.

Department of Administrative and Financial Services

(04-05) Division of Financial and Personnel Services

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

Finding: Inadequate internal control over cash management **(Prior Year Finding)**

The Department of Administrative and Financial Services 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 no sooner than four days after the related disbursements in accordance with the average clearance funding method. The five draws selected for review in the Special Education Program, varied from seven days *before* to 14 days *after* the related disbursement.

Recommendation:

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

Auditee Response/Corrective Action Plan:

Contact: Diane J. Williamson, Chief Accountant, 624-7406

We acknowledge that errors were made in the past. The Education Accounting Group now has procedures in effect that will ensure that compliance is adhered to. The Chief Accountant developed a form that is to be completed each month when a check file is to be released to MFASIS. This form calculates when cash needs to be deposited. We are also working with Treasury on a quarterly basis to ensure compliance. DFPS Chief Accountant and a Staff Accountant are working with American Management System and the Office of the Controller to ensure that the upgrade to the State's accounting system will facilitate accurate, timely draws for the various funding techniques.

Department of Administrative and Financial Services

(04-06) Division of Financial and Personnel Services

Special Education Grants to States
Title I Grants to Local Educational Agencies **Questioned Costs:** None
CFDA#: 84.027, 84.010
Federal Award Number: Various

Finding: Overriding of internal control procedures over subrecipients' cash balances

Internal control procedures, developed to ensure that subrecipients comply with cash management requirements, were not followed. The Department of Administrative and Financial Services (DAFS) is responsible for making cash draws for the Department of Education's (DOE) federal programs. DAFS is also responsible for monitoring subrecipient cash balances and, in the case of electronic interface payments, for withholding payment to the subrecipient if their cash balance is excessive. DOE is responsible for withholding payments to those subrecipients with excessive cash balances in situations where the payments are made manually. The process of withholding additional funding was not followed in five of twenty-one instances:

- DOE did not withhold "manual payments" to three subrecipients, although they had been identified as having excess federal cash on hand;
- DAFS did not withhold payment to one subrecipient, although it had not submitted cash management reports for the year;
- DAFS did not withhold payment to one subrecipient, although it had not submitted cash management reports for the year because of financial hardships. DAFS was instructed by DOE management to release the payment to the subrecipient, regardless of the lack of a cash management report.

Recommendation:

We recommend that the Department of Administrative and Financial Services follow internal control procedures it has designed to reasonably ensure that subrecipients comply with cash management requirements and that management should refrain from overriding these controls.

Auditee Response/Corrective Action Plan:

Contact: John Kierstead, Consultant, Exceptional Children, DOE, 624-6650
Diane Williamson, Chief Accountant, DFPS, 624-7406

Department of Education program staff will ensure compliance with internal cash management control procedures.

A new DFPS employee, who was not familiar with the Grant Accounting System, let this payment through which should have been withheld. All staff are now trained to check subrecipient cash balances before making payments.

(04-07) Office of the State Controller

Medical Assistance Program **Questioned Costs**: None
CFDA: 93.775, 93.777, 93.778
Federal Award Number: 0405ME5028, 0405ME5048

Finding: Medicaid State Plan Amendment results in inequities

The Department of Health and Human Services received approval from the Centers for Medicare & Medicaid Services (CMS) for a Medicaid State Plan Amendment. The Amendment increased payments to eleven hospitals for inpatient services; the enhanced payments were funded 1/3 by the State's General Fund and 2/3 with federal Medicaid dollars.

The enhanced payments to the providers were an initial step by the State to equalize its health insurance payments for different user groups. The Bureau of Medical Services advised CMS that the State would reduce funds for State employee health costs and appropriate $8 million more for the enhanced Medicaid payments. The federal participation was expected to be $17 million for a total additional Medicaid expenditure of $25 million.

The State ultimately realized nearly a three for one benefit from implementation of the plan. The State and University System reduced their payments to Anthem for employee health insurance by $25 million. The hospitals received enhanced Medicaid payments of $25 million. Ten of the eleven hospitals, which received the enhanced payments, were asked to negotiate rate reductions with Anthem for State employees of $25 million and actually reduced their bills to Anthem by $23 million. The State and University System subsequently agreed to pay Anthem the difference between the amount it received from the State and the healthcare rate reductions from the hospitals.

Although the State received CMS approval for the plan amendment, the reduction of rates for State Employee Healthcare by an amount so closely equivalent to the enhanced Medicaid rate appears not to have been in accord with CMS stated policy objectives.

Recommendation:

We recommend that the State clarify how all relevant information has been provided when requesting federal approval for State Plan amendments.

Department of Administrative and Financial Services

Auditee Response/Corrective Action Plan:

Contact: Edward Karass, State Controller, 626-8420

We do not agree with the Auditor's conclusions. The State answered the questions posed by CMS. Additionally, we sought advice from the Office of the Attorney General to ensure that we complied with federal and state laws and regulations.

(04-08) Office of the State Controller

Various **Questioned Costs**: None
CFDA: Various
Federal Award Number: Various

Finding: Inaccurate financial information provided by the Department of Health and Human Services for Schedule of Expenditures of Federal Awards reporting

The Department of Health and Human Services (DHHS) did not provide complete or accurate federal expenditure information by program to the Office of the State Controller for inclusion on the Schedule of Expenditures of Federal Awards (SEFA). As a result, the SEFA was materially misstated as originally prepared. As initially presented, the financial information excluded direct costs recorded in certain accounts for some programs. It also excluded certain indirect, allocated, and non-cash expenditures. The following table compares cash basis expenditures as initially reported to actual cash basis expenditures supported by audit testing:

Program	CFDA Number	Federal Award Number	Reported Expenditures	Actual Expenditures
Food Stamps (Admin. Portion)	10.561	2003 & 2004IS2514	5,894,974	9,974,707
Immunization Grants (Operating Portion)	93.268	H23/CCH2258-01 & 02	3,087,361	2,530,190
TANF	93.558	0301 & 0401METANF	72,161,876	65,048,526
Child Support Enforcement	93.563	0304 & 0404ME4004	9,576,578	15,641,043
Child Care & Develop. Block Grant	93.575	G301 & G401MECCDF	5,662	25,901,567
Child Care Mandatory & Match Funds	93.596	G301 & G401MECCDF	36,322,358	8,811,475
Foster Care	93.658	0301 & 0401ME1401	14,808,622	12,993,567
Adoption Assistance	93.659	0301 & 0401ME1407	19,079,004	12,704,952
Social Services Block Grant	93.667	G0301 & G0401MESOSR	10,455,968	12,525,960
Medicaid	93.778	0405ME5028 & 5048	1,458,052,429	1,416,783,705

The SEFA has been adjusted to correct these errors.

Recommendation:

We recommend that the Department of Health and Human Services include all reportable expenditures of federal funds in submitting SEFA amounts to the Office of the State Controller. We recommend that the Department report these expenditures correctly by program. We further recommend that the Office of the State Controller ensure that the information it compiles is reasonable and reconciled to supporting accounts.

Auditee Response/Corrective Action Plan:

Contact: Douglas Cotnoir, Manager, Financial Reporting, 626-8428

We agree that the original amounts reported in the draft SEFA were erroneous. The draft was prepared with the understanding that significant variances existed between amounts reported by DHHS in the SEFA and amounts reported in the accounting system and on federal financial reports. We devoted a significant amount of time to assisting DHHS in reconciling their SEFA worksheets, in conjunction with the auditors, in order to appropriately incorporate necessary adjustments. We have developed and delivered specific training courses targeted to SEFA preparation and reconciliation for all State agencies. Likewise, we continue to refine this training and improve the instructional materials distributed to State agencies at the close of each fiscal year. We intend to work with DHHS more proactively in the future to ensure that initial SEFA submissions are as accurate as possible.

(04-09) Bureau of Information Services

CFDA#: Various **Questioned Costs:** $788,965
Federal Award Number: Various

Finding: Excess working capital reserve balance **(Prior Year Finding)**

The Department of Administrative and Financial Services (DAFS) had "excess working capital reserves" of $6,010,858 for the Bureau of Information Services (BIS) included in the cost allocation plan for fiscal year 2004, submitted to the U.S. Department of Health and Human Services (USDHHS) in January of 2005. This amount exceeds the 60 days excess working capital reserve allowed by Attachment C of Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments,* Section G(2). The cost allocation plan charges State departments and agencies for central services through an internal service fund, and federal regulations limit the reserves that can be accumulated for such services.

DAFS detected an error on March 22, 2005 and submitted a revised plan using the amount of $4,327,581 (still in excess of the amount allowed) as a component of these central costs for BIS. The federal share of the excess reserve is $788,965.

Department of Administrative and Financial Services

Recommendation:

We recommend that the Department:

- Monitor working capital reserves to ensure that they comply with provisions of Office of Management and Budget Circular A-87;
- Implement internal controls to ensure that accurate reports are submitted to USDHHS.

Auditee Response/Corrective Action Plan:

Contact: Carol Elsemore, Managing Staff Accountant, 624-7383
DAFS, Division of Financial and Personnel Services

As a result of the prior year audit finding with questioned costs of $613,212, the Bureau of Information Services { BIS } has taken steps to comply with OMB Circular A-87 as follows:

- *In September 2004, BIS reduced the rates charged to State of Maine agencies for many of BIS' services. The lower rates will help ensure that future excess retained earnings will not be created or will be kept to a minimum.*
- *In December 2004, BIS returned excess retained earnings to State of Maine agencies in the form of rebates. Rebates were equitably made to all funds: general, special revenue and proprietary. The total amount rebated was $1,017,000 and, of that amount, $185,000 was rebated federal grant funds. State agencies were advised to apply their federal rebates in compliance with OMB Circular A-87 Section G-4 (b) with credits to the amounts charged to individual programs.*
- *The excess retained earnings in both FY04 and the prior year are based upon a retained earnings reserve of 60 days working capital. However, OMB Circular A-87 says a working capital reserve exceeding 60 days may be approved in exceptional cases. In discussions with federal DHHS, we find that technology costs are considered exceptionally high and a higher reserve may be approved. BIS and DAFS hope that a higher reserve will be allowed for this technology fund in future years.*

Accountants at the Department of Administrative and Financial Services have had much contact during FY05 with a federal auditor from US DHHS, Program Support Center, Financial Management Service, and Division of Cost Allocation.

- *The federal auditor is examining the prior year's questioned costs and the federal funds that were rebated. The federal auditor is reviewing how State agencies applied their rebates of federal funds.*
- *BIS and DAFS do not yet know what federal DHHS' opinion or decision will be related to the 6-30-03 or 6-30-04 excess retained earnings and questioned costs.*

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 two major federal programs that we audited. The Department had excessive cash balances on hand in the Readiness Maintenance Center in three of the 12 months tested, while the National Guard Operations and Maintenance Projects had excessive cash balances on hand in 11 of 12 months. Daily cash balances varied between large positive and negative balances.

Federal regulations require that non-federal agencies time their draw-down of cash as closely as administratively feasible to the actual disbursement of funds. The Office of the State Controller has determined that drawing federal funds seven business days ahead of need is administratively feasible in Maine. The average number of days that the programs had cash on hand varied from 11 to 33 days.

Department of Defense, Veterans and Emergency Management

(04-10) Military Bureau

National Guard Operations and Maintenance Projects **Questioned Costs:** None
CFDA#: 12.401
Federal Award Number: DAHA 17-03-2-1000

Finding: Insufficient cash management controls **(Prior Year Finding)**

The Department of Defense, Veterans and Emergency Management had inadequate controls to assure compliance with provisions of the Cash Management Improvement Act. The Department had excessive cash balances for eleven of the twelve months tested.

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 Office of the State Controller has determined that drawing funds seven business days ahead of need is administratively feasible in Maine.

Recommendation:

We recommend that the Department take appropriate action to ensure that cash is managed according to the provisions of the Cash Management Improvement Act.

Auditee Response/Corrective Action Plan:

Contact: Linda Gosselin, Business Manager, 626-4346
Roberta Creamer, Management Analyst, 626-4493

The Military Bureau implemented an "advance" from the United States Property and Fiscal Office (USPFO) for National Guard funds to cover both the Army and Air Force cooperative agreements on October 1, 2004. The Department continues to work with the USPFO to increase the pace of disbursements. This will eliminate excessive cash balances through timely processing of invoices and seeking reimbursements on a minimum weekly basis.

Department of Defense, Veterans and Emergency Management

(04-11) Military Bureau

Maine Readiness Sustainment Maintenance Center **Questioned Costs:** None
CFDA#: 12.999
Federal Award Number: DAHA 17-03-2-1000

Finding: Inadequate internal control over cash management **(Prior Year Finding)**

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 three of the twelve months tested: an average of 11 days' cash on hand in July, 21 days' in January and 18 days' in February.

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 Office of the State Controller has determined that drawing federal funds seven business days ahead of need is administratively feasible in Maine.

Recommendation:

We recommend that the Department take appropriate action to ensure that cash is managed in accordance with federal regulations.

Auditee Response/Corrective Action Plan:

Contact: Robert St. Pierre, Business Manager, 626-4462
Vicki Dube (Umphrey), Director, Finance and Personnel, 328-4873

The MMA implemented an "advance" from the United States Property and Fiscal Office for National Guard funds to cover the NGB cooperative agreement on October 1, 2004. The MMA continues to work with the USPFO to increase the pace of disbursements. This will eliminate excessive cash balances through timely processing of invoices and seeking reimbursements on a minimum weekly basis.

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 had not filed quarterly Federal Cash Transaction Reports since the period ending September 30, 2002. We also found that the Department had not completed reports designed to accurately track earmarking requirements since fiscal year 2000. Without the completion of tracking reports, it is impossible to determine if earmarking requirements have been met for the period under audit. The Department also did not obtain required certifications from subrecipients, stating that they were not suspended or debarred from participating in the federal program.

Department of Economic and Community Development

(04-12) Office of Community Development

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

Finding: Noncompliance with suspension and debarment requirements **(Prior Year Finding)**

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 mandatory certification regarding suspension and debarment.

Auditee Response/Corrective Action Plan:

Contact: Orman Whitcomb, Project Development Officer, 624-9819

The DECD response to this finding last year was that beginning immediately (June 2004) the OCD would 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. At the time of this finding we only had two rounds of program applications left in the program year. For each applicant in those rounds the communities were checked against the lists and none of them were listed. However, we went one step further and checked the entire lists in search of any Maine community that might be listed. None were found indicating that any of our existing contracts could not be with a community that was listed as suspended or debarred. For the next program year (2005) where the first round of applications was due in December 2004, we continued to include a threshold question for each applicant as to whether or not they were on the list. Again, for all applications received for the 2005 program year to date, none have appeared on the list.

It appears from this second finding that the method we proposed and instituted last year is indeed not satisfactory and that a "certification form" must be used for municipalities to self certify that they are not suspended or debarred from participating in federal programs. Therefore, while our current contracts state that the community will comply with all state and federal regulations, we will incorporate additional certification language in the application process as well as in our contracts. We will continue our normal practice of requiring our *grantees (communities) to check and document that any contractors working on CDBG funded projects are not on the lists as well.*

(04-13) Office of Community Development

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

Finding: Noncompliance with financial reporting requirements **(Prior Year Finding)**

The Department of Economic and Community Development has not filed a quarterly Federal Cash Transaction Report (Standard Form 272) since the report for the period ending September 30, 2002 was filed. In accordance with 24 CFR 85.41(c), this report must be filed no later than 15 working days following the end of each quarter.

Recommendation:

We recommend that the Department of Economic and Community Development implement controls to ensure that financial reports are accurately prepared and filed with the federal oversight agency in accordance with program regulations.

Auditee Response/Corrective Action Plan:

Contact: Orman Whitcomb, Project Development Officer, 624-9819

The prior year recommendation regarding this finding was that we file the amended September 2002 report as soon as all errors were corrected and that all subsequent reports are submitted as soon as possible thereafter. The September 2002 SF 272 report, along with the subsequent reports through 6/30/04 were sent to HUD 10/01/04. All SR272 reports since the period ending 6/30/04 through 3/31/05 have been completed and sent to HUD within the required time frame and all have been accepted.

Department of Economic and Community Development

(04-14) Office of Community Development

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

Finding: Insufficient proof of earmarking requirements

The Department of Economic and Community Development has not completed tracking reports to ensure compliance with 24 CFR 570.484 since fiscal year 2000. This earmarking regulation requires that not less than 70 percent of program funds benefit low and moderate-income persons. Without tracking reports, it is impossible to determine whether the Department is in compliance.

Recommendation:

We recommend that the Department of Economic and Community Development develop procedures to ensure compliance with earmarking requirements.

Auditee Response/Corrective Action Plan:

Contact: Orman Whitcomb, Project Development Officer, 624-9819

The OCD used to maintain two separate reports to tract Low and Moderate Income (LMI) persons. One report was maintained on a weekly basis and the other on an annual basis. The annual report was part of a required Performance Evaluation Report (PER) for HUD which reports on all program activities including the percent of program funds that are used to provide benefit to low and moderate income persons. This report is made up of actual accomplishments from closed contracts and projected accomplishments for open contracts and is reported on a separate page of the PER. Because our programs are designed in such a way that we could not fall below the 70% LMI benefit and because two tracking systems were being maintained, I decided that only one system was necessary and kept the report that was required as part of the PER.

This finding and recommendation is based on tracking LMI benefit based solely on actual expenditures for any given time. Therefore, we have reinstituted the dual system of tracking LMI benefit, one tracked weekly based on actual expenditures to date and the PER which covers actual expenditures as well as projections for contract awards/contracts that are not yet complete at the time the report is submitted.

State of Maine
Department of Education

Summary of Federal Findings

During the current year we audited four major programs administered by the Department of Education (DOE) as part of the Single Audit, including Title I Grants to Local Educational Agencies (LEA's); Special Education–Grants to States; School Renovations program, and the Child Nutrition Cluster.

In the Title I Grants to LEA's program, the Department was unable to verify compliance with the requirement that services provided with State and local funds in Title I schools are comparable to services provided in non-Title I schools. The Department had not conducted a sufficient number of LEA site visits to determine compliance with this requirement. We note that in response to this finding, program personnel have developed a comparability report. For the Special Education program, the Department did not have adequate controls in place to ensure that LEA's complied with the maintenance of effort requirements ensuring that LEA's budgeted expenditures are at a level that meets or exceeds expenditures of the previous year. For the School Renovation program, the Department did not comply with the financial reporting and program performance requirements, noted in federal regulations. We were unable to find documentation in grant folders or in discussions with program personnel that the required reports were ever filed. Finally, internal control procedures developed to ensure that subrecipients comply with federal cash management requirements were not followed. We note that the Department of Administrative and Financial Services is now responsible for monitoring subrecipient cash balances, for the DOE, and for withholding payments for those subrecipients with excessive cash balances. The process was not followed in 5 of 21 instances tested.

Department of Education

(04-15) Office of Compensatory Education

Title I Grants to Local Educational Agencies **Questioned Costs:** None
CFDA#: 84.010
Federal Award Number: S010A030019A

Finding: Inadequate controls over comparability requirements

The Department of Education does not have procedures in place to ensure that Local Educational Agencies (LEAs) receiving Title I funds are in compliance with comparability requirements. As promulgated by 20 USC 6321(c), an LEA is responsible to ensure that the services provided with State and local funds in Title I schools are comparable to the services provided in non-Title I schools. The State is required to monitor the LEAs to ensure that they are aware of, and in compliance with the comparability requirement.

The Department requires that each LEA sign an assurance stating that they are in compliance with the comparability requirement; however, the Department did not conduct a sufficient number of LEA site visits to verify that the LEAs are in compliance with the requirement. Based on a federal review of LEAs, it was determined that the comparability requirements were not met at the Local level. In response to this federal finding, the Department developed a comparability report.

Recommendation:

We recommend that the Department of Education implement procedures to ensure that comparability requirements are met.

Auditee Response/Corrective Action Plan:

Contact: Katherine Manning, Coordinator, Compensatory Education, 624-6705

Procedures to ensure comparability requirements are met were developed and implemented. A letter was sent to school administrative units in November 2004. http://.maine.gov/education/nclb/tia/documents/comparabilityletter.doc.

In accordance with the requirements outlined in the letter, reports were submitted by school administrative units and are on file in the Office of Compensatory Education. All required school administrative units met the comparability requirement. http://www/maine.ogv/education/nclb/tia/documents/mainecomparabilityreport 000.doc.

These Maine Comparability Reports will be submitted annually. Completion and implementation of corrective action occurred in fiscal year 2005.

Department of Education

(04-16) Division of Special Services

Special Education – Grants to States **Questioned Costs:** None
CFDA#: 84.027
Federal Award Number: H027A030109A

Finding: Inadequate internal control for maintenance of effort requirements

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 actual expenditures of the prior year.

As defined in 34 CFR 300.231, the Department is required to perform a pre-award comparison of each LEA's budgeted expenditures for the current grant year with the LEA's actual expenditures of the prior year. Using the LEA's application, the Department did compare budgeted expenditures of the current period with the actual expenditures of the prior period; however, it did not review or verify the accuracy of the information provided on the application.

At the suggestion of the Department of Audit, the Department of Education compared the amounts reported on the LEA applications with the actual expenditures reported to the Department on audited reports (EF-S-02 and EF-S-07). Many variances were noted. The Department indicated that they would contact the LEAs that budgeted less than the prior year actual expenditures reported and determine if these LEAs were within the range of allowable exceptions promulgated by 34 CFR 300.232.

Although the Department needs to verify the accuracy of the information to ensure compliance with maintenance of effort requirements, the resulting variances were not significant.

Recommendation:

We recommend that controls be implemented, such as performing a comparison of the amounts that an LEA reports on the application to the actual amounts reported on the audited EF-S-02 and EF-S-07, to ensure compliance with maintenance of effort requirements.

Auditee Response/Corrective Action Plan:

Contact: John Kierstead, Consultant, Exceptional Children, 624-6650

Beginning with fiscal year 2005-2006, all applications for local entitlement funds will be filed electronically. The amounts reported in the EF-S-02 (ED307) and EF-S-07 (ED316) will be downloaded and incorporated in the local entitlement application on the cover sheet under question 4. Units will be required to provide the budgeted amount for the following year. The *amounts on the EF-S-02 and EF-S-07 will match the amounts on the EF-S-08 Local Entitlement Application. Exceptions to Maintenance of Effort will be monitored in accordance with requirements.*

Anticipated completion date of this corrective action is fiscal year 2006.

(04-17) Office of Compensatory Education and Division of Special Services

Various **Questioned Costs:** None
CFDA#: 84.027, 84.010
Federal Award Number: Various

Finding: Overriding of internal control over subrecipients' cash balances

Internal control procedures, developed to ensure that subrecipients comply with cash management requirements, were not followed. The Department of Administrative and Financial Services (DAFS) is responsible for making cash draws for the Department of Education's (DOE) federal programs. DAFS is also responsible for monitoring subrecipient cash balances and, in the case of electronic interface payments, for withholding payment to the subrecipient if their cash balance is excessive. DOE is responsible for withholding payments to those subrecipients with excessive cash balances in situations where the payments are made manually. The process of withholding additional funding was not followed in five of twenty-one instances:

- DOE did not withhold "manual payments" to three subrecipients, although they had been identified as having excess federal cash on hand;
- DAFS did not withhold payment to one subrecipient, although it had not submitted cash management reports for the year;
- DAFS did not withhold payment to one subrecipient, although it had not submitted cash management reports for the year because of financial hardships. DAFS was instructed by DOE management to release the payment to the subrecipient, regardless of the lack of a cash management report.

Recommendation:

We recommend that the Department of Education follow internal control procedures it has designed to reasonably ensure that subrecipients comply with cash management requirements and that management should refrain from overriding these controls.

Department of Education

Auditee Response/Corrective Action Plan:

Contacts: Tom Coulombe, Accountant, Office of Special Services, DOE, 624-6650
Susan Griffin, Supervisor of Audit, DOE, 624-6864
Diane Williamson, Chief Accountant, DAFS Finance, 624-7406

- *In the future and prior to processing requests for "manual checks" that are not scheduled payments in the Grant Accounting System, DOE agency staff will ensure compliance with internal cash management procedures by contacting DAFS finance staff for status of subrecipient cash balances.*

- *The Commissioner made a one-time exception for this particular school district due to cash flow hardship caused by extenuating circumstances. This is not DOE's normal practice and will not be a recurring issue. In this instance, DAFS finance staff withheld payment to the district because they had not submitted a quarterly cash report by the due date, not because the district was maintaining excess cash. Although cash controls for late reporting were not followed by DOE, a bigger problem would have developed for the district had payment not been received.*

Completion date of corrective action for bullets 1 and 3 was fiscal year 2005.

(04-18) Division of School Facilities Services

School Renovations Grant **Questioned Costs:** None
CFDA#: 84.352
Federal Award Number: S352A010020

Finding: Failure to comply with reporting requirements

The Department of Education did not comply with the financial reporting and program performance requirements promulgated in 34 CFR 80.40 and 34 CFR 80.41, respectively. Unless the Secretary of Education allows for less frequent reporting, States and Local Educational Agencies (LEAs) are required to file reports annually to describe the use of grant funds and program outcomes. There was no documented evidence in the grant folders or in discussions with the Department that these required reports were ever filed, or that a waiver was granted for this program.

Department of Education

Recommendation:

The Department of Education should contact the U.S. Department of Education to determine if waivers were granted relative to this program. If no waivers were granted, the annual Financial Status Reports (SF-269) should be reported to the federal government for the period of the grant award, fiscal year 2001-fiscal year 2004. In addition, a Final SF-269 and a Final State Progress Report should be submitted.

Auditee Response/Corrective Action Plan:

Contact: Jay Readinger, School Construction Specialist, 624-6886

The Department will contact the U.S. Department of Education by the end of May 2005 and follow their instructions as to which reports must be filed. It is further noted that the grant period for this program ended in fiscal year 2004.

Anticipated completion date of this corrective action is fiscal year 2005.

State of Maine
Department of Health and Human Services

Summary of Federal Findings

The Department of Health and Human Services receives and expends over $1.8 billion annually in federal financial assistance. It administered 82 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 eleven 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 81 findings included in this report, 49 relate to Department of Health and Human Services' programs. We are required to give opinions on each program's compliance with laws and regulations. Although we cite audit exceptions for ten of the eleven programs, we are qualifying our opinion on compliance for the Foster Care: Title IV-E program, for material non-compliance with requirements regarding allowability, eligibility, reporting and cash management; the Social Services Block Grant program, for material non-compliance with requirements regarding allowability and earmarking; and, the Child Care Cluster, for material non-compliance with requirements regarding reporting. For several programs, the report also includes questioned costs. These amounts are questioned because they are not supported by adequate documentation, do not comply with laws or appear unreasonable. The federal government may, or may not, disallow these funds and require reimbursement from the State. For federal programs administered by the Department of Health and Human Services, we identified total questioned costs of $17,880,289.

The Department of Health and 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 which are presented in order by federal program number.

<u>Child and Adult Care Food CFDA #10.558</u>

Cash management for this program was inadequate: there were excessive cash balances for the last five months of the year. Also, the Department did not monitor all subrecipient organizations as required.

Department of Health and Human Services

Administrative and Matching Grants for the Food Stamp Program CFDA #10.561

The Department did not have adequate controls over cash management for the Food Stamp program. In the prior year, 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. This overdraw has not been fully corrected. In the current year, federal cash draws were sporadic; large draws were made after periods of little or no cash draw activity. The Department drew \$6.2 million and reported \$9.8 million as the federal share of expenditures. There were also several reporting problems: no supporting data for amounts reported as claims against households or for beginning and ending balances; and numerous errors in amounts reported on its financial status report, including underreporting of allowable expenditures. Lastly, the Department's Automated Client Eligibility System (ACES) did not ensure that benefits are automatically cut-off if clients fail to complete the annual eligibility recertification requirements. In certain circumstances, the ACES system did not fill in the re-determination date field, potentially allowing recipients to receive benefits for an extended time beyond their eligible period, if not indefinitely.

Immunization Program CFDA #93.268 *We question \$390,085*

Cash management was also inadequate for the Immunization program: cash balances were excessive for all 12 months. This cash management problem resulted, in part, because the Immunization program pays the salary costs for several employees that work for another program and the Immunization program is not reimbursed timely. Also, the Department did not comply with federal requirements for employee time and attendance documentation. The Department intentionally charged the Immunization program for an invoice of another program. Furthermore, the Department does not have established procedures to monitor that the third party vendor is properly safeguarding vaccine inventory against theft, expiration, or improper temperature. The Department did not adequately monitor their providers for compliance with federal grant requirements. Additionally, there were several errors in amounts reported as expended on the annual federal expenditure report. Lastly, we question \$390,085 because the Department spent grant funds beyond the allowable period of availability.

Temporary Assistance to Needy Families CFDA #93.558

The program did not fully comply with federal requirements to automatically verify certain eligibility and benefit amounts. Furthermore, the Department did not sufficiently monitor performance report data prior to submission to the federal government. This resulted in several of the performance reports needing to be re-submitted after authorities at the U.S Department of Health and Human Services notified the State that certain data was incorrectly reported.

Department of Health and Human Services

Child Support Enforcement CFDA #93.563 *We question $101,331*

The Department did not prepare all journals necessary to properly account for activity of the Child Support Enforcement program and did not reconcile cash balances in the program's administrative accounts. The net cash balance in the accounts was negative $6.1 million at June 30, 2004. Also, there were several errors in amounts reported as expended on the quarterly expenditure report (OCSE-396A). In addition, the Department provided us with three different versions of the OCSE-396A and could not represent to us which of the three versions had been submitted to the federal Office of Child Support Enforcement. Additionally, unallowable payroll costs were charged to the Child Support Enforcement program and the Department charged the program for unallowable grievance settlement costs. We do not question these costs because, following our inquiries, the Department transferred these unallowable costs out of the program. Lastly, we question $101,331 that was transferred to another State agency for legal services in excess of the amount of the services provided.

Child Care Cluster:
Child Care Development Block Grant CFDA #93.575
Child Care Mandatory and Matching Funds – Child Care and Development Fund CFDA #93.596

Cash management for this program was not adequate. The Department did not draw sufficient grant funds to cover federal expenditures during the fiscal year. Additionally, there were numerous errors in amounts reported on the federal financial reports for the program. These errors affected amounts reported for unliquidated obligations, maintenance of effort expenditures, administrative expenditures, mandatory expenditures and amounts reported as transfers to the program from TANF. Furthermore, the Department has not amended prior period federal financial reports for known inaccuracies. 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

Foster Care: Title IV-E CFDA #93.658 *We question $13,427,026*

As 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. As a result, we question $38,267 for claims paid on behalf of ineligible children and we question $19,196 for unallowable costs. Information system costs were disproportionately charged to this program, although other Title IV-E programs also benefited. We question $530,340, the proportional share that should have been charged to other Title IV-E programs. Furthermore, the Department paid some charges twice. We question $18,999 for these duplicate payments. Cash management controls for the program were inadequate. As noted in prior years, the Department drew more cash than it reported as expended. We question $12.4 million since the account balance for this program was negative, indicating that these overdrawn funds were used elsewhere and that the General Fund may need to repay the federal government. Lastly, the Foster Care program and the Adoption Assistance program share administrative costs. These costs are distributed to the Title IV-E programs through a cost allocation plan. Numerous errors were detected in the reporting of these shared costs. We question $420,224, resulting from the net reporting errors as they relate to Foster Care.

Adoption Assistance CFDA #93.659 *We question $34,831*

The Adoption Assistance and Foster Care programs have similar problems related to the reporting of shared costs. We do not question costs for errors made by the Department in reporting Adoption Assistance shared costs as they resulted in undercharges to the federal government in the amount of $13,419. Certain non-recurring costs and demonstration project costs were not properly allocated to the applicable State and federal funding sources. Also, non-recurring costs were claimed at incorrect federal financial participation rates. We also found that the Department made payments on behalf of ineligible clients. These clients were deemed ineligible by us and the Office of The Inspector General due to the absence of appropriate supporting documentation. We question $34,831 related to these ineligible clients. Likely questioned costs were projected to be $202,444.

Social Services Block Grant CFDA #93.667 *We question $1,900,000*

The Social Services Block Grant (SSBG) 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 question $1.9 million because agreements with subgrantees did not note an earmarking restriction and there was no assurance that eligible recipients received the services. Also, cash management controls were not sufficient at either the State or subrecipient level to minimize federal cash on hand. Lastly, the Department did not provide the required federal grant award information and applicable program compliance requirements to all of the subgrantees receiving federal funds from SSBG.

Medical Assistance Program (Medicaid) CFDA # 93.778 *We question $47,728*

The Department of Health and Human Services expended over $1.4 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, charged unallowable costs, managed cash, reported to the federal government, chose cases to review, performed security reviews and reviewed hospital cost settlements.

Eligibility

The Department had insufficient records to prove that they had ensured that providers were appropriately licensed and had made certain required disclosures. Also, the Department did not verify the validity of the licenses that were submitted by the providers. Furthermore, the

Department paid claims on behalf of ineligible clients. We question $40,266 associated with payments made on behalf of these ineligible clients. Likely questioned costs were projected to be $7.9 million.

Unallowed Costs
The Department incorrectly billed Medicaid for all non-placement case management services that it provided to Medicaid eligible clients when only targeted case management services should have been billed. We question $7,462 associated with these unallowable costs. Likely questioned costs were projected to be $10,816,331.

Cash Management
There was a cash balance of negative $84.3 million in the two principal Medicaid accounts at the end of the fiscal year. In these two accounts the Department expended $37 million more than it drew for the program during the year. Also, the cash balance for a third account, the administration account, was negative $6.6 million.

Reporting
Medicaid financial reports are submitted late, include estimated rather than actual disbursements, are not reconciled to the State's accounting system, and are not routinely reviewed by supervisory personnel. There are no written procedures for completion of the reports, and no written chart of accounts for the program. 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 did not use a sampling method to evaluate cases for post-payment review as required by program regulations.

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 in July 2004, but there are no controls in place to ensure that the analysis will be repeated as required. We note that the Department implemented a new Medicaid management system in January 2005. The system has not performed as expected, and there have been significant problems in processing claims.

Finally, the Department does not review the hospital cost settlements timely and relies on a single individual to perform these reviews.

<u>Deficiencies affecting other federal programs</u> *We question $1,979,288*

Cost Allocation Plan
The Department did not comply with prescribed methods of allocating costs to federal programs. Numerous deficiencies were detected in accumulating, allocating and reporting costs associated with the Department's cost allocation plan. Certain expenditures were charged as both direct and allocated costs, costs were not reported net of all credits, costs were charged to incorrect programs, errors were made in accumulating costs allocated through the cost allocation plan and

allocated costs were not reported correctly to their respective federal programs. We question $766,758, $931,742, $257,907 and $22,881 in costs allocated incorrectly to the Social Services Block Grant, Temporary Assistance to Needy Families, Medicaid and Adoption Assistance/Foster Care, respectively.

Cash Management

The department has inadequate procedures to comply with Cash Management Improvement Act requirements. Also, the Department did not regularly reconcile reported federal program expenditures, cash drawn from the federal government and the State's accounting system. Regular reconciliation of this data would help ensure that cash draws and posted transactions were accurate, timely and appropriately reported.

Reporting

The Department reported estimated rather than actual cash payments, as well as incorrect amounts as disbursements on the Federal Cash Transaction Report. The use of estimates or incorrect amounts undercuts the Federal Division of Payment Management's ability to control and monitor cash, as the Department's actual federal cash on hand is misstated. Additionally, the Department did not provide complete or accurate federal expenditure information for inclusion on the Schedule of Expenditures of Federal Awards (SEFA).

Department of Health and Human Services

(04-19) Bureau of Family Independence

Food Stamp Program **Questioned Costs**: None
CFDA#: 10.551
Federal Award Number: 2003IS2514

Finding: Inadequate controls over federal reporting requirements **(Prior Year Finding)**

The Automated Client Eligibility System (ACES) utilized by the Department of Health and Human Services does not provide support for the beginning and ending balances on the Status of Claims Against Households Report (FNS 209). In addition, the Department is unable to verify the accuracy of the collections or provide data that supports claims included on the report. The U.S. Food and Nutrition Services reviewed and confirmed that these problems exist, and has given the Department a limited time in which to take corrective action.

Recommendation:

We recommend that the Department implement the necessary programmatic changes to ACES to allow for complete, accurate and timely FNS 209 reports. We also recommend that the Department maintain supporting case records.

Auditee Response/Corrective Action Plan:

Contact: Rose Masure, Director of Policy and Programming, 287-3104

The Department has developed a corrective action plan that has been approved by the Regional Food and Nutrition Service Office. The Department plans resolution of this issue in June 2005.

(04-20) Bureau of Family Independence

Food Stamp Program **Questioned Costs**: None
CFDA#: 10.551
Federal Award Number: 2003IS2514

Finding: Automated Client Eligibility System did not ensure automatic benefit cutoff

Program controls in the Department of Health and Human Service's Automated Client Eligibility System (ACES) did not ensure that Food Stamp clients lost their eligibility for program participation if they did not complete required annual recertifications. Approximately 1,450

Food Stamp, Medicaid, and TANF case records in ACES contained blank redetermination dates. The redetermination date field identifies the next certification date. If left blank, recipients may incorrectly receive benefits for an extended period, if not indefinitely.

Recommendation:

We recommend the Bureau of Family Independence correct the system deficiency in ACES that leaves the redetermination date blank.

Auditee Response/Corrective Action Plan:

Contact: Rose Masure, Director of Policy and Programming, 287-3104

The stated problem was reported to the technology staff and was tested and resolved by February 8, 2005.

(04-21) Bureau of Child and Family Services

Child and Adult Care Food Program — **Questioned Costs:** None
CFDA#: 10.558
Federal Award Number: 4ME300302

Finding: Noncompliance with subrecipient monitoring requirements

The Department of Health and Human Services did not comply with the annual review requirements promulgated in 7 CFR 226.6(m)(4).

Although the Department scheduled the required number of annual reviews, it did not complete the review process adequately. With 21 organizations requiring review, the Department completed site reviews for 19, but did not communicate the majority of the findings and corrective action plans to the affected organizations. For the remaining two organizations, the Department did not perform a complete site review.

Recommendation:

We recommend that the Department of Health and Human Services comply with subrecipient monitoring requirements.

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

Contact: Rick Jones, 287-5015

In the efforts of meeting the new CACFP Integrity Rule, DHHS has increased the hours of the CACFP consultant. This position has been directed to complete all outstanding reviews.

When conducting Supervisory reviews, CACFP staff communicates to the agency reviewed by means of a summary sheet identifying problems that have arisen. The agency signs and retains the summary sheet. The final summary letter to the agency merely itemizes the summary sheet they have already received and establishes a timetable for corrective action.

For the two agencies cited above, 90% of the Review had been completed, and the agency had received the summary sheet, as did all the agencies in question.

(04-22) Division of Program Accounting and Cash Management Operations

Child and Adult Care Food Program **<u>Questioned Costs:</u>** None
<u>CFDA#</u>: 10.558
Federal Award Number: 4ME300302

<u>Finding</u>: Insufficient cash management control and compliance **(Prior Year Finding)**

The Department of Health and Human Services lacked adequate internal controls to ensure appropriate and consistent cash management for the Child and Adult Care Food Program.

Cash balances of the program's federal fund were excessive for the last five months of the fiscal year. The excess ranged from $139,000 to $233,000. The average cash on hand ranged from 7.24 to 15.35 days. 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. The Office of the State Controller has determined that drawing federal funds seven business days ahead of need is administratively feasible in Maine.

In addition, on March 30, 2004, the Department drew $212,382 more than should have been drawn for the related disbursement. The excess draw was caused by an error in the spreadsheet utilized by the Department to compile subrecipient claim amounts. These funds had not been returned to the federal government as of fiscal year-end.

Recommendation:

We recommend that the Department monitor cash needs and time draws of federal cash to comply with federal requirements. The Department should monitor and investigate unusually high cash balances. Routine cash balance examinations would prevent these errors.

Auditee Response/Corrective Action Plan:

Contact: *Aimee Carlton, Managing Staff Accountant, 287-1851*
Lisa Thibodeau, Senior Staff Accountant, 287-3160

The Department of Health and Human Services, Division of Accounting and Cash Management agrees with this finding. DHHS have hired several new employees, many are new employees to Maine State Government. Accounting and Cash Management employees have met with Tim Rodriguez, State of Maine CMIA Coordinator for training and guidance. In addition, all Accounting and Cash Management's Managing Staff and Senior Staff Accountants recently attended a training held by Tim Rodriguez, State of Maine CMIA Coordinator. The purpose of this training was to introduce us to the new Cash on Hand Template which has been developed to monitor average days cash need on hand for non-major programs. This form will be instituted for use starting in state fiscal year 2006.

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 system.

A monthly reconciliation began in October 2004, which ensures funds drawn equal expenses. This reconciliation compares program expenditures, revenues, and draws per the federal Payment Management System (PMS).

(04-23) Division of Program Accounting and Cash Management Operations

Administrative and Matching Grants for the Food Stamp Program **Questioned Costs**: None
CFDA#: 10.561
Federal Award Number: 2004IS2514

Finding: Inadequate controls over federal draws, cash management and program accounting **(Prior Year Finding)**

The Department of Health and Human Services did not have adequate control procedures in place to determine the amount of cash needed to cover program expenditures. The Department reported $9.8 million as the federal share of expenditures; however, it drew only $6.2 million.

Department of Health and Human Services

The Food Stamp program and the Bureau of Family Independence central operations shared the same revenue account. Therefore, the Department could not determine how much of the available cash and allotment belonged to each program. In the prior year, the Department drew $4.9 million more than it reported as expended, which has not been fully corrected. In fiscal year 2004, the Department continued to draw funds, primarily based on cost estimates of the prior quarter allocated costs.

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. The Office of the State Controller has determined that drawing federal funds seven business days ahead of need is administratively feasible.

Recommendation:

We recommend that the Department establish procedures to track program cash balances within the State's accounting system by establishing a unique account for Food Stamps revenue and ensure that federal cash draws are made only for expenditures of the Food Stamp program.

Auditee Response/Corrective Action Plan:

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851

The Department agrees with this finding. Currently DHHS is undergoing an account restructuring to align with the current approved reorganization. In this process, the Food Stamp program will be set up in a segregated account to meet both Federal and State audit recommendations.

The Department is aware of the excess draw in FY 2003. Analysis of this account has resulted in processes that have been changed and or implemented to eliminate a repeat situation. However to date the Department has been unable to classify the cash balance.

In federal fiscal year 2005 we established a draw transaction based spreadsheet to monitor what has been drawn and balance left on the grant. Every month this draw spreadsheet is reconciled with the federal ASAP draw system. This ensures that the amount of funds being drawn and the grant they are being drawn from are correct. In addition, once the quarterly SF-269 report has been completed, we reconcile the amount of expenses reported with the balance per the federal ASAP draw down system. Based upon this reconciliation we adjust draws to either pay back funds or draw more funds.

Department of Health and Human Services

(04-24) Division of Program Accounting and Cash Management Operations

Administrative and Matching Grants for the Food Stamp Program **Questioned Costs**: None
CFDA#: 10.561
Federal Award Number: 2004IS2514

Finding: Inadequate controls over financial reporting **(Prior Year Finding)**

The Department of Health and Human Services did not have adequate controls in place to prevent or detect errors in reporting Food Stamp expenditures on the Financial Status Report (SF-269). We noted 15 reporting inaccuracies: additional expenditures of $1.9 million were excluded from the report; and costs of $1.1 million were incorrectly included on the report. Although certain reported costs are unallowable, they are less than the amount of unreported allowable expenditures, and therefore we did not question costs.

Recommendation:

We recommend that the Department establish written procedures that will ensure accurate financial reporting and maintain supporting documentation for reported expenditures. We recommend that reports be subjected to a secondary review. We further recommend that the Department research the identified errors and reconcile any balance with the federal agency.

Auditee Response/Corrective Action Plan:

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851

The Department of Health and Human Services agrees with this finding. Currently DHHS is undergoing an account restructuring to align with the current approved reorganization which will be effective July 1, 2006. In this process, the Food Stamp program will be set up in a segregated account to meet both Federal and State audit recommendations.

Procedures for preparing the FSR 269 report are being written with completion due the fall of 2005. DHHS has also instituted a second level review process and the FSR269 reports will be revised and resubmitted to include the above findings.

Department of Health and Human Services

(04-25) Bureau of Health

Immunization Grants **<u>Questioned Costs:</u>** None
<u>CFDA#</u>: 93.268
Federal Award Number: H23/CCH122558

<u>Finding</u>: Insufficient control and compliance with monitoring requirements

The Immunization Program did not have established procedures to monitor non-pediatric provider's compliance with grant requirements. In addition, although the Department has monitoring procedures in place for the review of pediatric providers, it could not provide documentation that these procedures were completed for three of the twenty-five providers tested.

Program regulations require that the Immunization Program monitor provider's compliance with federal recordkeeping and vaccine management requirements. Noncompliance with these requirements may impede the efficient managing and administration of vaccines.

<u>Recommendation:</u>

We recommend that the Immunization Program provide further training, emphasizing the need for documentation, for the Immunization staff and public health nurses who perform site visits for pediatric providers. We also recommend that the Immunization Program establish procedures to monitor non-pediatric provider's compliance with recordkeeping and vaccine management requirements.

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

Contact: Stephen Ranslow, Public Health Advisor, 287-7087

Based on the Vaccine Management guidelines and Vaccines for Children's Program, the CDC recommended increasing the annual visitation of practices that are participating on the Registry and/or who had not been visited within the last 12 months. The CDC did not however identify the methodology to increase funding or to meet the staffing requirements to do so for the Non-Pediatric practices, or those practices that are not targeted for review. The CDC accepted MIP's current methodology of targeted Quality Assurance based on practice size, regardless of target population until such time as the State of Maine can re-establish a more local representation and leverage that representation to provide a more complete Quality Assurance effort.

MIP has instituted a quality assurance survey and review process to address incomplete survey results as collected by our VFC/AFIC Contractee.

Department of Health and Human Services

(04-26) Bureau of Health

Immunization Grants **Questioned Costs:** None
CFDA#: 93.268
Federal Award Number: H23/CCH122558

Finding: Inadequate safeguards for vaccine inventory

The Immunization Program did not have established procedures to monitor the third party holding the vaccine inventory in order to safeguard against theft, expiration, or improper temperature.

The federal program regulations require effective control and accountability and adequate safeguards for all vaccines, and that they are used only for authorized purposes. The Department has inadequate controls to meet these objectives. In addition, the program did not obtain the required certification from the contractor's independent auditor.

Recommendation:

We recommend that the Immunization Program establish procedures to monitor the third party vendor for the proper safeguarding of vaccine inventory against theft, expiration, or improper temperature and obtain the contractor's certification as required by federal regulations.

Auditee Response/Corrective Action Plan:

Contact: Stephen Ranslow, Public Health Advisor, 287-7087

The Maine Immunization Program provides Lot Number tracking with the 3rd Party Distributor. MIP ensures that no short dated vaccine is left in inventory and allowed to expire prior to distribution. In addition, MIP ensures that its inventory levels are exact and vaccine controlled centrally has been appropriately distributed. MIP monitors order shipment schedules on a weekly basis to ensure approved vaccine is shipped according to schedule. Audit indicates that independent certification documents would suffice as proof of compliance. MIP will get those documents from the 3rd party distributor to have for reference/archiving.

Department of Health and Human Services

(04-27) Division of Program Accounting and Cash Management Operations
Bureau of Health

Immunization Grants **<u>Questioned Costs:</u>** None
<u>CFDA#</u>: 93.268
Federal Award Number: H23/CCH122558

<u>Finding</u>: Inadequate controls over cash management and delayed reimbursement **(Prior Year Finding)**

The Department of Health and Human Services did not timely reimburse the Immunization Program for $878,923 in costs of several personnel who also worked on the Early Prevention, Screening, Detection, and Treatment Program (EPSDT). The Department's policy is to reimburse the Immunization Program for costs incurred for the EPSDT on a quarterly basis; however, the Department did not do so until fiscal year 2005, resulting in the program drawing $541,712 more than it expended in fiscal year 2004. We note that the Immunization Program did return $150,000 in October 2004, when it received reimbursement from EPSDT.

Federal cash held by the State for this program ranged from 11 days to 172 days. Title 31 CFR 205.33(a) states that the timing and amount of funds transfer must be as close as is administratively feasible to the cash outlay by the State for program costs. The Office of the State Controller has determined that drawing federal funds seven business days ahead of need is administratively feasible in Maine. We do not question the costs because the Immunization Program was reimbursed in fiscal year 2005.

<u>Recommendation:</u>

We recommend that the Department:

- Ensure that federal cash is drawn within seven business days from the program's cash outlay;
- Amend their reimbursement policy from EPSDT to monthly rather than quarterly;
- Return cash to the federal payment management agency, for funds that are reimbursed by the EPSDT that are in excess of immediate cash needs.

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

Contact: Annette Tibbetts, Managing Staff Accountant, 287-3172

The Department of Health and Human Services agrees with this finding. In FY 05, DHHS has documented the procedure of drawing cash and reconciling the account within seven business days. As a result of the reconciliation, any excess cash is being returned to the federal payment management agency.

Department of Health and Human Services

(04-28) Division of Program Accounting and Cash Management Operations

Immunization Grants **Questioned Costs:** None
CFDA#: 93.268
Federal Award Number: H23/CCH122558

Finding: Override of controls for compliance with allowable costs

The Department of Health and Human Services intentionally charged the Immunization Program for an invoice of another program. The Department violated the cost principles in the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, which states that costs may be charged to a federal program only to the extent of the benefit received by a cost objective.

Although unallowable costs of $27,218 were charged to the Immunization Program, we do not question the costs because the Department corrected the impropriety in State fiscal year 2005.

Recommendation:

We recommend that the Department of Health and Human Services follow established procedures and charge only allowable costs to the Immunization Program.

Auditee Response/Corrective Action Plan:

Contact: Annette Tibbetts, Managing Staff Accountant, 287-3172

The Department of Health and Human Services agrees with this finding. DHHS has reinforced the importance of proper coding of invoices and other documents.

(04-29) Division of Program Accounting and Cash Management Operations

Immunization Grant **Questioned Costs:** None
CFDA#: 93.268
Federal Award Number: H23/CCH122558

Finding: Insufficient control and compliance with salary and wage requirements **(Prior Year Finding)**

The Department of Health and Human Services did not provide semi-annual certifications for employees who worked solely on the Immunization Program, nor did it properly report time for employees working on multiple activities. The Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, requires:

- Personnel activity reports when employees work on multiple activities or cost objectives;
- Periodic certifications when employees work solely on a single federal award or objective;
- Semi-annual certifications 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 for the State of Maine is capable of recording personnel activity to properly document compliance with the allocation and certification requirements of OMB Circular A-87. The Department's Immunization Program is not currently utilizing this capability.

Recommendation:

We recommend that the Bureau of Health of the Department of Health and Human Services utilize the Electronic Time and Attendance Management System to ensure compliance with the federal requirements.

Auditee Response/Corrective Action Plan:

Contact: Annette Tibbetts, Managing Staff Accountant, 287-3172

DHHS agrees with this finding and during FY 2005 has set the Immunization program up on the State's Time and Attendance Management System. Therefore DHHS is now in compliance with both the allocation and certification requirements of OMB Circular A-87.

(04-30) Division of Program Accounting and Cash Management Operations

Immunization Grants **Questioned Costs:** $390,085
CFDA#: 93.268
Federal Award Number: H23/CCH12258

Finding: Inaccurate reporting and noncompliance with period of availability requirement

The Department of Health and Human Services included encumbrances as unliquidated obligations at the end of fiscal year 2003. Encumbrances are commitments related to unperformed contracts for goods or services. According to 45 CFR 92.3, obligations are defined as "amounts of orders placed, contracts and subgrants awarded, goods and services received, and similar transactions during a given period that will require payment by the State during the same or future period". It further requires that all obligations incurred under the award be liquidated within 90 days after the funding period to coincide with the submission of the annual financial report. We question $390,085 of the $692,864 that is currently reported by the Department as an unliquidated obligation on the financial status report ending 12/31/2003 since these obligations were not liquidated within the allowable 90 days.

OMB Circular A-133 *Audits of State, Local Governments, and Non-Profit Organizations*, requires that a recipient organization of federal funds have internal controls in place to provide reasonable assurance of accountability of assets and the preparation of reliable financial statements and federal reports.

Annual federal expenditure reports (SF269-A) submitted by the Department included several incorrect amounts, resulting in an overstatement of program expenditures by a net amount of $11,115 for the year ended December 31, 2003. Inadequate controls for proper reporting of program expenditures led to these errors. Because program expenditures at 2003 year end were overstated, the unobligated balance at the end of the grant year was incorrectly reduced. Any unobligated balance at the end of the grant year reduces the amount of the subsequent grant award.

Recommendation:

We recommend that the Department:

- Ensure the accuracy of the financial report;
- Report actual expenditures;
- Determine if an encumbrance meets the definition of an unliquidated obligation before reporting.

Auditee Response/Corrective Action Plan:

Contact: Annette Tibbetts, Managing Staff Accountant, 287-3172

The Department of Health and Human Services agrees with this finding. Currently, data on all reports submitted is supported by MFASIS activity and data is review prior to submission. We will be reviewing all previously filed reports and correcting if necessary.

Department of Health and Human Services

(04-31) Bureau of Family Independence

Temporary Assistance to Needy Families **Questioned Costs:** None
CFDA#: 93.558
Federal Award Number: 0301METANF, 0401METANF

Finding: Noncompliance with income eligibility and verification requirements **(Prior Year Finding)**

The Department of Health and Human Services did not have an income and eligibility verification system (IEVS) meeting the requirements of Section 1137 of the Social Security Act. The State is required by 45 CFR 205.55 to:

1. Coordinate data exchanges with other federally assisted benefit programs;
2. Request and use income and benefit information when making eligibility determinations;
3. Adhere to standardized formats and procedures in exchanging information with other programs and agencies.

According to 45 CFR 264.10 and 264.11, the State may be penalized up to two percent of the Family Assistance Grant for failure to participate in IEVS.

The Department has automated systems for some, but not all, of the information exchanges required. The Department did not have procedures in place to comply with requirements for:

- Unearned income,
- Wages,
- Social Security Administration Beneficiary Earnings Exchange Records (BEERS).

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. The Department used various other means of verifying information, without federal approval. Further, the Department has not used a consistent, effective approach to verify income and eligibility.

Recommendation:

We recommend that the Department of Health and Human Services complete the system changes necessary for automated information exchanges in compliance with Section 1137 of the Social Security Act.

Auditee Response/Corrective Action Plan:

Contact: Rose Masure, Director of Policy and Programs, 287-3104

The Department has been in full compliance with the income and eligibility verification system since May 11, 2005.

Department of Health and Human Services

(04-32) Bureau of Family Independence

Temporary Assistance to Needy Families **Questioned Costs:** None
CFDA#: 93.558
Federal Award Number: 0301METANF, 0401METANF

Finding: Insufficient control and compliance with data reporting **(Prior Year Finding)**

The Department of Health and Human Services did not sufficiently monitor performance data prior to submitting reports on the Temporary Assistance to Needy Families (TANF) program (ACF-199, ACF-209 reports). As a result, several of the reports were re-submitted after authorities at the U.S. Department of Health and Human Services detected that data had been incorrectly reported. The reporting problems apparently resulted from coding deficiencies within the new Automated Client Eligibility System, which accumulates performance data for federal reporting. Efforts to address these deficiencies are ongoing.

Title 45 CFR 262.1 provides 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 of Health and Human Services improve controls to ensure accurate data reporting.

Auditee Response/Corrective Action Plan:

Contact: Rose Masure, Director of Policy and Programming, 287-3104

The Bureau has established a written procedure to meet the Federal requirements of submitting timely and accurate ACF-199 and ACF -209 data reports.

Department of Health and Human Services

(04-33) Bureau of Family Independence

Child Support Enforcement **Questioned Costs**: None
CFDA#: 93.563
Federal Award Number: 0404ME4004

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

The Department of Health and Human Services did not reconcile cash balances in the program accounts used to record receipts and distributions of child support collections. The accounting system cash balances in accounts that were used to record the receipt and subsequent distribution of child support collections totaled $9.5 million at June 30, 2004. That balance, which should represent collections not yet distributed, was $7.4 million higher than the $2.1 million reported to the federal awarding agency. The balance appears to be the result of not properly distributing the State and federal shares of child support collections for the fiscal quarter ended 6/30/04. The Department made the necessary accounting entries in the succeeding State fiscal year.

The Child Support Enforcement program's administrative accounts were negative $6.1 million at June 30, 2004. The balance in these accounts should net to approximately zero since administrative costs should be periodically transferred to cover program expenditures. The Department made the necessary transfer in the succeeding State fiscal year.

The Department's account structure is not adequately designed to easily provide financial data for the Child Support Enforcement program. Administrative funds for Child Support Enforcement, TANF and the Food Stamp programs are commingled into one appropriation account, thus making it difficult for the Department to identify the source and application of Child Support Enforcement program funds.

Recommendation:

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

- Determine the underlying reasons for the noted differences in account balances and in a more timely fashion prepare the needed entries to better provide accurate, current and complete financial data;

- Change the account code structure to segregate all program activity in distinct and separate cost centers in order to facilitate the process of ensuring that the State and federal shares of child support collections are expeditiously transferred to cover the State and federal shares of program expenditures.

Department of Health and Human Services

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

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851

As noted in finding the Department has recognized the errors and made the necessary corrections. The process of quarterly reconciliation is now in place to keeps this data timely and accurate.

Currently DHHS is undergoing an account restructuring to align with the current approved reorganization which will be effective July 1, 2006. In this process, the Child Support program will be set up in a segregated account to meet audit recommendations.

(04-34) Bureau of Family Independence/Bureau of Human Resources

Child Support Enforcement **<u>Questioned Costs:</u>** None
<u>CFDA#</u>: 93.563
Federal Award Number: 0404ME4004

<u>Finding</u>: Grievance settlement payment charged to federal funds

The Department of Health and Human Services was not aware that monetary settlements with employees resulting from violations or alleged violations of federal and state laws on behalf of the governmental unit are unallowable under federal awards.

The Child Support Enforcement program paid $37,500 to a terminated employee pursuant to a settlement agreement. Section 16 of Attachment B of the Office of Management and Budget's Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, states:

> Fines, penalties, damages, and other settlements…are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

There were no provisions in the federal award permitting this outlay, and the federal agency did not authorize this payment in advance. We brought the error to the Department's attention, which took immediate corrective action, transferring the costs from the federal fund to the general fund. Therefore, we do not question the cost.

<u>Recommendation:</u>

We recommend that the Department of Health and Human Services, when settling with grieving employees, conform to the allowable cost provisions applicable to the federal grant. We further recommend that the Department make the necessary expenditure adjustments, by decreasing the federal share of costs claimed on the program's next quarterly expenditure report.

Auditee Response/Corrective Action Plan:

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851

The Department agrees with this finding. These costs have been reclassed to the appropriate State account.

(04-35) Bureau of Family Independence

Child Support Enforcement Program **Questioned Costs**: None
CFDA#: 93.563
Federal Award Number: 0404ME4004

Finding: Inadequate controls to ensure charges are for allowable payroll costs only **(Prior Year Finding)**

The Department of Health and Human Services did not have adequate controls in place to ensure that only program related payroll costs were charged to the Child Support Enforcement program. The Department incorrectly charged the program for the payroll costs of two employees who performed administrative duties that involved other federal programs, resulting in unallowable payroll costs of $40,772. We do not question the costs; following our inquiries, the Department reimbursed the program for the unallowable payroll expenditures in May of 2005.

According to the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, costs may be charged to a federal program only to the extent of benefit received by that program.

Recommendation:

We recommend that the Department ensure that only Child Support Enforcement program-related payroll costs are charged to the program.

Auditee Response/Corrective Action Plan:

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851

The Department agrees with this finding and will be reconciling this account quarterly. This was corrected on JV10AMAT050054 on 5/6/05.

Department of Health and Human Services

(04-36) Division of Program Accounting and Cash Management Operations

Child Support Enforcement **Questioned Costs**: $101,331
CFDA: 93.563
Federal Award Number: 0404ME4004

Finding: Transfers for program services in excess of costs claimed **(Prior Year Finding)**

Although the Department of Health and Human Services reported $903,363 for legal services provided by the Department of the Attorney General (AG), it actually transferred $1,128,881 to the AG. The total transfer to the AG was made up of $763,624 in Federal Expenditure funds and $365,257 in Special Revenue funds [$763,624 + $365,257 = $1,128,881]. We therefore question $101,331 which represents the federal share of the excess transfer amount. This amount was calculated as follows:

Total transfers to AG from program's Federal Expenditure fund	$763,624
Federal share of total transfers to AG from Special Revenue fund ($365,257 x 66% = $241,070)	$241,070
Subtotal	$1,004,694
Allocable amount of claimed legal services	$903,363
Difference	$101,331

Recommendation:

We recommend that the Department of Health and Human Services transfer program funds to the Department of the Attorney General only for allocable legal services costs.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, Financial Analyst, 287-1869

DHHS agrees with this finding. The correcting transaction was posted on June 3, 2005 via JV 10A 81MAT050059

Department of Health and Human Services

(04-37) Division of Program Accounting and Cash Management Operations

Child Support Enforcement **Questioned Costs**: None
CFDA#: 93.563
Federal Award Number: 0404ME4004

Finding: Financial reporting inconsistencies and errors **(Prior Year Finding)**

During a review of the quarterly financial reports, *Child Support Enforcement Program Quarterly Report of Expenditures and Estimates* (Form OCSE-396A), we identified errors, inconsistencies, and insufficient supporting documentation, as follows:

- For the quarter ended September 30, 2003, the Department provided us with three different versions of the OCSE-396A Report. The Department did not know which of the three was the final revision submitted to the federal Office of Child Support Enforcement.

- Work sheets supporting certain costs (non-IV-D) were not mathematically accurate.

- Percentages used by the Department to compute allocated costs were inaccurate (not based on historical data).

- The federal portion of automated data processing (ADP) costs were reported inconsistently.

- Comparisons of the reported administrative expenditures to the supporting documentation contained the following errors:

  1. For the quarter ended September 30, 2003, total non-IV-D costs were under-reported by $135,156;
  2. For the quarter ended June 30, 2004, total non-IV-D costs were over-reported by $2,973;
  3. Total training costs for the year were over-reported by $1,094;
  4. ADP costs were under-reported by $30,054 for the quarter ended September 30, 2003.

The net result of identified reporting errors was negative to the State; therefore, no costs were questioned.

Recommendation:

We recommend that the Department of Health and Human Services implement controls to ensure that complete and accurate quarterly reports are submitted to the Office of Child Support Enforcement. In addition, adequate supporting documentation should be available for audit purposes.

Auditee Response/Corrective Action Plan:

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851

The procedure has been adjusted to properly classify the non-IV-D costs. Additionally the Department has entered into a contract with Public Consulting Group, Inc. of Boston, MA to design a cost allocation plan. The data- gathering phase of the project began in the spring of 2005.

The Department has always and continues to make a concerted effort to report accurate and completed financial data to all federal grantor agencies.

The Department will continue to take appropriate and timely corrective action on any deficiencies or errors identified by self-discovery and/or audit recommendations.

(04-38) Bureau of Child and Family Services

Child Care Cluster — **Questioned Costs**: None
CFDA#: 93.575, 93.596
Federal Award Number: G-0301MECCDF, G-0401MECCDF

Finding: Ineffective monitoring of providers on eligibility issues **(Prior Year Finding)**

The Department of Health and Human Services (DHHS) did not adequately monitor providers of child care services (subrecipients) to ensure that eligibility determination and benefit payments were correct.

Of 12 on-site review reports we examined, DHHS had identified five providers with significant problems, including: ineligible clients, eligibility determinations which were not properly supported, and benefit calculations which were incorrect or unsupported. However, DHHS did not have adequate follow-up procedures to address these issues. As a result, ineligible individuals may have received benefits or eligible individuals may have received incorrectly calculated benefits.

We noted the Department has initiated corrective action, which includes:

- Training sessions for providers on determining eligibility and levels of benefits;
- Performing on-site reviews of all providers during the 2005 fiscal year;
- Performing a follow-up site visit within 60 days of the initial site visit, if the eligibility error rate exceeded 10%;
- Terminating the contract with that provider, if on the second site visit, the eligibility error rate still exceeds 10%.

Recommendation:

We recommend that the Department of Health and Human Services implement and comply with the corrective action plan described above.

Auditee Response/Corrective Action Plan:

Contact: Jeannette Talbot, Federal Grants Program Manager, 287-5037

The Corrective Action noted above was initiated in January, 2005. Initial and follow-up visits have been completed and all agencies are now in compliance.

(04-39) Division of Program Accounting and Cash Management Operations

Child Care Cluster **Questioned Costs**: None
CFDA#: 93.575, 93.596
Federal Award Number: G-301MECCDF, G-401MECCDF

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

The Child Care Development Block Grant expended $4.3 million more than was drawn from the federal government, resulting in noncompliance with the Cash Management Improvement Act. In fiscal year 2005, the Department analyzed the account and drew funds to correct the issue. The failure occurred because the cash-draw sheets did not reach the appropriate personnel.

Recommendation:

We recommend that the Department of Health and Human Services minimize the number of days between expenditure dates and the subsequent draw of federal funds and continue to regularly review and reconcile cash draws and balances.

Auditee Response/Corrective Action Plan:

Contact: Lisa Thibodeau, Senior Staff Accountant, 287-3160

Individuals within the department have met with the State Treasurer CMIA Coordinator to ensure that all CMIA procedures are followed. In addition, all financial service personnel have participated in at least one CMIA workshop. The account has been periodically reviewed and reconciled during the year but it has also suffered from staff turnover.

Department of Health and Human Services

(04-40) Division of Program Accounting and Cash Management Operations

Child Care Cluster **Questioned Costs**: None
CFDA#: 93.575, 93.596
Federal Award Number: G-0301MECCDF, G-0401MECCDF

Finding: Inaccurate federal financial reports **(Prior Year Finding)**

The Department of Health and Human Services did not have a financial accounting system in place to account for Child Care Development Funds (CCDF) by federal grant year. The Department cannot generate accurate federal financial reports for current periods because errors affecting prior periods have yet to be corrected. The Department did not use the Maine Financial and Administrative Informational Systems (MFASIS) federal grant module to track revenue and expenditure transactions by federal grant year and also recorded multiple federal grant years in the same account. As a result, expenditures have been incorrectly reported by federal grant year on financial reports (ACF-696).

The Department did not amend financial reports to correctly reflect prior-period changes in the TANF program. During the 2004 fiscal year, the Department, in conjunction with the Office of the State Controller and with the approval of the U.S. Department of Health and Human Services, amended the TANF program's federal financial reports to reflect the maximum allowable amount of TANF funds that could be transferred to other federal programs, including CCDF. These revisions were made for federal fiscal years 2000 thru 2003. Any changes in the amount of TANF funds transferred to the CCDF should also be reflected in the latter program and its required reports.

Due to the revisions in the amount of TANF transfers to the CCDF, the financial reports should also be amended to report additional allowable child care expenditures for federal fiscal years 2000, 2001, 2002, and 2003, totaling $1.1 million, $5.2 million, $2.7 million, and $126,000, respectively. These qualifying General Fund expenditures exceed the required State match amount for the grant and can be claimed for federal reimbursement.

Further, the Department incorrectly reported expenditures for certain categories on quarterly financial reports. We examined each of the quarterlies for fiscal year 2004, and identified six areas where the data was incorrectly reported.

1. The Department did not have a system to properly report the federal share of unliquidated obligations. The Department reported the difference between the federal grant award and TANF transfers, less cumulative expenditures, as the obligated balance. There is no relationship between this balance and the amount of the obligations incurred by the State.

2. The Department did not adjust expenditures reported on the quarterlies to reflect actual payroll costs allocated to the CCDF grant. Certain department employees perform job activities for more than one federal grant and their salaries should be allocated to those respective grants. Although the amount of reported expenditures for fiscal year 2004

included $100,000 in payroll costs from other federal grants, federal draws were credited to the proper accounts.

3. The Department incorrectly reported administrative and direct services expenditures on the grant financial reports, for quarters ending September 30, 2003, and December 31, 2003. Administrative expenditures were overstated by $1.2 million and direct services expenditures were understated by $1.2 million.

4. The Department incorrectly reported $758,000 in mandatory expenditures on the 2004 grant financial report, for the quarter ending December 31, 2003. These expenditures had been previously reported on the 2003 grant financial report for the quarter ending December 31, 2003. We do not question costs because the Department has not drawn the duplicate amounts reported.

5. The Department incorrectly reported the amount of expenditures for the maintenance of effort category on the grant financial report for the quarter ending June 30, 2004. The Department reported $438,000, whereas actual expenditures totaled $1,458,000.

6. The Department incorrectly recorded the amount of transfers from TANF to CCDF on the grant financial report, for the quarter ending December 31, 2003. The Department recorded TANF transfers of $446,000, whereas actual TANF transfers for the period totaled $1,373,000.

The Department has experienced considerable turnover in the Senior Accountant's position for the program. This turnover has hindered the Department's ability to provide accurate financial reports because new personnel were unfamiliar with the program's financial requirements and lacked the institutional knowledge regarding the State's financial accounting system.

Recommendation:

We recommend that the Department:

1. Revise quarterly ACF-696 financial reports for fiscal years 2000 through 2004 to accurately reflect the amount of TANF transfers and total expenditures by category areas.

2. Use the amount of federally encumbered contracts and obligations on the State's accounting system as the basis for recording the amount of unliquidated federal obligations, and show any remaining amounts as unobligated.

3. Review accounting procedures and utilize the federal grant module within the State's accounting system to account for grant transactions by federal grant year.

4. Revise applicable quarterly ACF-696 financial reports to accurately reflect payroll costs.

Department of Health and Human Services

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, Director, 287-1861

The Department of Health and Human Services agrees with this finding. During FY 06, all ACF-696 financial reports will be reviewed, corrected and resubmitted. DHHS has started to utilize the federal grant module within MFASIS and is reviewing this policy in light of the implementation of a revised grant module within the new State accounting system.

(04-41) Bureau of Child and Family Services

Foster Care: Title IV-E **Questioned Costs**: $18,999
CFDA#: 93.658
Federal Award Number: 0401ME1401

Finding: Duplicate costs paid

Of twenty-nine Foster Care cases reviewed, we found three instances where a single provider was paid twice for the same service period, resulting in questioned costs of $18,999. In those instances, the program made a series of board and care payments at daily rates higher than were approved. When those errors were detected, the Department's computer system, MACWIS, processed three lump sum payments at the correct rate; however, it did not recover the series of payments made at the higher rates as it would normally do.

The provider is currently negotiating an agreement with the Department of the Attorney General, which has advised the Department not to collect any overpayments until the settlement was complete.

Recommendation:

We recommend that the Department:

1. Maintain a record of outstanding overpayments;
2. Document any amounts being negotiated;
3. Maintain an audit trail of recoveries.

Department of Health and Human Services

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

Contact: Robert Blanchard, Accountant, 287-5060

The Department of Health and Human Services agrees with this finding. In this case, the second payment was made because of a rate adjustment. The Bureau did not process the credit adjustment at this time per the advice from the Attorney General's Office.

(04-42) Bureau of Child and Family Services

Foster Care: Title IV-E **<u>Questioned Costs:</u>** $19,196
<u>CFDA#</u>: 93.658
Federal Award Number: 0401ME1401

<u>Finding</u>: Override of controls to ensure that costs are claimed correctly **(Prior Year Finding)**

The Department of Health and Human Services miscoded and charged several administrative expenditures to the Foster Care program as maintenance assistance payments. Administrative expenditures are reimbursed by the federal government at 50 percent, whereas maintenance assistance payments are reimbursed at the higher rate of 66 percent. One invoice was for digital cameras, of which we question $13,684, the federal share of the charge.

In addition, the Department miscoded and charged a few Adoption Assistance program expenditures 100 percent to the Foster Care program as maintenance assistance payments. Adoption Assistance costs should not be charged to the Foster Care program. Furthermore, allowable administrative costs should be allocated to Foster Care based on the federally approved cost allocation plan. We question $5,512, the federal share of these charges.

The federal share of expenditures incorrectly charged to the Foster Care program totaled $19,196.

<u>Recommendation:</u>

We recommend that documented instructions show how all types of invoices are to be coded, and that those instructions be followed in all instances.

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

Contact: Robert Blanchard, Accountant, 287-5060

The Department of Health and Human Services agrees with this finding. The Bureau has undergone recent Title IV-E trainings and continues to work with staff to increase the understanding of the program.

(04-43) Bureau of Child and Family Services

Foster Care: Title IV-E **<u>Questioned Costs</u>**: $38,267
<u>CFDA#</u>: 93.658
Federal Award Number: 0401ME1401

<u>Finding</u>: Insufficient controls and noncompliance with eligibility requirements **(Prior Year Finding)**

The Department of Health and Human Services had insufficient controls to ensure that Foster Care payments were only made to eligible recipients. Five of sixty cases reviewed did not meet the federal eligibility requirements. The federal share of these unallowable expenditures totaled $27,886, resulting in an error rate of six percent. When applied to the entire population of benefit payments, the federal share of the projected error amount is $617,939. In an additional test we identified another ineligible recipient. The federal share of this expenditure was $10,381.

Title 45 CFR 1356 and the Social Security Act state that Foster Care benefits are allowed if all program eligibility requirements are met.

<u>Recommendation:</u>

We recommend that the Department continue to implement eligibility review procedures, to provide assurance that program requirements have been met. These procedures should include examination of supporting documentation maintained by the Department, in conjunction with the review of eligibility data.

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

Contact: Robert Blanchard, Accountant, 287-5060

The Bureau of Child and Family Services concurs with this finding. Though we do not yet understand the causes of these issues and will require more time to investigate, we will fully *investigate these issues, disclose to audit our findings, and make the necessary system changes in a timely manner.*

(04-44) Division of Program Accounting and Cash Management Operations

Foster Care: Title IV-E **Questioned Costs:** $530,340
CFDA#: 93.658
Federal Award Number: 0401ME1401

Finding: Information system costs not allocated according to cost allocation plan **(Prior Year Finding)**

The Department of Health and Human Services charged all of the Maine Automated Child Welfare Information System (MACWIS) costs to the Foster Care program, rather than allocating the costs between that and the Adoption Assistance program.

Although the federally approved cost allocation plan provided that these two Title IV-E programs share the costs, and the Department had procedures in place to proportionally allocate various expenditures between the programs, it did not allocate the costs associated with MACWIS. Department personnel noted that only the reporting form for the Foster Care program included a line to report the MACWIS costs.

The federal share of MACWIS costs charged to the Foster Care program was $1.3 million. We question $530,340, the proportional share of MACWIS costs that should have been charged to the Adoption Assistance program and not to the Foster Care program. This amount is based on the cost allocation rate that was used during the fiscal year to allocate other shared costs of the Title IV-E programs.

Recommendation:

We recommend that the Department allocate MACWIS costs between the Title IV-E programs based on the federally approved cost allocation plan.

Auditee Response/Corrective Action Plan:

Contact: Annette J. Tibbetts, Managing Staff Accountant, 287-3172

The federal financial reports have been filed and accepted charging the Foster Care Program 100 percent of its MACWIS costs. The Department of Health and Human Services has been working with the Federal cognizant agency to add the IT expenditure line to the Quarterly Adoption Assistance report. In the meantime, as of the 12/31/04 report, DHHS has reported a *portion of MACWIS expenditures on the Adoption Assistance Report under the administration expense line with a footnote to explain the entry. There is no net impact on the State government or the IV-E program due to this practice.*

(04-45) Division of Program Accounting and Cash Management Operations

Foster Care: Title IV-E **Questioned Costs: $**12.4 million
CFDA#: 93.658
Federal Award Number: 0401ME1401

Finding: Federal cash drawn in excess of reported expenditures **(Prior Year Finding)**

The Department of Health and Human Services drew $12.4 million more in federal cash than it reported as expended for the Foster Care program. Of this amount, $5.3 million was overdrawn in prior federal fiscal years and $7.1 million was overdrawn in 2004. However, we have not been able to determine whether the Department failed to report all Foster Care expenditures, or used funds for other programs. When the federal government reconciles each year's grant award to the reported expenditures, it requires the Department to repay any excess cash drawn. However, the account used for Foster Care and other programs was overdrawn by $706,975 on June 30, 2004, rather than having a $12.4 million cash balance. The Department does not appear to have the money in the account to return the excess federal funds.

In the past, the Department repaid the federal agency with future federal grant awards within the federal government's Payment Management System. Generally, these transactions are not recorded in the State's accounting system, but only in the federal letter of credit. These accounting practices fail to account for federal funds drawn in excess of the expenditures reported. The problem is pushed into the next year's grant award and compounded over the years. Award amounts have decreased significantly, making these practices all the more unsound.

Because the negative cash balance in the account indicates that the funds were used elsewhere, the General Fund may need to repay the federal government $12.4 million.

In addition, this program violated the Cash Management Improvement Act, which 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.

Recommendation:

We recommend that the Department of Health and Human Services:

- Ensure that federal funds drawn correlate to reported expenditures;
- Discontinue the use of future grant awards to "payback" overdraws;
- Return overdrawn amount to the federal government;
- Comply with federal cash management provisions.

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

Contact: Charles Woodman, Deputy Director, 287-2572

The Department of Health and Human Services agrees with this finding and has taken steps to close the gap between draws and reported expenditures. The past practice of using future grant awards to payback overdraws has been stopped in FY 05.

Cost allocation and earned revenue have been reevaluated and revised. A reconciliation process is being developed. This reconciliation process is needed because factors determining the ability to claim expenditures are not calculated until after the quarter is closed, because the factors are figured on current quarter child counts. Accounting staff turnover has hindered this process.

The 7.1 million dollars in FY 04 includes a 2.5 million dollar adjustment made to the foster care grant to settle another federal audit. These funds have subsequently been appropriated by the legislature and returned to the grant in FY 05. The prior period adjustment of certain factors has also generated reportable expense further narrowing the shortfall. In addition, a million dollars was applied to the FY04 grant from an earlier year balance.

(04-46) Division of Program Accounting and Cash Management Operations

Foster Care: Title IV-E and Adoption Assistance — **<u>Questioned Costs:</u>** $420,224
<u>CFDA#</u>: 93.658, 93.659
Federal Award Number: 0401ME1401, 0401ME1407

<u>Finding</u>: Insufficient internal controls to ensure accurate reporting and noncompliance with eligibility requirements **(Prior Year Finding)**

The quarterly financial reports for the Foster Care and Adoption Assistance programs contain inaccurate data.

The Department could not identify all accounts shared between the Foster Care program and the Adoption Assistance program for training and administrative costs. Further, the Department did not reconcile the federally reported expenditures to the State's accounting system.

We identified the following reporting errors; the Department:

- Claimed expenditures that were not included in an approved cost allocation plan. Federal expenditures were overstated for Foster Care by $2,568 and for Adoption Assistance by $3,120.

- Only partially claimed certain payroll expenditures. The Department's manual process for calculating certain claimable payroll expenditures caused Foster Care to understate federal expenditures by $5,676. Adoption Assistance understated federal expenditures by $18,221.

- Did not properly reduce expenditures reported for the Foster Care program for three quarters, as required, by the amount of Child Support collections received for children in State custody. This caused federal expenditures for Foster Care to be overstated by $422,081.

- Did not claim allowable Single Audit charges for Foster Care and Adoption Assistance. These expenditures were intended to be claimed based on a federally approved cost allocation plan. Federal expenditures reported for Foster Care were understated by $8,777. Federal expenditures reported for Adoption Assistance were understated by $11,171.

- Reported different amounts as expended than were allocated on cost allocation schedules. Federal Foster Care expenditures were overstated by $10,028. Federal Adoption Assistance expenditures were overstated by $12,853.

The reporting errors described above totaled $420,224 for Foster Care and negative $13,419 for Adoption Assistance. We will not question costs for the Adoption Assistance program, as these errors are understated.

The reporting process is quite complex for these two programs, because the expenditure amounts obtained from the State's accounting system are subjected to many intermediary calculations in order to be claimed as program expenditures. The complexity of the procedures and staff turnover most likely contributed to these errors.

Recommendation:

We recommend that the complex process used to determine reportable expenditures be simplified and documented. We recommend that each federal program be assigned its own appropriation account because combining multiple federal programs into one appropriation makes accounting for federal dollars more complicated and prone to errors

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, Director, 287-1861
Charles Woodman, Deputy Director, 287-2572

The Department of Health and Human Services agrees with this finding. This program is by its nature very complex and has suffered from staff turnover. DHHS is in the processes of hiring personnel for this team. Once the new team is in place, they can review the current process and *make recommendation to simplify it. During FY 2005, DHHS has documented the process for filing the financial status report.*

The $422,081 in child support collections not credited to the Foster Care report reflects a conflict with federal reporting requirements. This amount represents child support collected for all children in state care and not just those funded by the federal government through the IV E Program. The split is calculated by multiplying the total collections by the population figures for state and federally supported children, the federal portion is further divided by the federal participation rate with the federal share actually returned to the account. This reality is in conflict with the federal requirement that the entire amount from the Child Support report be credited to the Foster Care Report thus reducing that claim. Federal guidance will be sought to resolve this conflict.

DHHS is currently undergoing an account restructuring which will address the issue of multiple federal programs in one appropriation account.

(04-47) Bureau of Child and Family Services

Adoption Assistance **Questioned Costs**: $34,831
CFDA#: 93.659
Federal Award Number: 0401ME1407

Finding: Payments made on behalf of ineligible clients

The Department of Health and Human Services made payments from Adoption Assistance funds on behalf of ineligible clients. Title 45 Section 1356.21 (c) requires a specific judicial determination that removal of a child from the home is necessary for the welfare of the child. From the population of 1,854 cases receiving Title IV-E benefits during the audit period, we examined 41 cases (2.21 percent). Of those, six were ineligible due to the absence of documents supporting the explicit judicial determination needed.

Our determination that these children are ineligible for Title IV-E benefits concurs with a determination made by the Office of the Inspector General (OIG) in a separate case review, which included these six cases. We question $34,831, the federal share of total payments made on behalf of these six clients during the audit period. Of the $9,160,380 of federal funds expended for adoption assistance, a proportional estimate of $202,444 (2.21 percent of $9,160,380) was likely paid to ineligible clients.

Furthermore, OIG questioned the eligibility of 139 other cases, citing that the Department could not provide evidence supporting that the child met the eligibility requirements of Aid to Families with Dependent Children (AFDC) as required by 42 USC 673 (a)(2)(A). Although the OIG questioned the eligibility of these clients, our examination of five cases indicated that the Department has not stopped them from continuing to receive Title IV-E benefits. Whereas the

Department could not document eligibility for the cases examined by the OIG, our review of 41 cases found no exceptions whereby the child's AFDC eligibility could not be supported. In many case files, this documentation was found to be missing; however, it was available through other sources.

Recommendation:

We recommend that the Department obtain all documentation, as required by federal regulations.

Further we recommend that the Department establish a control system, such as a check list, to ensure all documentation required to determine eligibility is kept in a client's file.

Finally, we recommend that the Department review all 139 cases deemed ineligible by the OIG to ensure that documentation is not available to support eligibility, and if it is not, terminate the benefits.

Auditee Response/Corrective Action Plan:

Contact: Robert Blanchard, Accountant, 287-5060

The Department of Health and Human Services concurred with the Office of Inspector Generals' audit and believes it has made changes accordingly. The detail supporting this finding will be reviewed to establish if these costs were incurred after the onset of the current audit period but before their discovery by the OIG, which was auditing for an earlier period. Any uncorrected items will be changed.

(04-48) Division of Program Accounting and Cash Management Operations

Adoption Assistance **Questioned Costs**: None
CFDA#: 93.659
Federal Award Number: 0301ME1407, 0401ME1407

Finding: Inadequate accounting and reporting controls **(Prior Year Finding)**

The Department of Health and Human Services did not correctly record the federal and State shares of $36,821 and $381,294 respectively, in non-recurring adoption assistance and demonstration project expenditures. Further, the Department lumped non-recurring adoption assistance expenditures with other payments that have different federal financial participation rates in quarterly reports. The financial impact or questioned cost associated with these errors could not be readily determined for the following reasons:

- All non-recurring expenditures were combined in one account for both federal and State funded programs. A detailed review of each transaction would be necessary to allocate these costs.

- The federal share of these non-recurring expenditures, incurred on behalf of Title IV-E eligible clients, was recorded at the Federal Medical Assistance Payment rate, rather than the approved rate for administrative expenditures (50%).

- Most demonstration project expenditures were recorded entirely in the federal expenditure fund. The State share of these expenditures was 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.

Recommendation:

We recommend that the Department take steps to ensure the proper recording and reporting of Adoption Assistance program expenditures. We also recommend that the Department review program regulations and implement reasonable review and reconciliation procedures that will prevent additional errors from occurring.

Auditee Response/Corrective Action Plan:

Contact: Robert Blanchard, Accountant, 287-5060

The Bureau of Child and Family Services concurs with these findings. These types of issues normally occur due to either a coding error or a misinterpretation of the charge. The bureau has undergone recent Title IV-E trainings to help avoid this type of confusion in the future and is working with our staff diligently to increase the understanding of Title IV-E and its correct application to our programs.

In response to the particular issues stated above:

1. *BCFS fully concurs with this finding. We will review the federal reports and revise them where necessary.*
2. *BCFS fully concurs with this finding. We will change the processing of these bills immediately to reflect a charge to Title IV-E Administration and not Title IV-E Maintenance.*
3. *The Demonstration Project expenses mentioned were bills for concrete services provided to the family, of which 50% was paid by the parents and 50% billed for Federal Participation. BCFS used the parent's portion of the payment as the match for the federal funding.*

Department of Health and Human Services

(04-49) Division of Program Accounting and Cash Management Operations

Social Services Block Grant **Questioned Costs**: None
CFDA#: 93.667
Federal Award Number: G0301MESOSR, G0401MESOSR

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

The Department of Health and Human Services did not have controls in place to ensure that funds are distributed to subgrantees based on their immediate cash needs. Some subgrantees of the Social Services Block Grant (SSBG) were distributed funds on a predetermined quarterly schedule and their immediate cash needs were not considered in the disbursement process. According to 45 CFR 92.21, advances in grant funds to subgrantees must conform substantially to the same standards that apply to cash advances by federal agencies.

In addition, the Department did not have controls in place at the State level to ensure compliance with federal cash management requirements. During fiscal year 2004, the Department held excessive cash for three of the twelve months, ranging from 13 days to 30 days. In one of those three months (June), despite carrying an excessive cash balance of nearly $2.2 million, the Department transferred an additional $2 million to the SSBG from the Temporary Assistance for Needy Families program. This excessive cash remained until the 3rd quarter of federal fiscal year 2005.

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. The Office of the State Controller has determined that drawing federal funds seven business days ahead of need is administratively feasible in Maine.

Recommendation:

We recommend that the Department advance funds to all subgrantees based on immediate cash needs and draw federal cash in compliance with federal requirements. The Department should investigate any unusual cash balances that are not temporary in nature.

Auditee Response/Corrective Action Plan:

Contact: Jeannette Talbot, Federal Grants Program Manager, 287-5037

Beginning with the state fiscal year 2006, former-DBDS-administered contracts with SSBG funds will be paid on a monthly basis, with quarterly adjustments based on reported expenditures. This program has suffered from staff turnover and therefore has not been reconciled timely. Cash management will be a priority when staff is hired.

Department of Health and Human Services

(04-50) Community Services Center

Social Services Block Grant **Questioned Costs**: $1.9 million
CFDA#: 93.667
Federal Award Number: G0301MESOSR, G0401MESOSR

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

The Department of Health and Human Services did not have controls in place to ensure that funds transferred from the Temporary Assistance for Needy Families (TANF) Block Grant to the Social Services Block Grant (SSBG) were spent as required. The Department did not identify the applicable earmarking requirements in the contracts signed by the subgrantees; therefore, the subgrantees did not necessarily restrict services to eligible recipients, resulting in questioned costs of $1.9 million.

According to 42 USC 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. This requirement was not indicated in the contract between the State and the subgrantees.

In addition, the Department could not specifically demonstrate that $2.4 million used for Foster Care costs met the eligibility requirements; however, we do not question the costs, as our testing indicates that it is highly probable that the State made qualifying expenditures.

Recommendation:

We recommend that the Department implement control procedures to ensure that funds transferred to SSBG from TANF are spent in accordance with the applicable earmarking requirements, by including a review of the federal requirements in contracts with providers. We further recommend that the Department maintain supporting documentation to substantiate that earmarking requirements are met.

Auditee Response/Corrective Action Plan:

Contact: Jeanette Talbot, Federal Grants Program Manager, 287-5037

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 the 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 eligibility section of the Program Plan Report 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 list of services to be provided in the state's Program Plan Report.

The Department is seeking clarification on the above cited discrepancy from the federal DHHS and will abide by their decision.

(04-51) Community Services Center

Social Services Block Grant **<u>Questioned Costs</u>**: None
<u>CFDA#</u>: 93.667
Federal Award Number: G0301MESOSR, G0401MESOSR

<u>Finding</u>: Inadequate subrecipient monitoring procedures **(Prior Year Finding)**

The Department of Health and 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 to federal and did not amend the contracts to reflect a change in funding source or to include the required federal grant information. Therefore, subgrantees were not aware that they were receiving federal dollars nor of the applicable federal program requirements.

Title 31 USC 7502(f)(2)(A) requires that federally funded subgrantees be provided with program names (and any identifying numbers) for assistance on federal requirements which govern the use of such awards.

<u>Recommendation:</u>

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.

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

Contact: Jeanette Talbot, Federal Grants Program Manager, 287-5037

The Community Services Center agreements all contain contractual language, which binds the provider to the same rules and regulations regardless of funding streams. Consequently, any changes, including additions, deletions or various adjustments of funding sources does not change the legal obligations of the provider for monitoring and program compliance.

Department of Health and Human Services

(04-52) Bureau of Family Independence
Division of Technology Services

Medical Assistance Program **Questioned Costs**: $40,266
CFDA#: 93.778
Federal Award Number: 0405ME5028

Finding: Controls not adequate to prevent Medicaid payments on behalf of ineligible recipients

Controls for determining Medicaid eligibility at the Bureau of Family Independence (BFI) did not ensure that Medicaid claims were only paid on behalf of eligible recipients.

Of 60 paid claims examined, two recipients were not eligible to receive Medicaid benefits.

- One recipient did not satisfy income eligibility requirements; the recipient's family's income was higher than was reported to the caseworker. BFI did not require caseworkers to investigate un-reported income through computer checks with the Social Security system and/or the Department of Labor. We question $95, the federal share of the claim included in our sample that was paid on behalf of this recipient.

- One recipient did not complete a required eligibility redetermination form, which resulted in a termination of eligibility during December 2002; however, because the Automated Client Eligibility System (ACES) listed the recipient as eligible, payments were made beyond December 2002. We question $812, the federal share of the claim included in our sample paid on behalf of this recipient.

The questioned costs for these two claims totaled $907 [$95 plus $812]. We estimate the likely questioned costs associated with ineligible recipients to be $7.9 million [$95 plus $812 equals $907 *(ineligible claims paid in our sample)* divided by $124,004 *(total claims paid in our sample)* which equals .73 percent, times $1.08 billion *(total non-pharmacy federal funds expended)*].

The Department paid an additional $39,359 on behalf of the recipient who did not complete a required re-determination form; therefore, we question additional costs of $39,359, the additional federal share of claims paid after eligibility ended for this recipient.

BFI claimed that a computer problem with ACES affected recipients with eligibility end dates of December 2002. Neither the Bureau, nor the Division of Technology Services could provide documents supporting that the problem with ACES had occurred or been resolved. Please refer to finding 04-20 for additional redetermination date problems within the ACES system.

Furthermore, we identified a recipient with date of death listed in ACES beyond the recipient's actual date of death, which resulted in an eligibility end date that corresponded with the incorrect date of death. Caseworkers manually enter this information into ACES. Although no claims were paid after the recipient's actual date of death, had a claim been fraudulently submitted with a date between the actual date of death and the later date listed in ACES, the system would have automatically paid the claim.

Recommendation:

We recommend that the Bureau of Family Independence and the Division of Technology Services develop and implement controls and regularly test procedures to ensure that ACES maintains correct and consistent data. We recommend that caseworkers verify whether income has been under-reported by checking applicable computer information systems and/or inquiring of the Social Security Office, and/or the Department of Labor at the time of application, as well as at the time of re-determination. We recommend that the Division of Technology Services retain documentation relating to any major problems and issues found and resolved relating to ACES.

Auditee Response/Corrective Action Plan:

Contact: Rose Masure, Director of Policy and Programs, 287-3104

The Bureau has also been in full compliance with the IEVS requirements since May 11, 2005, a client's SSI and SSA income will be routinely and automatically updated through SDX and BENDEX matches with the ACES caseload each month. Procedures have been documented and provided to staff during FY 2005.

During FY 2005 a corrective action plan was implemented regarding the re-determination form. The Bureau of Family Independence will work with the Division of Technology Service concerning documentation of problems and their resolution.

(04-53) Bureau of Medical Services

Medical Assistance Program — **Questioned Costs**: None
CFDA#: 93.778
Federal Award Number: 0405ME5028

Finding: Surveillance and utilization reviews not performed on a sampling basis **(Prior Year Finding)**

The Surveillance and Utilization Review Unit (SURS) did not follow sampling procedures to evaluate cases in post-payment review. SURS did review 296 cases, one of which originated from within the unit and the rest initiated by complaints and referrals.

Department of Health and Human Services

Title 42 CFR 456.22 requires the State Medicaid agency to have sampling procedures for on-going evaluations 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. The Bureau of Medical Services' new claims management information system that is expected to be implemented in State fiscal year 2005 should help to 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 that the SURS Unit implement as much of the procedure manual as possible pending the capabilities provided by the new claims management system.

Auditee Response/Corrective Action Plan:

Contact: Chris Zukas-Lessard, Assistant Bureau Director, 287-2674

The Bureau of Medical Services has recently implemented Phase 1 of the MECMS project that included a new claims payment system, provider file, member file, and procedure file. In Phase 2, the Surveillance and Utilization Review Subsystem (SURS) and decision support subsystem will be implemented. The new SURS will provide the Unit with capability to identify potential cases utilizing sampling methods and will increase the percentage of cases that are initiated within the Unit.

(04-54) Bureau of Medical Services

Medical Assistance Program — **Questioned Costs**: None
CFDA: 93.775, 93.777, 93.778
Federal Award Number: 0405ME5028

Finding: Medicaid State Plan Amendment results in inequities

The Department of Health and Human Services received approval from the Centers for Medicare & Medicaid Services (CMS) for a Medicaid State Plan Amendment. The Amendment increased payments to eleven hospitals for inpatient services; the enhanced payments were funded 1/3 by the State's General Fund and 2/3 with federal Medicaid dollars.

The enhanced payments to the providers were an initial step by the State to equalize its health insurance payments for different user groups. The Bureau of Medical Services advised CMS that the State would reduce funds for State employee health costs and appropriate $8 million more for the enhanced Medicaid payments. The federal participation was expected to be $17 million for a total additional Medicaid expenditure of $25 million.

The State ultimately realized nearly a three for one benefit from implementation of the plan. The State and University System reduced their payments to Anthem for employee health insurance by $25 million. The hospitals received enhanced Medicaid payments of $25 million. Ten of the eleven hospitals, which received the enhanced payments, were asked to negotiate rate reductions with Anthem for State employees of $25 million and actually reduced their bills to Anthem by $23 million. The State and University System subsequently agreed to pay Anthem the difference between the amount it received from the State and the healthcare rate reductions from the hospitals.

Although the State received CMS approval for the plan amendment, the reduction of rates for State Employee Healthcare by an amount so closely equivalent to the enhanced Medicaid rate appears not to have been in accord with CMS stated policy objectives.

Recommendation:

We recommend that the State clarify how all relevant information has been provided when requesting federal approval for State Plan amendments.

Auditee Response/Corrective Action Plan:

Contact: Edward Karass, State Controller, 626-8420

We do not agree with the Auditor's conclusions. The State answered the questions posed by CMS. Additionally, we sought advice from the Office of the Attorney General to ensure that we complied with federal and state laws and regulations.

(04-55) Bureau of Medical Services
Bureau of Child and Family Services

Medical Assistance Program — **Questioned Costs**: $7,462
CFDA: 93.778
Federal Award Number: 0405ME5028

Finding: Unallowable case management claim payments

The Department of Health and Human Services' Bureau of Child and Family Services (BCFS) incorrectly billed Medicaid for all non-placement case management services it provided to Medicaid eligible individuals. Only targeted case management services should have been billed;

other direct program case management services, which are typically provided to Child and Family Service clients are not allowable charges to Medicaid. A January 19, 2001 advisory letter from the Centers for Medicare & Medicaid Services (CMS) requires that States which offer Medicaid case management services to foster care populations must properly allocate case management costs between the two programs in accordance with the Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* under an approved cost allocation program.

The Bureau of Medicaid Services reimbursed BCFS a negotiated monthly rate of $899 for each Medicaid eligible individual who was provided with case management services. Per discussions with current State and former CMS officials, there was no written agreement to support the negotiated rate. For the period we examined, BCFS personnel averaged 1.5 hours per month providing case management services, resulting in an hourly reimbursement rate of $599. Medicaid case management payments to BCFS for the State fiscal year amounted to $28,751,139 ($19,666,057 federal share) for 31,981 claims.

Of 22 claims examined, 12 (55%) were for BCFS clients. For the various services that were provided to these clients, there was no way to identify which of the case management services were direct and which were allowable targeted services. We question $7,462, the federal share of reimbursements made for the 12 clients. We estimate likely questioned costs to be $10,816,331 (55% x $19,666,057.)

Recommendation:

We recommend that the Department establish a federally approved cost allocation program to properly allocate case management costs.

Auditee Response/Corrective Action Plan:

Contact: Robert Blanchard, Accountant, 287-5060

The Bureau of Child and Family Services does not concur with this finding. The Bureau uses the Maine State SACWIS system in the creation of its claims, which follows the rules laid out by CMS in their directions on TCM claiming. BCFS recently had a nationally recognized TCM expert review a much larger sample of TCM claims in preparation of the current federal audit. That review did not at all reflect the outcomes of this audit finding. In regards to the negotiated rate, the Auditors finding that the claim rate is too high is unjustified, as the current negotiated and accepted rate was made between the DHS commissioners office and the ACF Regional office.

Department of Health and Human Services

(04-56) Bureau of Medical Services

Medical Assistance Program **Questioned Costs**: None
CFDA: 93.778
Federal Award Number: 0405ME2028, 0405ME5028

Finding: Provider eligibility records inadequate **(Prior Year Finding)**

The Department of Health and Human Services' Provider Services Unit had insufficient records to prove that they had ensured that providers were appropriately licensed and had made certain disclosures as required by 42 CFR 455.106.

The provider application and agreement process are key controls to ensure that all providers are Medicaid eligible participants. In our review of 60 providers, 3 files could not be found. Of the 57 files that were reviewed, 13 were missing agreements and another 13 were missing applications. Of the 44 applications reviewed, 13 were missing the required ownership disclosure and 29 were missing the required criminal offense disclosure.

Furthermore, as part of the application process, providers are required to submit a copy of their current license. Most of files reviewed did not have a copy of the license, and in cases where licenses existed, there was no indication that Provider Services Unit personnel had determined that the licenses were valid. Unlicensed providers are not eligible to receive Medicaid payments, which could have resulted in significant questioned costs. However, we do not question costs, because we extended our audit procedures and obtained copies of all licenses in question, either from the Division of Licensing and Certification or the providers.

Recommendation:

We recommend that 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 that there be periodic reviews of the provider files to give assurance that the provider information remains current and accurate. We recommend that provider license information be verified and a copy of the license be maintained for verification purposes.

Auditee Response/Corrective Action Plan:

Contact: Chris Zukas-Lessard, Assistant Bureau Director, 287-2674

The Provider File Unit already utilizes a checklist of the information that must be submitted before a provider can participate in MaineCare. It is derived from the documentation matrix that was developed as part of MECMS implementation. The auditors were provided with a copy of this checklist during a recent visit. Staff also verify on-line in MECMS that all required *documentation was received. BMS believes that all relevant requirements are included in the checklist and that this document does serve to ensure that necessary documentation is present. We believe that provider files with missing material were disproportionately completed prior to the use of the checklists, which began 3/1/04. Additionally, many older enrollment papers were lost as a result of contamination at a previous building. If audit staff have specific recommendations BMS will certainly review those.*

In regard to the recommendation of a periodic review of provider files and in light of the fact that there are thousands of files and limited staff resources, the Department will ask each staff person to review a sample of providers in the portion of the alphabet assigned to them. Periodic rotation of assignments will provide additional control over the integrity of the review process. The review would be based upon the license expiration date for each provider. Most provider licenses are renewed at least every three years, while some are renewed more frequently. The auditors specifically noted that criminal background information was missing from several files. BMS staff will verify the presence of this information during their review and will obtain disclosure from providers if it is missing. Additionally, BMS will be sending each provider a copy of his/her enrollment information for verification shortly.

After further discussion with the auditors in regard to the verification of licenses, we understand the verification recommendation is only a recommendation and not a requirement. BMS staff will perform this task to the extent possible, given constraints of which information is available on the Internet and staff resources. Provider licenses will be maintained in the file, unless license update occurs by means of matching MaineCare and licensing board electronic file update.

(04-57) Division of Audit

Medical Assistance Program — **Questioned Costs**: None
CFDA: 93.778
Federal Award Number: 0405ME5028

Finding: Review of hospital cost settlements not timely nor sufficiently staffed

The Department of Health and Human Services' Division of Audit did not perform timely reviews of hospital cost settlements. We selected seven hospitals to examine the Division's review process over hospital cost settlements and determined that three of the seven reviews had not been completed. As of December 2004, one person was responsible for reviewing cost settlements and was in the process of examining hospital providers with fiscal years ending October 2001 through September 2002. Furthermore, of the four completed reviews, there was no indication that a supervisory review had been performed.

Thirty-nine hospitals received approximately $273 million from Medicaid in State fiscal year 2004. Payments to hospitals are made on a prospective basis; therefore it is important that cost settlement reviews are timely. These reviews frequently result in multimillion dollar amounts owed to or from the hospital providers.

Recommendation:

We recommend that the Division train other staff personnel to perform hospital cost settlement reviews. We further recommend that the Division perform and document independent reviews.

Auditee Response/Corrective Action Plan:

Contact: Herb Downs, Assistant Director of Audit, 287-2778

The Division of Audit agrees that one person is not sufficient to perform the hospital audits. We have hired an Auditor II who is now learning the hospital audit program. We are also establishing a reviewers' checklist to assure that all hospital audits are independently reviewed.

(04-58) Division of Program Accounting and Cash Management Operations

Medical Assistance Program **Questioned Costs**: None
CFDA: 93.778
Federal Award Number: 0405ME5028, 0405ME5048

Finding: Inaccurate, unreconciled Medicaid financial reports; insufficient matching controls **(Prior Year Finding)**

The Department of Health and Human Services does not have a written chart of accounts for the Medicaid program. The accounting system is incapable of producing the required financial reports. No written procedures exist for preparing them; the preparer must remember where information is obtained, and how and why to use it. Every new Medicaid waiver adds to this complexity, thereby increasing the risk of errors or omissions. This environment severely complicates the reporting process. Federal reviewers from the Centers for Medicare and Medicaid Services routinely find errors in the reports, which the Department must then correct.

A single employee of the Division of Program Accounting and Cash Management Operations of the Department of Health and Human Services prepares and submits Medical Assistance Program quarterly financial reports. 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 from multiple sources, including other agencies, must be gathered for the reports. Although the Division's personnel now have access to the accounting system's data warehouse, they continue to report expenditures by estimate without further verification. Errors in reported information affect the amount of the Medicaid grant award to the State and cause the grant award to be incorrect. These errors also cause the Schedule of Expenditures of Federal Awards to be incorrect.

We tested the financial report for one quarter and noted the following errors or omissions.

The Department could not explain why the supporting schedule for administrative costs included $182,414 for an account that had a zero balance for the quarter tested. The schedule contained a formula error that failed to include this amount. Actual balances in the account for other quarters, totaling $615,291, were improperly excluded as a result. The formula error also improperly excluded the balances of two other accounts totaling $34,987 for the quarter tested.

Two other account balances totaling $9,437 were inappropriately excluded from administrative cost reporting.

Inadequate controls are 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 (MMIS). However, within that system, certain bills are only reimbursed for the federal portion, while other non-State providers are responsible for the local or State share. Also, many program charges result from cost allocation journals or other adjustments that do not go through MMIS. The Department lacks a method of tracking or accumulating the federal and State share of those transactions and, consequently, does not determine whether the matching requirements of the program are satisfied.

Medicaid financial monitoring and reporting is further complicated by using matching funds from a myriad of sources. The Bureau of Elder and Adult Services, the Bureau of Child and Family Services, the Department of Labor, the Department of Corrections and the University of Maine all are 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." No attempt is made to track and monitor all these funding sources to ensure accurate matching of federal funds.

Serious concerns arise because certain subsidiary accounts, which are not used for Medicaid related activities, are contained in the Medicaid appropriation accounts. In 2004, the Department expended nearly $50 million from those accounts for various state and federal health programs. Including these other activities within the Medicaid account structure distorts the apparent Medicaid costs that need to be funded by the State, and greatly increases the difficulty of monitoring compliance with matching requirements. For budgeting, efficiency, control, and reporting purposes, these non-Medicaid subsidiary accounts should be separated from those established for the Medicaid program.

Recommendation:

We recommend that the Department establish separate accounts for each federal program administered to allow identification, monitoring and accurate reporting of federal expenditures.
We recommend that the Division implement a system to ensure that federal financial reporting is reviewed, reported accurately and filed timely. We recommend that the Division prepare a

reconciliation of Medicaid accounts at least annually. We also recommend that Division staff monitor the accounting system's data warehouse for expenditures made by other relevant agencies. We recommend that the Department require providers to document amounts claimed as matching funds in the form of “certified seed”.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, Director, 287-1861

The Department of Health and Human Services agrees with this finding. DHHS is making progress on many fronts. The department is undergoing an account restructuring to align with the current approved reorganization and at the same time, designing a new cost allocation plan. As part of the account restructuring process a separate review is underway that will allow for the coordination and/or elimination of “certified seed” with the correct amounts being recorded based on actual expenditures.

The Federal reports for the Medicaid Program continue to grow more complex as new Medicaid and non-Medicaid Programs are established at both the State and Federal levels. In FY04, DHHS has moved towards a team approach in preparing and reconciling reports. Starting in FY05 and continuing into FY06, this team is redesigning the report preparation process, preparing reconciliation’s and reviewing previously filed reports.

(04-59) Division of Program Accounting and Cash Management Operations

Medical Assistance Program — **Questioned Costs**: None
CFDA#: 93.778
Federal Award Number: 0405ME5028, 0405ME5048

Finding: Negative cash balances continue **(Prior Year Finding)**

The Department of Health and Human Services had excessive negative cash balances for its two principal federal fund Medicaid accounts (0147 and 0148) each month during fiscal year 2004. While the federal share of the average “cycle” payment was $24.4 million, the average monthly balance exceeded that by two-and-a-half times. At the end of fiscal year 2004, the cash balance was negative $84.3 million. Two federal cash draws, done early the next month, totaling $82.7 million reduced the negative cash balance to $1.6 million.

The Department of Health and Human Services’ cash balance for its federal fund Medicaid Administrative cost account (0129) was negative $6.6 million at the end of fiscal year 2004, which is unusual for this account.

Recommendation:

We recommend that the Department of Health and Human Services continue to monitor these balances and determine all causes of the variances involved. We also recommend that it obtain grant awards for all allowable expenditures and complete timely manual journal entries for reimbursement of all allowable expenditures.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, Director, 287-1861
Colin Lindley, Senior Staff Accountant, 287-1855

The Department of Health and Human Services agrees with this finding. DHHS has been working closely with the Office of the State Controller in reconciling these accounts. Personnel on the Medicaid team are monitoring these accounts. Journal entries are being reviewed and filed on a timely basis. On going analysis between MFASIS and the federal reports are being performed to assure that all allowable expenditures are reported.

(04-60) Division of Technology Services

Medicaid Cluster **Questioned Costs**: None
CFDA#: 93.775, 93.777, 93.778
Federal Award Number: 0405ME5028

Finding: No internal control system for Automated Data Processing risks and system security **(Prior Year Finding)**

The Department of Health and Human Services completed an Automated Data Processing (ADP) risk analysis in July 2004, but it has not established controls to ensure that this procedure will be continued. 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 federally funded Health and Human Services programs. To reasonably ensure compliance with federal laws and regulations, entities receiving federal awards must establish and maintain a system of internal control.

No system of internal control currently exists to ensure compliance with the risk analysis and system review requirements. The Department implemented a new Medicaid management system in January 2005. The system has not performed as expected, and there have been significant problems in processing claims.

Recommendation:

We recommend that the Department's Division of Technology Services establish a system of internal control to ensure the implementation and completion of required ADP risk analysis and system security reviews of the Medical Assistance Program automatic claim processing systems.

Auditee Response/Corrective Action Plan:

Contact: Rene LeBlanc, DHHS Contractor, 287-7398

As stated in the finding above, the MaineCare Claims Management System (MECMS) was partially implemented in January 2005, and the focus for the last 5 months has been the stabilization of the system from both a technology and program perspective. The system lacks some of the key functionality required for federal certification and the projected date for final implementation is tentatively July 2006. The partially implemented system does include the core functions from the legacy MMIS, with much more robust applications security and internal controls. For example, each user of the system has a unique password for access through a security profile to system functions. All changes made by a user to data in the system are internally tracked by user login. Physical security of the system is as comprehensive as the legacy MMIS, the system is housed in the state data center with other critical operational state systems. The system is currently operated and enhanced by the development contractor, Client Network Services Inc. (CNSI). DHHS technical staff is working closely with the Office of Information Technology (OIT) to transition operations of the system from CNSI to state technical staff. OIT and DHHS are currently recruiting additional staff to facilitate and expedite this transition. This transition will be an iterative process over the next year as the system is fully implemented. The process for and conduct of the periodic risk analyses and system security review of MECMS will be completed by September 30, 2005. In addition, DHHS is also contracting for a global Department security plan prior to September applicable to all DHHS systems as required by the State CIO and several of our federal partners.

(04-61) Bureau of Operations and Support
Division of Purchased Services

Questioned Costs: None

CFDA#: Various
Federal Award Number: Various

Finding: Insufficient control and noncompliance with management decision reporting requirements **(Prior Year Finding)**

One of the ten subrecipient audit reports reviewed had findings. In accordance with the Office of Management and Budget Circular (OMB) A-133, *Audits of States, Local Governments and Non-*

profit Organizations, the Department of Health and Human Services is required to make a "management decision" regarding each finding and issue it to the respective subrecipient. The Department of Health and Human Services did not know whether a management decision had been issued, and could not provide documentation to support that any action had been taken.

According to OMB Circular A-133, a pass through entity is responsible for issuing a management decision within six months after receipt of the subrecipient's audit report. The purpose of this requirement is to document whether the Department agrees with the independent auditor's finding(s), what corrective action the Department expects the subrecipient to take, and how the Department expects the subrecipient to take corrective action.

Recommendation:

We recommend that the Department of Health and Human Services establish procedures to ensure that management decisions are issued in compliance with OMB Circular A-133.

Auditee Response/Corrective Action Plan:

Contact: Marie Hodgdon, Director of Provider Services, 287-3774

We have established procedures to ensure that all A-133 findings will be responded to within the six month timeframe. The period in question in which we did not respond in a timely manner was a period of merging two departments and determining organizational structures and responsibilities. After notification by the Division of Audit, the Director of Purchased Services will contact the agency for a corrective action plan. The corrective action plan will be followed up by the Audit Resolution Manager within the Division of Purchased Services.

(04-62) Division of Program Accounting and Cash Management Operations

CFDA#:Various **Questioned Costs**: $1,979,288
Federal Award Number: Various

Finding: Inadequate controls over accounting for and reporting of allocated costs **(Prior Year Finding)**

The Department of Health and Human Services did not have adequate controls to ensure accurate financial reporting and compliance with prescribed methods to allocate costs. The Department's cost allocation plan is used to accumulate State and federal administrative costs and to allocate these costs to various programs. However, because no central authority has assumed responsibility for managing and reviewing the cost allocation plan, appropriate reviews that would identify errors are not performed and errors impacting multiple schedules remain undetected. No overall understanding of the cost allocation plan is evident: certain cost pools within the allocation plan could not be traced to the State's accounting system; variances between the State's accounting system and reported federal costs could not be explained; errors identified through audits are not corrected; and the Department cannot adequately explain its methodology. In addition, certain rates used to calculate indirect costs are changed retroactively; however we were unable to determine whether the state recovers any resulting increase. The Department lacks any plan for continuity when personnel leave.

The operating environment at the Department has changed dramatically since the primary schedules used for allocating administrative costs were implemented in 1985. Although schedules have been added, no significant revisions or documentation of procedures has occurred. We were unable to gain an accurate and complete depiction of where costs that are accumulated and allocated in the plan ultimately are reported because the Department lacks written documentation and has a general lack of understanding of the plan.

In our review of the procedures utilized by the Department regarding the cost allocation plan, we noted that:

- **Expenditures were included twice:**
  Certain expenditures were included as direct program costs and as allocated departmental costs; certain expenditures were counted twice in determining allocated departmental costs.

- **Methods used to accumulate costs resulted in over-stated expenditures:**
  In accumulating allocated departmental costs for certain programs, expenditure totals were recorded incorrectly.

- **Cost-savings were not allocated properly:**
  Cost-savings realized from State employee health insurance decreases were refunded to the affected state agencies; however, in at least one instance, the refund was not applied to the health insurance costs as reported.

- **State-funded expenditures were incorrectly claimed as federal expenditures:**
  The State has a food stamps program whereby it extends benefits beyond those provided by the federal program; State funds used to cover this non-federal benefit were incorrectly claimed as federal allocated costs.

- **Reported allocation costs were not based on final allocated costs:**
  Several programs reported allocated costs inconsistent with the final cost allocation schedules provided by the Department of Health and Human Services. In addition, at least one program failed to report any of its allocated costs.

- **<u>Costs were charged to incorrect programs:</u>**
  Electronic Benefit Transfers project costs were charged incorrectly to Medicaid; legal costs incurred in relation to Welfare Fraud were incorrectly charged to Child Support Enforcement.

- **<u>Factor rates were not updated:</u>**
  The factor rates used to allocate central administration and data processing costs to various federal programs have not been updated. These errors are not material to any program.

- **<u>Invoices were paid in the wrong fiscal year:</u>**
  An employee created a complicated allocating spreadsheet to pay invoices from the Bureau of Information Services. Written procedures documenting the allocation process did not exist, such that when the employee in charge of administering the spreadsheet left the department, personnel could not follow the procedure and the department did not pay the invoices.

As a result of the errors summarized above, we identified the following questioned costs:

CFDA #	*Program Name*	*Amount*
93.667	Social Services Block Grant	$766,758
93.558	TANF	$931,742
93.778/93.775/93.777	Medicaid Cluster	$257,907
93.658/93.659	Adoption Assistance/Foster Care	$ 22,881
		$1,979,288

In addition, we identified overcharges in the Food Stamps program (CFDA 10.551/10.561) of $220,424 which will be netted with other reporting errors within 04-24. Finally, we identified overcharges of $133,855 which may cause the State to be non-compliant with TANF maintenance of effort requirements.

<u>Recommendation:</u>

We recommend that the Department develop and implement controls to:

1. prevent double counting of expenditures;
2. ensure updated factor rates used in determining allocations of costs among programs;
3. document the principles and methods used in the cost allocation process for future staff guidance;
4. revise the list of programs to which costs are allocated by CFDA number to reflect current programs and provide for periodic updates;
5. ensure that program personnel are reporting finally-determined allocated costs.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, Financial Analyst, 287-1869

The Department of Health and Human Services agrees with this finding. The Department has entered into a contract with Public Consulting Group, Inc. (PCG) of Boston, MA to design a cost allocation plan. The data- gathering phase of the project began in the spring of 2005. In that phase, PCG personnel assigned to the State of Maine project met with all individuals involved in the current allocation process, as well as Management, Program Personnel, and representatives for the State Department of Audit for input and suggestions. A report of recommendations based on the data-gathering phase will be submitted by the vendor early in fiscal year 2006.

The recommendations from the Department of Audit will be incorporated in the new cost allocation plan. The new cost allocation plan will reflect the current operating environment of the Department. It will include a complete narrative describing the Department and the allocation of its individual cost pools, and will include a complete user manual documenting the proper execution of the plan.

(04-63) Division of Program Accounting and Cash Management Operations

Questioned Costs: None

CFDA: Various
Federal Award Number: Various

Finding: Inaccurate financial information provided by the Department of Health and Human Services for Schedule of Expenditures of Federal Awards reporting

The Department of Health and Human Services (DHHS) did not provide complete or accurate federal expenditure information by program to the Office of the State Controller for inclusion on the Schedule of Expenditures of Federal Awards (SEFA). As a result, the SEFA was materially misstated as originally prepared. As initially presented, the financial information excluded direct costs recorded in certain accounts for some programs. It also excluded certain indirect, allocated, and non-cash expenditures. The following table compares cash basis expenditures as initially reported to actual cash basis expenditures supported by audit testing:

Department of Health and Human Services

Program	CFDA Number	Federal Award Number	Reported Expenditures	Actual Expenditures
Food Stamps (Admin. Portion)	10.561	2003 & 2004IS2514	5,894,974	9,974,707
Immunization Grants (Operating Portion)	93.268	H23/CCH2258-01 & 02	3,087,361	2,530,190
TANF	93.558	0301 & 0401METANF	72,161,876	65,048,526
Child Support Enforcement	93.563	0304 & 0404ME4004	9,576,578	15,641,043
Child Care & Develop. Block Grant	93.575	G301 & G401MECCDF	5,662	25,901,567
Child Care Mandatory & Match Funds	93.596	G301 & G401MECCDF	36,322,358	8,811,475
Foster Care	93.658	0301 & 0401ME1401	14,808,622	12,993,567
Adoption Assistance	93.659	0301 & 0401ME1407	19,079,004	12,704,952
Social Services Block Grant	93.667	G0301 & G0401MESOSR	10,455,968	12,525,960
Medicaid	93.778	0405ME5028 & 5048	1,458,052,429	1,416,783,705

The SEFA has been adjusted to correct these errors.

Recommendation:

We recommend that the Department of Health and Human Services include all reportable expenditures of federal funds in submitting SEFA amounts to the Office of the State Controller. We recommend that the Department report these expenditures correctly by program. We further recommend that the Office of the State Controller ensure that the information it compiles is reasonable and reconciled to supporting accounts.

Auditee Response/Corrective Action Plan:

Contact: Mark Toulouse, Financial Analyst, 287-1869

DHHS agrees with this finding. Due to attrition and retirement of personnel, SEFA reporting was an area where procedural knowledge was lost on the financial, program, and cost allocation aspects of the process. As a result, new Accounting and Cash Management (ACM) personnel used the previous year's SEFA report for account codings to include per program. After the codings were acquired, GQL Financial Warehouse queries were generated and expenditures tabulated. Only after corresponding with the SEFA coordinator in the Controller's Office did ACM personnel become aware that officially submitted Financial Status Reports are the correct source of SEFA figures. DHHS personnel then worked with Controller's Office and Audit staff as required to update and correct the originally prepared SEFA figures and reconcile them to MFASIS as accurately as possible. As noted in the body of the finding, the SEFA report has now been adjusted through the Controller's Office, and expenditure figures listed are supported by audit testing.

Department of Health and Human Services

(04-64) Division of Program Accounting and Cash Management Operations

TANF, Foster Care, Medicaid, Child Care Development Block Grant **Questioned Costs:** None
CFDA#: 93.558, 93.658, 93.778, 93.575
Federal Award Number: Various

Finding: Cash management and accounting records inadequate **(Prior Year Finding)**

The Department of Health and Human Services (DHHS) is not in compliance with the Cash Management Improvement Act (CMIA) Agreement, which establishes provisions for individual programs to draw federal funds, and 31 CFR 205.29(b), 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's noncompliance is a result of poor accountability over its federal funds and a lack of cash controls.

The CMIA Coordinator, Office of the State Treasurer, monitors major grants for compliance with the CMIA Agreement requirements. We examined his review of DHHS major grants during fiscal year 2004 and concur with his results that revealed the following noncompliance concerns: federal funds are being drawn earlier and later than required by the CMIA agreement; the timing of draws is not being based on disbursement dates (check dates); there is a lack of documentation to support amounts being drawn; and amounts being drawn include adjustments for overall cash position which do not relate to specific expenditures. In response to prior year audit findings, the Department instituted procedures that required supporting documentation; however, although schedules were available, the underlying amounts could not be substantiated. The Department's methodology also does not allow accurate calculation of the interest obligation owed to or by the federal government.

Recommendation:

We recommend that the Department of Health and Human Services: improve grant accounting systems so that program managers and accountants are able to minimize the number of days between payment and the subsequent draw of funds; consistently maintain adequate documentation to support draws of federal cash.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, Director, 287-1861

DHHS continues to make substantial changes to the drawdown procedures instituted by program accountants, with the assistance of the State of Maine's CMIA coordinator. Several DHHS program accountants have recently attended training on the MFASIS grant management sub system. It is our goal to utilize the system to manage the cashflow of grants.

Department of Health and Human Services

(04-65) Division of Program Accounting and Cash Management Operations

TANF, Medical Assistance, Foster Care, Adoption Assistance **Questioned Costs:** None
CFDA#: 93.558, 93.778, 93.658, 93.659
Federal Award Number: Various

Finding: Insufficient internal controls over cash management **(Prior Year Finding)**

The Department of Health and Human Services did not regularly reconcile federal program expenditures, cash drawn from the federal government, and related revenues for the programs noted. The Department can obtain this data from the State's accounting system, federal financial reports as filed, and the appropriate U.S. Department of Health and Human Services' online payment system. Regular reconciliations of data from these three sources would help ensure that cash draws and posted transactions are accurate, timely, and appropriately reported. In recent years, inadequate controls have caused significant cash management problems, in some cases resulting in substantial overdraws. The recommended reconciliations would reduce the risk of similar errors in the future.

Recommendation:

We recommend that the Department of Health and Human Services implement its State fiscal year 2003 corrective action plan by reconciling expenditures, cash drawn, and revenues for all federal programs for which it is responsible. We recommend that the reconciliations be done at least quarterly.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, Director, 287-1861

DHHS agrees with the need to reconcile all program expenditures, both Federal and State. Unfortunately, time and staffing limitations have curtailed our ability to spend a complete effort on this practice in FY2004. That said, however, strides have been made in the reconciliation process in the following areas:

In the Child Support Enforcement Program, two reconciliations are performed on a quarterly basis. The first maintains a cumulative balance of the Federal award. The second distributes the Federal and State portions of Child Support Collections based on collections analysis done by DSER program staff.

In the Child and Adult Care Food Program, expenditures are reconciled to Federal draws on a monthly basis, then discussed with CACFP program personnel to address any variance between program reporting figures and financial reporting figures.

For the several allocated accounts for which transfer transactions are posted as a result of the cost allocation plan, bi-weekly estimate journals are reconciled to both the actual expenditures and allocation factors on a quarterly basis.

Similarly, payments made to the Office of the Attorney General for legal services are posted through bi-weekly estimate journals based on the annual Work Program. Payment figures are then reconciled to actual AG activity on a quarterly basis.

For the Food Stamps Administration grant, accounting personnel reconcile reports from the Federal ASAP system (showing draw and grant balance figures) to the MFASIS system on a quarterly basis, prior to submission of the quarterly SF-269 Financial Report. This ensures that the expenditures reported match draws made.

For the TANF program, a spreadsheet is maintained comparing MFASIS draw activity with Federal PMS draw figures monthly.

These reconciliation activities are the first steps in addressing the recognized need for regular account reconciliation. As DHHS is able to fill all available positions and the learning curve created by attrition begins to lessen, we will increase reconciliation activity to the greatest extent possible.

(04-66) Division of Program Accounting and Cash Management Operations

Questioned Costs: None

CFDA#: Various
Federal Award Number: Various

Finding: Estimated/incorrect grant disbursement amounts reported **(Prior Year Finding)**

Rather than reporting actual cash expenditures on the Federal Cash Transaction Report (PSC 272A), the Department of Health and Human Services reported estimated amounts for the following grant programs: Medicaid, State Children's Health Insurance and Aspire. In addition, incorrect amounts were reported for the following grant programs: Public Health and Social Services Emergency Fund, Grants to States for Operation of Offices of Rural Health and HIV Prevention Activities.

Title 45 CFR 92.20 requires that a state's financial management system and fiscal control and accounting procedures be sufficient to permit accurate preparation of required reports. Reporting estimated or incorrect amounts impedes the Federal Division of Payment Management's ability to control and monitor cash, as the Department's actual federal cash on hand is misstated.

Recommendation:

We recommend that the Department of Health and Human Services implement procedures to provide for accurate federal financial reporting.

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

Contact: Elizabeth Hanley, Director, 287-1861

The Department of Health and Human Services agrees with this finding. Starting in FY 04, the PSC 272 has been filed timely and accurately. The Department is still in the process of correcting balances because of the use of estimates in previous years.

(04-67) Division of Program Accounting and Cash Management Operations

<u>CFDA:</u> Various **<u>Questioned Costs</u>**: None
Federal Award Number: Various

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

The Department of Health and Human Services did not use the State's accounting system to establish a separate account for each program. "Reporting organizations" were established for individual programs but combined into a single "appropriation organization," which controls the cash for multiple programs. The Department could not provide a complete and accurate list of the accounts established and used for each program.

Transactions are not always posted to the relevant accounts. This is particularly true for costs allocated through the Department's cost allocation plan. Those costs are significant because they include regional office costs and other costs that benefit multiple programs. The Office of Management and Budget's *Uniform Administrative Requirements for Grants and Cooperative Agreements* requires accounting records, including cost accounting records, that are supported by source documentation.

The State's accounting records did not accurately reflect the sources and uses of funds. The Department did not transfer qualified federal expenditures to the programs' federal accounts. The federal reimbursements received, referred to as "earned revenue," is transferred to the Other Special Revenue Fund accounts and used to "self-fund" other Department programs. The "earned revenue" amounts transferred were sometimes estimates based on budgeted amounts that may not have agreed with actual qualified expenditures. This "self-funding" approach makes tracing the sources and uses of funds difficult or, if proper documentation is not maintained, impossible. Because several people were involved and processes were not documented, no one individual fully understood how the accounts were used. In some cases, the resulting confusion caused the same charges to be claimed more than once for federal reimbursement. The Foster

Care: Title IV-E and Adoption Assistance programs are examples of programs that used the "earned revenue" approach. Based on budget estimates, the Department transferred $4.2 million to the Other Special Revenue Fund. It was not clear that State expenditures were sufficient to justify the transfer.

Because actual activity was not always reconciled to budgeted amounts, the accounting record of transactions and account balances was not complete or reliable. The Department did not consistently review and document its account reconciliations.

The Department had inadequate procedures to comply with Cash Management Improvement Act requirements. Federal cash draws could not be readily associated with underlying expenditures.

The Department did not document its use of accounts or the logic underlying certain established procedures. As the Department experienced significant personnel turnover, its institutional memory has been adversely affected. The Department could no longer explain why certain procedures were followed and did not have a complete understanding of the effects of some of those procedures. Accounting personnel did 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 resulted in oversights and errors and also adversely affected the training of new staff. The time required to process routine transactions left little time to investigate or analyze unusual balances or to correct identified errors.

Management of certain programs is decentralized in regional offices. Program personnel and accountants did not always share a common understanding of how funds are required to flow or the consequences of actions taken.

The Department filed federal reports that it could not support with adequate documentation of the underlying costs. Supporting documentation was 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. Also, expenditures recorded in the State's accounting system were not consistent with amounts reported as program expenditures in financial reports and in the Schedule of Expenditures of Federal Awards (SEFA).

The Department, in conjunction with the Office of the State Controller, has taken actions to remedy the problems detailed above. The Department created the Division of Program Accounting and Cash Management Operations and five new positions to work to correct the problems of the Department.

Recommendation:

We recommend that the Department of Health and Human Services:

- Identify program activity with specific accounts and codes
- Establish and maintain a chart of accounts

- Document its procedures in writing
- Record all transactions in the accounting system and to relevant programs
- Review and reconcile account activity
- Maintain neat and orderly supporting documentation for all reports filed
- Establish written 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 for only the program affected

We further recommend that the Department end the process of self-funding other activities with federal reimbursements identified to specific programs or obtain clear Legislative approval for each and every instance of such budget enhancement and reimbursement churning. We also recommend that the Department discuss the accounting implication of this "self-funding" with the Office of the State Controller.

Auditee Response/Corrective Action Plan:

Contact: Elizabeth Hanley, Director, 287-1861

The Department of Health and Human Services agrees with this finding and has been working towards implementing the recommendations. As stated in the final report from the financial management review conducted by the United States Department of Agriculture "DHHS has made progress in strengthening and improving its accountability of the funds it manages. The department is currently in the midst of much change with new staff on board, upgrades to its accounting system, and plans to change its cost allocation system." USDA continues to state "The department has taken positive steps toward correcting past shortcomings. The staff has shown their willingness and ability to make changes to improve business practices."

Progress has been made and DHHS will continue to strive to implement the recommendations.

State of Maine
Department of Labor

Summary of Federal Findings

Exceptions to federal requirements occurred in four programs in the Department of Labor: Unemployment Insurance, the Workforce Investment Act, the Vocational Rehabilitation Grants to States, and the Trade Adjustment Assistance Program. Significant control issues include: lack of access controls in computer eligibility determinations; inadequate procedures for financial and program reporting; ineffective procedures for required approvals; and inadequate controls over cash management of federal funds.

Unemployment Insurance

The Department did not ensure transmittal of valid annual employer data. The Department is required to certify certain information for each employer regarding payment of federal unemployment tax, but the information initially reported was incorrect. In addition, the Department did not ensure that cash balances were correctly reported to the federal government. Cash balances totaling $400,000 were under-reported for the entirety of fiscal year 2004.

Workforce Investment Act Cluster

The Department did not have adequate information system controls over the One Stop Operating System, the program responsible for determining eligibility of participants. Weaknesses included inadequate control procedures associated with passwords, program changes and access to master files, production programs and live data files. In addition, disaster contingency plans were not tested.

Trade Adjustment Assistance

The Department failed to consistently follow internal procedures requiring specific, prior approvals. We noted several instances where payments were made for miscellaneous costs associated with training, but no approval for these items was included on the Training Authorization Form. In addition, the Department did not report $6.5 million in Trade Readjustment Assistance payments on the Schedule of Expenditures of Federal Awards under the Trade Adjustment Assistance Program. These expenditures were inappropriately recorded under another program.

Vocational Rehabilitation Grants to States

The Department allowed individual rehabilitation counselors to make all decisions regarding clients on their caseload, from determination of client eligibility to the approval of payments on behalf on the client, without supervisory review. In addition, cash management of federal funds was inconsistent; financial reports submitted to the federal government contained errors and omissions; period of availability requirements were not always met; and time frames for determining eligibility and case closure were not always followed.

Department of Labor

(04-68) Office of Administrative Services

Trade Adjustment Assistance **Questioned Costs:** None
CFDA#: 17.245
Federal Award Number: TA-12695-03-55, TA-13498-04-55

Finding: Insufficient controls for accurate program expenditures on the Schedule of Expenditures of Federal Awards

The total expenditures reported on the Schedule of Expenditures of Federal Awards (SEFA) for the Trade Adjustment Assistance (TAA) program did not reflect $6.5 million expended by the Trade Readjustment Assistance (TRA) program. These expenditures were incorrectly included under CFDA 17.225, Unemployment Insurance. The TRA operates as part of the TAA, and therefore, its expenditures should be included as part of the TAA program's total expenditures reported on the SEFA.

Recommendation:

We recommend that the Department develop and implement internal control procedures to categorize and report all expenditures relating to the Trade Adjustment Assistance program on the SEFA.

Auditee Response/Corrective Action Plan:

Contact: Rose M. Bailey, Chief Accountant, 287-1276

The Schedule of Expenditures of Federal Awards (SEFA) was amended to correct the reporting of Trade Readjustment Assistance Benefit Payments totaling $6.5 million dollars. The error occurred only in the SEFA reporting, all federal reporting for both the TAA and TRA programs was correct. The Office of Administrative Services will ensure that the correct CFDA will be used in the future.

Department of Labor

(04-69) Bureau of Employee Services

Trade Adjustment Assistance **Questioned Costs:** None
CFDA#: 17.245
Federal Award Number: TA-12695-03-55, TA-13498-04-55

Finding: Internal controls over allowable costs not followed

To ensure that only allowed and authorized training costs are paid with Trade Adjustment Assistance (TAA) funds, the Department requires the completion of a Training Authorization Form, which specifies any additional costs of training that are allowed (such as supplies). Of forty payments selected to test for compliance with allowable costs, seven contained items that were not set forth on the Training Authorization Form.

Recommendation:

We recommend that the Department comply with the controls it has established to ensure that only allowable costs are expended with Trade Adjustment Assistance funds.

Auditee Response/Corrective Action Plan:

Contact: Rusty Cyr, Deputy Director, 624-6492

For each training period, CareerCenter Consultants send TAA training authorizations to the schools for each TAA-funded student. The training authorizations list the actual courses that the student will be registered for during the time period in question. The training period, which is identified by a start- and end-date, can be a regular semester or any given number of weeks. The training authorization allows the school to submit an itemized bill to the CareerCenter Consultant for that specific time frame. The itemized bill must include tuition, books, fees, and may include uniforms, medical insurance and/or school supplies from the bookstore depending on the items that are identified on the specific authorization. CareerCenter Consultants contact the school business office to get the best estimate for the actual cost for the time period. Total costs sometimes change as tuition increases, book prices increase and other fees maybe added.

When the CareerCenter Consultant receives the actual bill, actual costs are entered into the fiscal system and a new authorization form is completed with the total amount authorized for that time period. The authorization is coded and forwarded to MDOL's Office of Administrative Services for payment.

Staff will receive training and written instructions on this issue before the new fiscal year.

Department of Labor

(04-70) Bureau of Unemployment Compensation

Unemployment Insurance **<u>Questioned Costs:</u>** None
<u>CFDA#</u>: 17.225
Federal Award Number: UI-12642-03-55, UI-13551-04-55

<u>Finding</u>: Insufficient review of employer records for accurate federal reports **(Prior Year Finding)**

Annual employer data transmitted by the Bureau of Unemployment Compensation to the federal government did not pass an initial validity check performed by the Internal Revenue Service. As a result, the Bureau was asked to correct and repeat the transmittal. The second transmittal did not accurately report the amount of unemployment contributions or their timeliness. In a sample of 25 employers selected for testing:

- Two instances were identified where tax payments were over-reported;
- One instance was identified where the time of tax payments was incorrectly reported.

Federal regulations 26 CFR 31.3302(a)-3(a) require the Bureau to annually certify for each employer:

1. The total amount of contributions actually paid by the federal unemployment tax return due date; and
2. The amounts and dates of those actually paid after the federal return due date.

<u>Recommendation:</u>

We recommend that the Bureau of Unemployment Compensation review the employer files for accuracy before transmitting the data to the federal government, and continue the development and implementation of the new computer program to be used by the Unemployment Tax Section.

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

Contact: Joan A. Cook, Director UC Tax Division, 287-1248

When we reviewed the process we followed in reviewing the FUTA proof file (specifically the first 50 records of the proof file) for the IRS, we found that in the course of training a new person to do this, we inadvertently neglected to have this validation function performed for this year. We will assure that the new person trained to certify the FUTA tape will perform the review of the first 50 records as we have always done, but failed to do in this audit year.

Also, in reviewing the first instance where the amount paid was slightly less than the amount due, we found that the taxpayer was in compliance for filing in the tax year audited (2002), but the FUTA program mistakenly certified an amount due rather than the amount paid.

In the second instance, we acknowledge programming problems, i.e., we recognize that we may not be certifying the correct amounts as paid and that we may not be showing the correct timeliness, but through our audit trails we can prove out correct amounts and timeliness. Our system overhaul will address these issues.

(04-71) Office of Administrative Services

Unemployment Insurance **Questioned Costs:** None
CFDA#: 17.225
Federal Award Number: UI-12642-03-55, UI-13551-04-55

Finding: Inadequate procedures to ensure accurate reporting

The Department of Labor's Office of Administrative Services (OAS) did not have sufficient procedures in place to ensure that cash balances were accurately reported to the federal government. As a result, OAS submitted four quarterly Employment and Training Administration Reports (ETA 2112) that contained a recurring $400,000 reporting error. Actual funds held by financial institutions were $400,000 more than the amount reported to the federal government.

Federal regulations require that grant recipients maintain adequate internal control over financial reporting. Although OAS does have certain internal control procedures in place, it does not reconcile the cash balance on the State's accounting system to the required federal form (ETA 2112) prior to submitting the report to the U.S. Department of Labor.

Recommendation:

We recommend that the Office of Administrative Services improve internal controls by reconciling the ETA 2112 to the balance in the State's accounting system prior to submitting the report to the U.S. Department of Labor.

Auditee Response/Corrective Action Plan:

Contact: Rose M. Bailey, Chief Accountant, 287-1287

The Office of Administrative Services (OAS) concurs with the finding and corrective action was immediately taken. The OAS did not reconcile what was reported on the ETA2112 with the MFASIS system. With the reporting dates for the ETA2112 being the 1st day of the second month, OAS will have sufficient time to receive the MFASIS reports and perform the necessary reconciliation. The $400,000.00 issue in question was corrected on the ETA2112 for March, 2005.

Department of Labor

(04-72) Employment Services Information Processing

Workforce Investment Act Cluster **<u>Questioned Costs</u>:** None
<u>CFDA#:</u> 17.258, 17.259, 17.260
Federal Award Number: AA12019, AA12929, EM-11650

<u>Finding</u>: Lack of adequate computer controls **(Prior Year Finding)**

The Department of Labor did not have adequate controls in place for the One Stop Operating System (OSOS). The Department's Bureau of Employment Services and Office of Information Processing share responsibility for the system's operations and controls. The system is used to determine eligibility for clients of Workforce Investment Act programs.

We noted the following control weaknesses:

- Information technology personnel could change master files, production programs, and live data files. Insufficient controls were in place to ensure that changes of this type were both 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.
- No procedures prevent test versions of programs from being used permanently and no procedure assures whether test programs need to run.
- Disaster contingency plans have not been tested by the Department.

In our testing, we did not find that any ineligible applicants had been accepted.

<u>Recommendation</u>:

We recommend that the Department of Labor plan and implement comprehensive controls for the One Stop Operating System computer system.

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

Contact: Dale Hinds, JS Manager, 624-6370

The Department of Labor continues 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 underway. 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 Departments current computing infrastructure. It is hoped that these renovations will be implemented in SFY 06.

Department of Labor

Following is a list of the weaknesses spelled out in the finding and references to where the new security policy addresses these. Also included are steps that have or will be implemented to address the latest findings.

We noted the following control weaknesses:

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.

   We have implemented new control procedures and re-emphasized standards for change notes. There have been no instances of unauthorized changes to the OSOS production system under these new procedures.

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.

   OSOS staff listings have been updated and access to application modules has been limited where appropriate. Additional changes are slated for implementation in SFY 06 to enhance the confidentiality and uniqueness of passwords.

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.

   Enterprise development continues with limited testing facilities available for application programmers. IT staff are currently researching and evaluating version control software (SERENA). Internal OIP staff is working with BIS personnel to install, test and implement the software. Implementation will occur in SFY 06.

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 2005 – 2006.

Current update: Enterprise development continues backup site awaiting implementation. Disaster recovery check writing tested and implemented.

Department of Labor

(04-73) Bureau of Rehabilitation Services

Rehabilitation Services – Vocational Rehabilitation Grants to States **Questioned Costs**: None
CFDA#: 84.126
Federal Award Number: H126A030085E, H126A030026E
H126A040085E, H126A040026E

Finding: Noncompliance with eligibility time frames

The Department of Labor did not have adequate safeguards in place to ensure eligibility determinations were completed within required time frames.

Eligibility determinations for Vocational Rehabilitation services were not conducted within the federal time limits for 9 of 40 cases tested. Title 34 CFR 361.41 and 29 US Code 722 (a)(6) require the State to determine eligibility within a 60 day time frame following an application for services, unless an extension of time has been granted.

Two of forty cases tested were closed in excess of one year after the individual was determined to be ineligible for the program. Title 34 CFR 361.43 and 361.44 require that client cases be closed within a reasonable length of time after a client is no longer eligible. Given the circumstances, the length of time taken to close each case seemed unreasonable.

Recommendation:

We recommend that the Department of Labor establish procedures and conduct supervisory reviews to ensure counselors adhere to eligibility time frames in accordance with program requirements.

Auditee Response/Corrective Action Plan:

Contact: Art Jacobson, Rehabilitation Services Manager, 624-5976

Case review systems identified in the response to Finding 04-76 now include standards for eligibility determination time-frame. This element will be highlighted in case reviews, new-counselor training, and counselor professional development plans for 2005-2006.

Further case sampling and supervisor review will be initiated to assure that program requirements are met.

Department of Labor

(04-74) Bureau of Rehabilitation Services

Rehabilitation Services – Vocational Rehabilitation Grants to States **Questioned Costs**: $13,025
CFDA#: 84.126
Federal Award Number: H126A030085E, H126A030026E
H126A040085E, H126A040026E

Finding: Inadequate controls to ensure compliance with period of availability requirements

The Department of Labor had inadequate controls to ensure compliance with period of availability requirements. Expired federal program costs relating to fiscal year 2001, totaling $13,025, were drawn and reported during fiscal year 2004. These funds were drawn after the allowed period of availability.

Title 34 CFR 76.709(a) specifies the carryover period of one additional year following the end of a federal fiscal year for these grants. Controls are needed to draw from available grants within allowable periods and to prevent claims after expiration of the grant.

Recommendation:

We recommend that the Department implement internal controls and conduct supervisory reviews to provide assurance that period of availability requirements for the program are met.

Auditee Response/Corrective Action Plan:

Contact: Rose M. Bailey, Chief Accountant, 287-1276

The Maine Department of Labor (MDOL) recognizes the necessity for internal and supervisory control. All federal financial reporting is now being performed by the Office of Administrative Services (OAS) and is reviewed by the supervisor and program managers prior to submission.

Department of Labor

(04-75) Bureau of Rehabilitation Services

Rehabilitation Services – Vocational Rehabilitation Grants to States **Questioned Costs**: None
CFDA#: 84.126
Federal Award Number: H126A030085E, H126A030026E
H126A040085E, H126A040026E

Finding: Inadequate supervisory review of financial reporting **(Prior Year Finding)**

The Department of Labor's internal control system was not adequate to ensure accurate and complete financial reporting. The Department did not claim $595,775 of expenditures, disclose unexpended program income of $2,727,219, nor report expenditures of program income for the other non-major vocational rehabilitation grants. Supervisory review and financial management practices were not sufficient to prevent errors and omissions in financial reports.

Recommendation:

We recommend that the Department implement a system of internal controls to ensure compliance with financial reporting requirements for the program.

Auditee Response/Corrective Action Plan:

Contact: Rose M. Bailey, Chief Accountant, 287-1276

The Maine Department of Labor (MDOL) consolidated oversight of all federal financial reporting for the Bureau of Rehabilitation Services to the Office of Administrative Services (OAS) during State Fiscal Year 2005.

The SF-269 Federal Reports for Federal Fiscal Year end 2004 and the first and second quarter of 2005 do reflect expended and unexpended program income. All federal reports for the Bureau of Rehabilitation Services are submitted to the Program Directors and/or managers for review prior to submission. The OAS will continue to work closely with the program managers to disclose any program income supporting non-major grants.

Department of Labor

(04-76) Bureau of Rehabilitation Services

Rehabilitation Services – Vocational Rehabilitation Grants to States **Questioned Costs**: None
CFDA#: 84.126
Federal Award Number: H126A030085E, H126A030026E
H126A040085E, H126A040026E

Finding: Inadequate controls to ensure compliance with program requirements **(Prior Year Finding)**

The Department of Labor did not have adequate safeguards in place to ensure compliance with allowability and eligibility program requirements. The Department relied on its rehabilitation counselors to:

- Interview applicants
- Determine program eligibility
- Establish individualized plans for employment
- Authorize expenditures
- Initiate and approve payments
- Obtain independent verification of the client's qualifying disability
- Document consideration of comparable services
- Determine when applicant program participation should terminate

In many cases, the Department did not review the work done by the counselors to ensure that all requirements had been satisfied, resulting in the counselor having almost complete discretion over the services provided to each program applicant. As an example, 9 of 19 expenditures reviewed did not have evidence of supervisory review or approval.

The rehabilitation counselors utilize the Department's computer system (ORSIS) 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 $6.9 million of the grant's $15.6 million of expenditures were processed in this manner.

Recommendation:

We recommend that the Department of Labor establish procedures to ensure independent approvals of expenditures and computer controls to prevent a system user from initiating, authorizing, and approving payments. It should periodically review the work done by the rehabilitation counselors to ensure compliance with program requirements.

Auditee Response/Corrective Action Plan:

Contact: Penny Plourde, Director of Vocational Rehabilitation, 624-5975
Harold Lewis, Director, Division for the Blind and Visually Impaired, 624-5974

At the time of this audit finding, both DVR & DBVI had taken action to address issues of adequate internal controls, but these were not yet complete. We have now established uniform procedures to limit the ability of an individual to initiate, authorize, and approve payments. Payments must be authorized by one staff member, confirmed and invoiced by another individual, and will shortly be sampled for reasonableness by a third individual. In addition, security of our information system (ORSIS) has been strengthened by limitation of access and edit functions. We currently do not have electronic signature capability in ORSIS; once that is available, we will use system edits to enforce the controls described above. But current screens and forms have been redesigned to require compliance with the above approval process. No system user can initiate, authorize, and approve a payment.

DBVI currently uses a 100% case review system for grant H126AOX0085, reading all cases served under that grant. DVR has planned and will initiate by October 1, 2005 a regionally-based case sampling and review system, in addition to the high-cost/long-term case reviews that began at the start of 2005.

(04-77) Bureau of Rehabilitation Services

Rehabilitation Services – Vocational Rehabilitation Grants to States **Questioned Costs**: None
CFDA#: 84.126
Federal Award Number: H126A030085E, H126A030026E
H126A040085E, H126A040026E

Finding: Inadequate controls for proper reporting of expenditure of program income

The Department of Labor did not have supervisory controls over the computation of program income or the reporting of its expenditure. The Department did not reconcile obligated program income to expended amounts to ensure compliance with the period of availability requirements applicable to program income. Methods used by the Department to track these expenditures are insufficient. Further, accounting records do not adequately identify the vocational rehabilitation grant for which the funds were spent.

Costs used to claim program income from the Social Security Administration could not be adequately verified, because two of the five records we sampled had been destroyed. Department personnel no longer considered them open and were not aware of record retention requirements to document program income. Title 34 CFR 80.42(c)(3) requires that case records be maintained for three years after the claim is submitted for reimbursement.

Recommendation:

We recommend that the Department establish internal control procedures to ensure compliance with the Cash Management Improvement Act and 29 CFR 97.25. We recommend that the Department document and retain program income information in compliance with federal regulations. We further recommend that the Department maintain supporting documentation for reimbursement requests until the appropriate time period has passed.

Auditee Response/Corrective Action Plan:

Recording of Financial Information
Contact: Rose M. Bailey, Chief Accountant, 287-1276

The Office of Administrative Services (OAS) will ensure that expended program income information is recorded in compliance with CMIA and the Common Rule. Program Income and related expenditures are currently recorded in the States MFASIS system by report org that identifies the General Vocational Rehabilitation (GVR) grant expending the funds. Report Orgs will be set up in MFASIS for the Division of the Blind and Visually Impaired (DBVI). Disbursed and undisbursed Program Income is now identified in the quarterly Federal Reporting for GVR and will be for DBVI also.

Record Retention
Contact: Art Jacobson, Rehabilitation Services Manager, 624-5976

Record disposition schedules will be adjusted to provide for retention of case fiscal records for three years after SSA claim submission. Previous disposition schedules were based on RSA-US Education Department requirements for V.R. casework.

(04-78) Bureau of Rehabilitation Services

Rehabilitation Services – Vocational Rehabilitation Grants to States **Questioned Costs**: None
CFDA#: 84.126
Federal Award Number: H126A030085E, H126A030026E
H126A040085E, H126A040026E

Finding: Inadequate controls over cash management

The Department of Labor did not have adequate internal controls in place to ensure appropriate and consistent cash management for the Vocational Rehabilitation program.

The Vocational Rehabilitation program had a negative cash balance of $3.6 million at the end of the State fiscal year and accumulated program income of $2.7 million, resulting in a net negative grant cash balance of $900 thousand. The net negative amount increased to $1.4 million by the end of the federal fiscal year. Disbursements from these accounts were borrowed from funds in the Treasurer's Cash Pool, while program income was not utilized. Income accounts were excessive throughout the entire fiscal year. Title 34 CFR 80.21(f)(2) requires that program income be disbursed for federal expenditures prior to requesting additional cash payments from the grant award.

Recommendation:

We recommend that the Department monitor program cash needs and time draws of federal cash in compliance with federal requirements. The Department should investigate income accounts for excess funds and refrain from using cash dedicated to one program in any others. The Department should expend cash from program income before requesting additional federal funds.

Auditee Response/Corrective Action Plan:

Contact: Rose M. Bailey, Chief Accountant, 287-1276

The Office of Administrative Services (OAS) recognizes the importance of cash management and compliance with the Cash Management Improvement Act (CMIA) agreement, and therefore; consolidated all cash management activity. Much effort and energy in the past year has been given to this effort and has been recognized by the Treasurer's Office, in that OAS was notified that for DOL programs involved with the CMIA Agreement, the third and fourth quarters were in compliance.

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 consistently follow its own internal control procedures to ensure compliance with federal Davis Bacon Act requirements which were designed to ensure that contractors pay prevailing wages to employees working on federal projects. We randomly tested 60 projects and could not locate all of the certified payrolls for 13 projects; the resident engineer had not stamped or signed all of the payrolls on nine projects; the bid book could not be located for one project; documentation of payroll interviews with contractors and subcontractors could not be found for 47 projects; and wage sheets were not complete for three projects. Additionally, we tested the wages of 94 employees and found four employees who were not paid the prevailing wage and the rate could not be determined for three others due to incomplete wage rate sheets.

The Department did not fully comply with State and federal regulations which require that a qualification-based selection process be used when procuring property and services. The Contract Division was unable to provide sufficient evidence that a qualification-based selection process was utilized for five of thirty consultant contracts nor could they provide documentation of public advertisement for two of ten construction contracts tested.

We found that the Department did not perform inspections and acceptance testing in one instance out of a sample of 25 to ensure that materials and workmanship conformed to specifications, as required by federal regulations.

Department of Transportation

(04-79) Bureau of Project Development

Highway Planning and Construction **Questioned Costs:** None
CFDA#: 20.205
Federal Award Number: Various

Finding: Insufficient controls over compliance with Davis Bacon requirements **(Prior Year Finding)**

The Department of Transportation did not consistently follow established internal control procedures regarding federal Davis Bacon Act requirements. 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. A copy of the wage rate sheets are kept in a bid book for the resident engineer's reference. Further, the Department requires the resident engineer to conduct two bi-monthly interviews for each contractor and subcontractor.

Of the sixty projects randomly selected for testing:

- Documentation of payroll interviews could not be located for forty-seven projects;
- Certified payrolls could not be located for thirteen projects;
- A resident engineer had not stamped or signed the certified payrolls of nine projects;
- The bid book could not be located for one project;
- The wage rate sheets for three projects were not complete. Information on the wage rate sheet is required in order to determine whether prevailing wage rates were used for all job classifications.

Wages of 94 employees were tested for compliance with 29 CFR 5, requiring that all laborers and mechanics be paid wages not less than the prevailing wage rate:

- Four employees were not paid the prevailing wage;
- The rate could not be determined for three employees, due to incomplete wage rate sheets.

Recommendation:

We recommend that the Department of Transportation:

- Require that established 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;

- Complete wage rate sheets should be obtained so that the resident engineer will be able to determine the prevailing wage rate for any new classifications when reviewing the certified payrolls.

Auditee Response/Corrective Action Plan:

Contact: David Nicholas, Director, Project Development, 624-3338

We concur with the finding. The corrective plan includes the training of approximately 200 field employees who have completed documentation training within the last few months. Included in that training were Davis-Bacon issues. Employees were informed of the requirements and given a Payroll/Interview checklist which is now part of the required documentation. In addition, the Department has created a Civil Rights Office which is responsible for ensuring the Department's compliance with EEO, Davis-Bacon, and DBE. The Civil Rights Office will be conducting full compliance reviews for approximately three on-site visits per week during the summer season, as well as conducting more detailed reviews at project closeout.

(04-80) Bureau of Project Development

Highway Planning and Construction **Questioned Costs:** None
CFDA#: 20.205
Federal Award Number: Various

Finding: Acceptance testing not performed at the established frequency **(Prior Year Finding)**

The Department of Transportation did not perform the required acceptance testing at the established frequency in one instance out of a sample of twenty-five. In accordance with 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 sampling and testing program is required to include an acceptance and independent assurance testing component.

Recommendation:

We recommend that the Department of Transportation perform acceptance testing at the established frequency.

Auditee Response/Corrective Action Plan:

Contact: David Bernhardt, Assistant Director, Bureau of Project Development, 624-3400

We concur with the finding. The Materials Testing and Exploration unit was cited for one failure to perform Independent Assurance (IA) inspections at the established frequency (out of the 25 samples reviewed). The Materials Testing and Exploration unit is aware of the importance of meeting the established frequency of Acceptance Testing and with existing processes in place, will strive to meet 100 percent in the future. The corrective action will be a management letter to the unit reiterating the need to meet established Acceptance Testing frequency per 23 CFR 637.207. The letter will be issued within the next month.

(04-81) Contract Division and Agreement Coordination Office

Highway Planning and Construction **Questioned Costs:** None
CFDA#: 20.205
Federal Award Number: Various

Finding: Insufficient controls over compliance with procurement requirements

The Department of Transportation's Contract Division was unable to provide documentation of public advertisement for two of ten construction contracts tested. In addition, the Department's Agreement Coordinator Office could not provide sufficient evidence that a qualifications-based selection process was conducted for five of thirty consultant contracts tested.

In accordance with 49 CFR 18.36, when procuring property and services under grant programs, a state will follow the same policies and procedures it uses for procurement from its non-Federal funds. Title 5 M.S.R.A. §1742 requires the adoption of the quality-based selection process. Furthermore, Public Law 92-582 establishes that a qualifications-based selection process be utilized for procuring architectural/engineering services.

Recommendation:

In order to ensure that the Department of Transportation complies with federal and State regulations regarding procurement of architectural/engineering services, we recommend that the Department continue to follow established procurement procedures in the updated Consultant's Contract Manual and retain the documentation for independent government estimates.

Department of Transportation

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

Contact: Todd Pelletier, Director, Contract Procurement, 624-3324

We concur with the finding. The Department has recently formed a Contract Procurement Office from the former Agreement Coordination Office and a portion of the Audit Office. The new Contract Procurement Office will be ensuring quality assurance of the Department's consultant contracts by use of its Compliance Unit. This unit, in conjunction with the Procurement Support Unit, will assist the Contract Specialists to go through the prescribed consultant selection process and procurement process. All documentation will be achieved by a process checklist that will ensure that all necessary steps satisfying Federal and State regulations are followed. The process checklist will be developed within the next few months.

STATE OF MAINE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2004

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
01-01	N/A	Administrative and Financial Services	Inadequate controls to ensure complete and accurate recording of general fixed assets	None	Corrective action continues in FY05	See 04-01 No further action warranted per OMB A-133 315 b4
01-07	12 401	Defense	Inadequate internal control over cash management (Prior Year Finding)	None	Corrective action continues in FY05	See 04-10 No further action warranted per OMB A-133 315 b4
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 continues in FY05	See 04-11 No further action warranted per OMB A-133 315 b4
01-10	Various	Education	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	Corrective action continues in FY05	See 04-05 No further action warranted per OMB A-133 315 b4
01-15	84 027	Education	Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Partial corrective action taken in FY04	See 04-16 No further action warranted per OMB A-133 315 b4
01-18	66 605	Environmental Protection	Inadequate controls over subrecipient monitoring responsibilities	None	Corrective action taken FY04	Finding was not repeated
01-21	93 558	Health & Human Services	Inaccurate federal financial reporting (Prior Year Finding)	$149,082	Corrective action taken in December 2003	Finding was not repeated
01-22	93 575 93 596	Health & Human Services	Inaccurate federal financial reporting (Prior Year Finding)	None	Partial corrective action taken in FY03, however corrective action continues in FY05	See 04-40 No further action warranted per OMB A-133 315 b4
01-23	93 575 93 596	Health & Human Services	Unallowable payroll costs (Prior Year Finding)	$82,730	Corrective action taken in July 2003	Finding was not repeated
01-24	93 658	Health & Human Services	Costs claimed more than once	$65,203	Corrective action continues in FY05	See 04-42 No further action warranted per OMB A-133 315 b4
01-25	93 658	Health & Human Services	Foster Care payment system not reconciled to State's accounting system	None	Corrective action continues in FY05	See 04-46 No further action warranted per OMB A-133 315 b4
01-26	93 658	Health & Human Services	Ineligible participants	$1,026	Corrective action continues in FY05	See 04-43 No further action warranted per OMB A-133 315 b4
01-28	93 658	Health & Human Services	Payments made to ineligible recipients and at incorrect rates (Prior Year Finding)	$37,179	Corrective action continues in FY05	See 04-42 No further action warranted per OMB A-133 315 b4

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2004

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
01-31	93 659	Health & 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	Finding was not repeated
01-32	93 658 93 659	Health & Human Services	Inadequate controls over accounting and reporting for the Title IV-E Programs	$2,846,146 $46,445	Corrective action continues in FY05	See 04-46 No further action warranted per OMB A-133 315 b4
01-38	93 563	Health & 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 continues in FY05	See 04-33 No further action warranted per OMB A-133 315 b4
01-39	93 563	Health & Human Services	Excess federal program funds to pass-through agency	$673,369	Corrective action taken in FY04	Finding was not repeated
01-44	93 268	Health & Human Services	Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)	None	Corrective action taken in FY05	See 04-29 No further action warranted per OMB A-133 315 b4
01-47	Various	Health & Human Services	Procedures do not ensure compliance with the Cash Management Improvement Act (Prior Year Finding)	None	Corrective action continues in FY05	See 04-64 No further action warranted per OMB A-133 315 b4
01-48	Various	Health & Human Services	Costs charged twice, cost allocation plan errors not detected (Prior Year Finding)	$1,290,881	Corrective action continues in FY05	See 04-62 No further action warranted per OMB A-133 315 b4
01-50	84 126	Labor	Lack of segregation of duties, inadequate oversight	None	Corrective action continues in FY05	See 04-76 No further action warranted per OMB A-133 315 b4
01-53	Various	Labor	Compliance with Cash Management Improvement Act not ensured (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
01-58	20 205	Transportation	Internal controls regarding Davis Bacon Act not followed	None	Corrective action continues in FY05	See 04-79 No further action warranted per OMB A-133 315 b4
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 continues in FY05	04-01
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	Finding was not repeated
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	Finding was not repeated
02-10	N/A	Economic and Community Development	Inadequate internal control over reporting of loans receivable	None	Corrective action taken in FY04	Finding was not repeated
02-12	N/A	Health & Human Services	Accounting for federal funds inadequate	None	Significant corrective action has been taken since communication of the finding and is ongoing	04-67

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2004

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
02-15	N/A	Health & Human Services	Insufficient controls over accounts receivable	None	Corrective action continues in FY04	Finding was not repeated
02-16	N/A	Health & Human Services	Journal vouchers not adequately supported	None	Corrective action taken in FY04	Finding was not repeated
02-23	93 959	Behavior & Developmental Services	Non-compliance with cash management requirements (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
02-25	12 401	Defense	Inadequate internal control over cash management (Prior Year Finding)	None	Corrective action continues in FY05	04-10
02-27	12 999	Defense	Inadequate internal control over cash management (Prior Year Finding)	None	Corrective action continues in FY05	04-11
02-29	12 999	Defense	Lack of controls over ensuring compliance with suspension and debarment requirements	None	Corrective action continues in FY05	Management Letter
02-31	84 010 84 027 10 555	Education	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	Corrective action continues in FY05	04-05
02-32	84 027	Education	Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Partial corrective action taken in FY04	04-16
02-36	66 605	Environmental Protection	Inadequate controls over subrecipient monitoring responsibilities (Prior Year Finding)	$15,300	Corrective action taken in FY04	Finding was not repeated
02-39	93 558	Health & Human Services	TANF grant overdrawn	$18,968,786	Corrective action taken in October 2003	Finding was not repeated
02-40	93 658	Health & Human Services	Payments made to ineligible recipients (Prior Year Finding)	$106,252	Corrective action continues in FY05	04-43
02-41	93 659	Health & Human Services	Payments to ineligible recipients (Prior Year Finding)	$260,866	Corrective action began in June 2002 and will be completed in August 2004	04-47
02-43	10 561	Health & Human Services	Inadequate controls over financial reporting	None	Corrective action continues in FY05	04-24
02-44	93 268	Health & Human Services	Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)	None	Corrective action taken in FY05	04-29
02-45	93 268	Health and Human Services	Inadequate cash management procedures	None	Partial corrective action was taken; however, corrective action continues in FY05	04-27
02-46	93 558	Health & Human Services	Inaccurate financial reporting (Prior Year Finding)	$1,763,688	Corrective action taken in December 2003	Finding was not repeated
02-47	93 563	Health & Human Services	Inadequate controls over accounting for child support (Prior Year Finding)	None	Corrective action continues in FY05	04-33
02-50	93 563	Health & 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	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2004

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
02-51	93 575 93 596	Health & Human Services	Failure to comply with subrecipient monitoring requirements (Prior Year Finding)	None	Significant corrective action taken in FY03 Improvements ongoing	04-38
02-52	93 575 93 596	Health & Human Services	Unallowable payroll costs (Prior Year Finding)	$88,225	Corrective action taken in FY04	Finding was not repeated
02-53	93 575 93 596	Health & Human Services	Inaccurate federal financial reporting (Prior Year Finding)	None	Partial corrective action taken in FY03, however corrective action continues in FY05	04-40
02-56	93 658	Health & Human Services	Costs claimed more than once and ineligible participants included (Prior Year Finding)	$48,047	Corrective action continues in FY05	04-42
02-57	93 658	Health & Human Services	Foster Care grant overdrawn (Prior Year Finding)	$8,286,840	Corrective action continues in FY05	04-45
02-58	93 658	Health & Human Services	Control deficiencies over eligibility data (Prior Year Finding)	None	Corrective action began in March 2003 and will be completed in July 2004	Finding was not repeated
02-59	93 658 93 659	Health & Human Services	Inadequate controls over accounting for and reporting the Title IV-E Shared Costs (Prior Year Finding)	$36,164	Corrective action continues in FY05	04-46
02-60	93 658 93 659	Health & Human Services	Inadequate controls over accounting for the Title IV-E Programs (Prior Year Finding)	None	Corrective action continues in FY05	04-46
02-61	93 658 93 659	Health & Human Services	Inadequate controls over program payments (Prior Year Finding)	$49,534	Corrective action began in June 2003 and completed in March 2004	Finding was not repeated
02-67	93 778	Health & Human Services	Procedures do not ensure compliance with Medicaid Eligibility Quality Control (MEQC) rules and procedures (Prior Year Finding)	None	Corrective action taken in April 2004	Finding was not repeated
02-71	93 778	Health & Human Services	Federal funds used for State purposes	None	Corrective action taken during FY04	Management Letter
02-72	93 778	Health & Human Services	Unexplained negative cash balance	None	Corrective action continues in FY05	04-59
02-73	93 767 93 777 93 778	Health & Human Services	Estimated grant disbursement amounts reported to the Federal government	None	Corrective action continues in FY05	04-66
02-74	93 778	Health & Human Services	No financial reconciliation and a lack of controls to ensure accurate federal financial reporting	None	Corrective action continues in FY05	04-58
02-75	Various	Health & Human Services	Controls are inadequate to ensure accurate financial reporting (Prior Year Finding)	$691,657	Corrective action continues in FY05	04-62
02-76	Various	Health & Human Services	Cash management and accounting records inadequate (Prior Year Finding)	None	Corrective action began in October 2003 and is ongoing	04-64
02-77	84 126	Labor	Lack of segregation of duties; inadequate oversight (Prior Year Finding)	None	Corrective action continues in FY05	04-76
02-79	17 225	Labor	Funds drawn on the federal Unemployment Compensation Trust Fund were not in compliance with CMIA	None	Corrective action taken in FY04	Finding was not repeated

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2004

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
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	04-72
02-82	17 258 17 259 17 260	Labor	Lack of adequate subrecipient monitoring	None	Partial corrective action taken in FY04	Management Letter
02-84	84 126	Labor	Incorrect financial reporting	None	Corrective action continues in FY05	04-75
02-85	Various	Labor	Compliance with the Cash Management Improvement Act not ensured (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
02-90	20 205	Transportation	Internal controls regarding Davis Bacon Act not followed	None	Corrective action continues in FY05	04-79
02-91	20 205	Transportation	Inadequate controls over suspension and debarment requirements for consultant contracts (Prior Year Finding)	None	Corrective action continues in FY05	Management Letter
03-01	N/A	Administrative and Financial Services	Component unit financial information not complete	None	Corrective action taken in FY04	Finding was not repeated
03-02	N/A	Administrative and Financial Services	Inadequate control over fixed assets recording (Prior Year Finding)	None	Corrective action continues in FY05	04-01
03-03	N/A	Administrative and Financial Services	Program logic error in accounts payable module (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
03-04	N/A	Economic and Community Development	Inadequate controls over accounting for loans receivable	None	Corrective action taken in FY04	Finding was not repeated
03-05, 03-30	N/A	Health & Human Services	Administration of federal funds inadequate (Prior Year Finding)	None	Corrective action continues in FY05	04-67
03-06, 03-44	93 558	Health & Human Services	TANF grant overdrawn (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
03-07, 03-87	93 778	Health & Human Services	Journal Vouchers not adequately supported (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
03-08, 03-46	93 563	Health & Human Services	Inadequate controls over accounting for child support (Prior Year Finding)	None	Corrective action continues in FY05	04-33
03-09, 03-80	93 778	Health & Human Services	Inadequate controls over suspense account (Prior Year Finding)	None	Corrective action continues in FY05	Finding was not repeated
03-10	84 027	Administrative and Financial Services	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	Corrective action continues in FY05	04-05
03-11	Various	Administrative and Financial Services	Excess working capital reserve balance	$613,212	Partial corrective action taken in FY04	04-09
03-12,03-72	93 667	Behavior & Developmental Services	Inadequate cash management procedures	None	Corrective action continues in FY05	04-49

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2004

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
03-13	93 778	Behavior & Developmental Services	Inadequate controls over payment amounts	None	Corrective action continues in FY05, including new controls embedded in the MeCMS Medicaid claims processing system which was implemented in January 2005	Finding was not repeated
03-14	10 664	Conservation	Lack of suspension and debarment certifications	None	Corrective action taken in FY04	Finding was not repeated
03-15	10 664	Conservation	Inadequate controls over subrecipient monitoring requirements	None	Corrective action taken in FY04	Finding was not repeated
03-16	12 400	Defense	Inadequate controls over cash management and suspension and debarment requirements	None	Corrective action completed in FY05	Finding was not repeated
03-17	12 401	Defense	Inadequate controls over program requirements (Prior Year Finding)	None	Corrective action continues in FY05	See 04-10, Management Letter
03-18	12 999	Defense	Inadequate controls over grant accountability, cash management and suspension and debarment certification (Prior Year Finding)	None	Corrective action continues in FY05	See 04-11, Management Letter
03-19	14 228	Economic and Community Development	Non-compliance with federal cash management requirements	None	Corrective action taken in FY04	Finding was not repeated
03-20	14 228	Economic and Community Development	Inadequate controls over suspension and debarment requirements	None	Corrective action continues in FY05	04-12
03-21	Various	Education	Inadequate controls over inventory of donated commodities	None	Corrective action taken in FY04	Finding was not repeated
03-22	84 010	Education	Unobligated funds not returned to the federal government	None	Corrective action taken in FY04	Finding was not repeated
03-23	84 027	Education	Inadequate controls to ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Partial corrective action taken in FY04	04-16
03-24	84 027	Education	Non-compliance with earmarking requirements (Prior Year Finding)	$329,990	Corrective action taken in FY04	Finding was not repeated
03-25	84 367	Education	Non-compliance with hold harmless provision	None	Corrective action taken in FY04	Finding was not repeated
03-26	84 367	Education	Federal award information not provided	None	Corrective action taken in FY04	Finding was not repeated
03-27	66 605	Environmental Protection	Indirect cost base incorrectly calculated	$145,000	Corrective action taken in FY04	Finding was not repeated
03-28	66 605	Environmental Protection	Inadequate controls over procurement provisions and suspension and debarment requirements (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
03-29	66 605	Environmental Protection	Inadequate controls over subrecipient monitoring responsibilities (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
03-31	10 558	Health & Human Services	Inadequate control over, and non-compliance with, cash management requirements	None	Partial corrective action taken in FY04	04-22

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2004

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
03-32	10 558	Health & Human Services	Federal funds used to reimburse federal government	$31,346	Corrective action taken in FY04	Finding was not repeated
03-33	10 558	Health & Human Services	Inadequate internal control over earmarking requirements	$11,812	Corrective action taken in FY04	Finding was not repeated
03-34	10 561	Health & Human Services	Inadequate controls over federal draws, cash management and program accounting	$4,954,830	Corrective action continues in FY05	04-23
03-35	10 561	Health & Human Services	Inadequate controls over reconciliation requirements for Food and Nutrition Service	None	Corrective action taken in FY04	Finding was not repeated
03-36	10 561	Health & Human Services	Inadequate controls over federal reporting requirements	None	Corrective action continues in FY05	04-19
03-37	10 561	Health & Human Services	Inadequate controls over financial reporting and program data (Prior Year Finding)	None	Corrective action continues in FY05	04-24
03-38	93 268	Health & Human Services	Improper transfer of federal funds	$56,000	Corrective action was taken in FY05	Finding was not repeated
03-39	93 268	Health & Human Services	Controls insufficient to ensure compliance with standards for support of salaries (Prior Year Finding)	None	Corrective action taken in FY05	04-29
03-40	93 268	Health & Human Services	Untimely reimbursement	None	Corrective action continues in FY05	04-27
03-41	93 558	Health & Human Services	Non-compliance with requirements for income and verification system	None	Corrective action continues in FY05	04-31
03-42	93 558	Health & Human Services	Inaccurate data reported on ACF-199 and ACF-209 quarterly performance reports	None	Corrective action continues in FY05	04-32
03-43	93 558	Health & Human Services	Inadequate controls to ensure accurate reporting of program expenditures (Prior Year Finding)	None	Corrective action completed in FY05	Finding was not repeated
03-45	93 558 93 658 93 778	Health & Human Services	Cash management and accounting records inadequate (Prior Year Finding)	None	Corrective action continues in FY05	04-64
03-47	93 563	Health & Human Services	Funds transferred in excess of program use (Prior Year Finding)	None	Corrective action continues in FY05	04-36
03-48	93 563	Health & Human Services	Check for $1 1 million never cashed	None	Corrective action taken in FY04	Finding was not repeated
03-49	93 563	Health & Human Services	Federal financial reporting errors	None	Corrective action continues in FY05	04-37
03-50	93 563	Health & Human Services	Noncompliance with semi-annual certification requirement	None	Corrective action completed in FY05	Finding was not repeated
03-51	93 563	Health & Human Services	Noncompliance with requirements for establishment of case records and enforcement of medical support obligations	None	Corrective action continues in FY05	Management Letter

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2004

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
03-52	93 575 93 596	Health & Human Services	Unallowable payroll expenditures (Prior Year Finding)	$263,435	Corrective action taken in FY04	Finding was not repeated
03-53	93 575 93 596	Health & Human Services	Insufficient monitoring of subrecipients (Prior Year Finding)	None	Corrective action completed in FY05	04-38
03-54	93 575 93 596	Health & Human Services	Federal financial reports not properly prepared (Prior Year Finding)	None	Corrective action continues in FY05	04-40
03-55	93 575 93 596	Health & Human Services	Inadequate cash management procedures	None	Corrective action completed in FY05	04-39
03-56	93 658	Health & Human Services	Payments made to ineligible recipients (Prior Year Finding)	$1,169,034	Corrective action continues in FY05	04-43
03-57	93 658	Health & Human Services	Lack of controls over federal financial reporting (Prior Year Finding)	$612,543	Corrective action continues in FY05	04-46
03-58	93 658	Health & Human Services	Unallowable costs claimed (Prior Year Finding)	$25,981	Corrective action continues in FY05	04-42
03-59	93 658	Health & Human Services	Foster Care grant overdrawn (Prior Year Finding)	None	Corrective action continues in FY05	04-45
03-60	93 658	Health & Human Services	Information system costs not charged in proportion with benefits received	$730,057	Corrective action continues in FY05	04-44
03-61	93 658 93 659	Health & Human Services	Inadequate controls over accounting for and reporting the Title IV-E Shared Costs (Prior Year Finding)	$1,965,556 $1,231,409	Corrective action continues in FY05	04-46
03-62	93 658 93 659	Health & Human Services	Adoption assistance costs incorrectly charged to the Foster Care program (Prior Year Finding)	$17,790	Corrective action taken in FY04	Finding was not repeated
03-63	93 658 93 659	Health & Human Services	Inadequate controls over maintaining accurate client information (Prior Year Finding)	None	Corrective action completed in FY05	Finding was not repeated
03-64	93 659	Health & Human Services	Inadequate controls over accounting and reporting	None	Corrective action continues in FY05	04-48
03-65	93 659	Health & Human Services	Title IV-E Adoption Assistance costs incorrectly charged to the state subsidized program	None	Corrective action continues in FY05	Verbal comment was communicated to Department
03-66	93 659	Health & Human Services	Documentation to support eligibility not maintained (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
03-67	93 659	Health & Human Services	Incorrect adoption assistance rates paid (Prior Year Finding)	None	Corrective action taken in FY03	Finding was not repeated
03-68	93 667	Health & Human Services	Federal funds not spent in accordance with earmarking requirements	$4,900,000	No action has been taken Awaiting federal guidance	04-50
03-69	93 667	Health & Human Services	Inadequate suspension and debarment procedure	None	Corrective action completed in FY05	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
03-70	93 667	Health & Human Services	Inadequate subrecipient monitoring procedures	None	Corrective action taken in FY05	04-51
03-71	Various	Health & Human Services	Inadequate controls over accounting for and reporting of allocated costs (Prior Year Finding)	$683,974 $339,510	Corrective action continues in FY05	04-62
03-73	93 767	Health & Human Services	Federal funds not drawn for allocated administrative costs	None	Corrective action taken in FY04	Finding was not repeated
03-74	Various	Health & Human Services	Estimated grant disbursement amounts reported (Prior Year Finding)	None	Corrective action not taken	04-66
03-75	93 778	Health & Human Services	No annual eligibility review as required	None	Corrective action taken in FY04	Finding was not repeated
03-76	93 778	Health & Human Services	Medicaid eligibility quality assurance control requirements not met (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
03-77	93 778	Health & Human Services	Federal funds for school-based services returned to the General Fund	$8 7 million	Corrective action to be completed in FY06	Finding was not repeated
03-78	93 778	Health & Human Services	Limits on disproportionate share exceeded	$3,268,650	Corrective action taken in FY04	Finding was not repeated
03-79	93 778	Health & Human Services	Excessive reimbursement rates	$18,400	Corrective action taken in FY04	Finding was not repeated
03-81	93 778	Health & Human Services	$121 million negative cash balance (Prior Year Finding)	None	Corrective action continues in FY05	04-59
03-82	93 778	Health & Human Services	Inadequate controls over provider eligibility	None	Corrective action continues in FY05, including new controls embedded in the MeCMS Medicaid claims processing system which was implemented in January 2005	04-56
03-83	93 778	Health & Human Services	Inadequate documentation for certain Medicaid reimbursement rates	None	Corrective action taken in FY04	Finding was not repeated
03-84	93 778	Health & Human Services	Insufficient controls over accounts receivable (Prior Year Finding)	None	Corrective action continues in FY05	Finding was not repeated
03-85	93 778	Health & Human Services	Prescribed sampling methodology for utilization reviews not used (Prior Year Finding)	None	Corrective action continues in FY05, including new controls embedded in the MeCMS Medicaid claims processing system which was implemented in January 2005	04-53
03-86	93 778	Health & Human Services	Medicaid financial reports not accurate and not reconciled (Prior Year Finding)	$46,643	Corrective action continues in FY05	04-58
03-88	93 778	Health & Human Services	Federal funds used for state purposes (Prior Year Finding)	None	Corrective action taken in FY04	Management Letter
03-89	93 778	Health & Human Services	Financial reporting errors	None	Corrective action continues in FY05	04-58

State of Maine
Summary Schedule of Prior Audit Findings
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Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
03-90	93 778	Health & Human Services	No process to ensure annual EDP risk analysis and system security reviews are completed (Prior Year Finding)	None	Corrective action not taken	04-60
03-91	96 001	Health & Human Services	Inequitable distribution of indirect costs	$633,282	Corrective action continues in FY05	Finding was not repeated
03-92	17 225	Labor	Inadequate control over and non-compliance with cash management requirements (Prior Year Finding)	None	Corrective action taken in FY04	Finding was not repeated
03-93	17 225	Labor	Inadequate internal control over the Unemployment Trust Fund	None	Corrective action taken in FY04	Finding was not repeated
03-94	17 225	Labor	Inadequate disaster recovery procedures	None	Corrective action taken in FY04	Management Letter
03-95	17 225	Labor	Insufficient controls over suspension and debarment requirements	None	Corrective action taken in FY04	Finding was not repeated
03-96	17 225	Labor	Inaccurate reporting of late payments to the IRS (Prior Year Finding)	None	Corrective action continues in FY05	04-70
03-97	17 258 17 259 17 260	Labor	No support for reported performance levels	None	Department disagrees with the finding and has not taken corrective action	Finding was not repeated
03-98	17 258 17 259 17 260	Labor	Insufficient subrecipient monitoring (Prior Year Finding)	None	Partial corrective action taken in FY04	Management Letter
03-99	17 258 17 259 17 260	Labor	Inadequate computer controls (Prior Year Finding)	None	Corrective action continues in FY05	04-72
03-100	84 126	Labor	Incorrect financial reporting (Prior Year Finding)	None	Corrective action continues in FY05	04-75
03-101	84 126	Labor	Inadequate controls over program payments (Prior Year Finding)	None	Corrective action continues in FY05	04-76
03-102	20 205	Transportation	Inspections and testing not at proper frequency (Prior Year Finding)	None	Corrective action continues in FY05	04-80
03-103	20 205	Transportation	Prevailing wage rates not paid (Prior Year Finding)	None	Corrective action continues in FY05	04-79
03-104	20 205	Transportation	Inadequate controls over suspension and debarment for consultant contracts (Prior Year Finding)	None	Corrective action continues in FY05	Management Letter