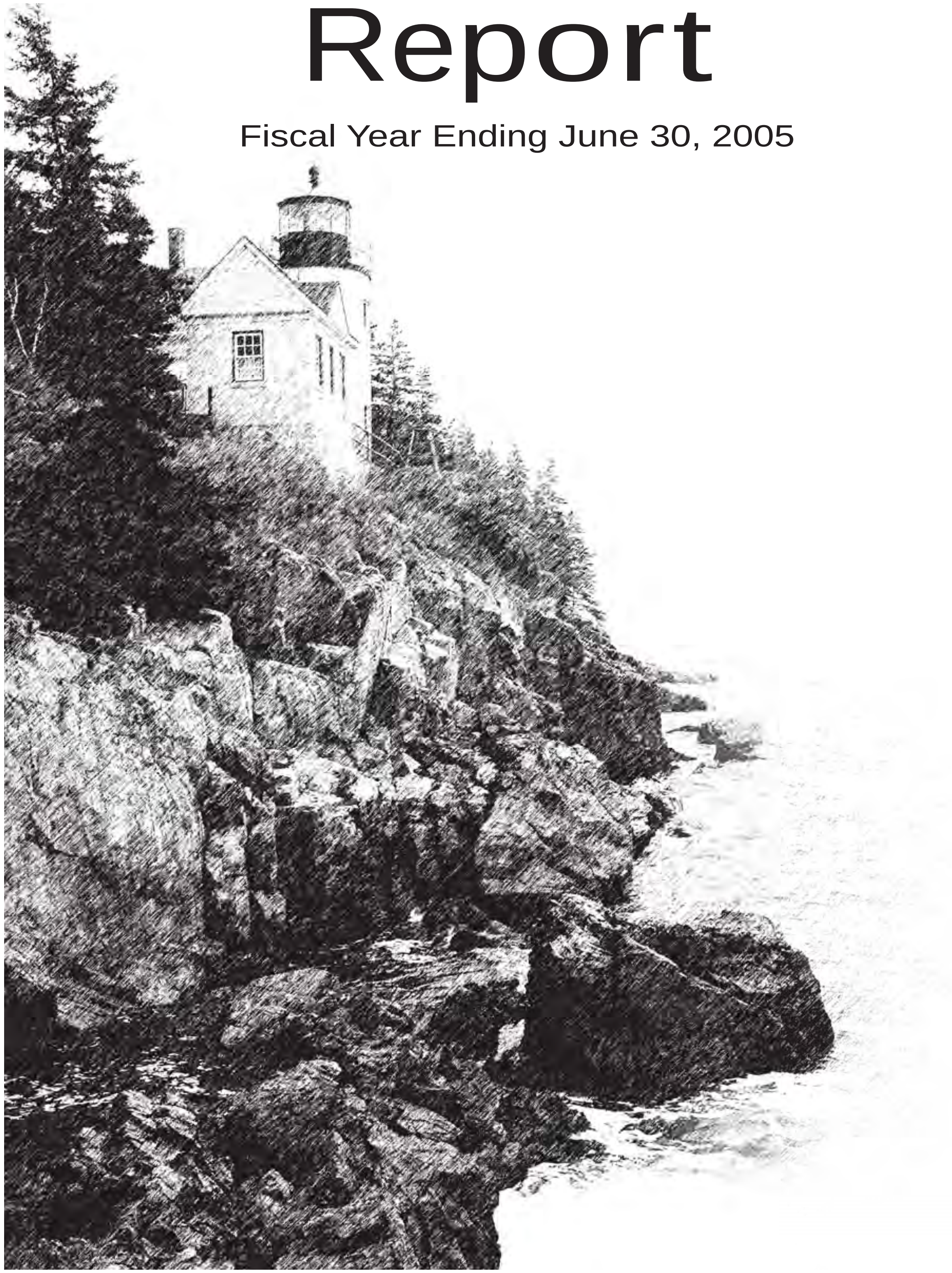
STATE OF MAINE

Single Audit Report

Fiscal Year Ending June 30, 2005



State Department of Audit
Neria Douglass, JD, CIA
State Auditor

Cover graphics by Thomas Randall Jr.

Printed under appropriation 010 27A 1001 012

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

Table of Contents

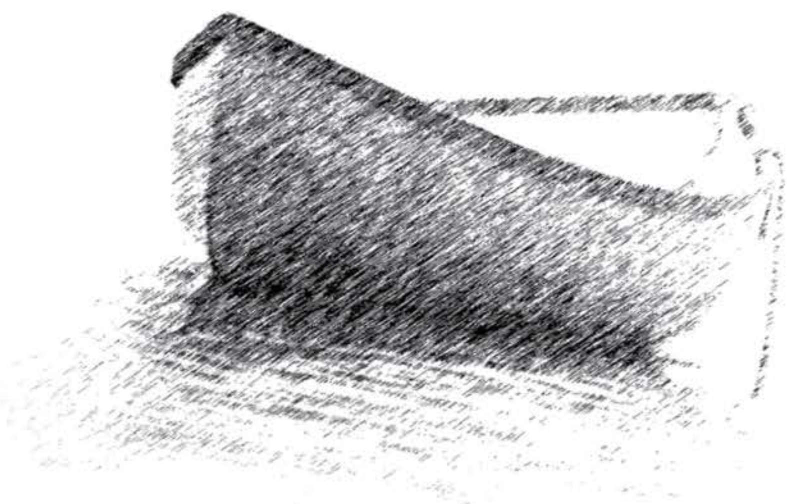
Table of Contents – Continued

Required Supplementary Information:

REPORTS ON INTERNAL CONTROL AND COMPLIANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Table of Contents – Continued



NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO, CPA, CIA
DEPUTY, SINGLE AUDIT
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT AND ADMINISTRATION

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, 2005. 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 and Questioned Costs
- Summary Schedule of Prior Audit Findings
- Corrective Action Plan

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 2005 Single Audit of the State of Maine.

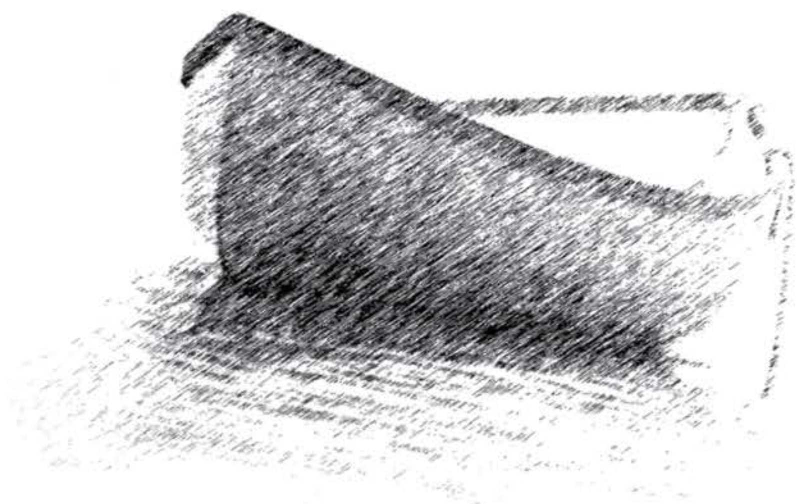
Respectfully submitted,

Neria R Douglass

Neria R. Douglass, JD, CIA
State Auditor

May 19, 2006

STATE OF MAINE
EXECUTIVE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2005



STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2005

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, 2005. The report is on pages B-2 and B-3.

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:

Compliance

We found no material instances of noncompliance; however, we did find certain immaterial instances of noncompliance, which will be reported to the management of the State of Maine in a separate letter.

Internal Control over Financial Reporting

We identified three 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. The three issues identified as reportable conditions are as follows: controls over the State's fixed assets (05-01), a failure to reconcile Lottery accounts receivable records to those of service-providers (05-02), and inadequate controls to adequately manage and report Medicaid financial activity (05-03).

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 $2.7 billion in federal assistance that the State received. We found 71 instances of control deficiencies or noncompliance with the requirements of federal programs. The key points of the report, commencing at page C-5, are as follows:

Compliance

We expressed an unqualified opinion on 23 major federal programs, indicating that the State had complied, in all material respects, with program requirements.

We qualified our opinion for two programs: the Social Services Block Grant program (finding #05-54) for material noncompliance with earmarking requirements; and the Medicaid Cluster (findings # 05-31 and 05-56) for material noncompliance with special tests and provisions regarding a functional claims management system and the Medicaid Home and Community Based Services Waiver (finding #05-57) for having insufficient documentation to support compliance with allowable activities, allowable costs and procurement.

We identified 13 other instances of noncompliance, due to questioned costs that are required to be reported to the federal government, although they are not serious enough to be classified as material noncompliance.

Internal Control over Compliance

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

- Inadequate controls over the Medicaid claims management system (05-31 and 05-56)
- Inadequate controls over the Medicaid Home and Community Based Services Waiver Program (05-57)

We identified 69 other instances of control weaknesses that we considered to be reportable conditions, but that 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

To present a clear perspective, we included the departments' agreement or disagreement immediately following each finding. In the event of a disagreement, we have summarized the reasons given by management and included the auditors' conclusions. In addition, the departments' Corrective Action Plans are included as a separate section at the end of the report.

Financial Statement Findings

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

Federal Findings

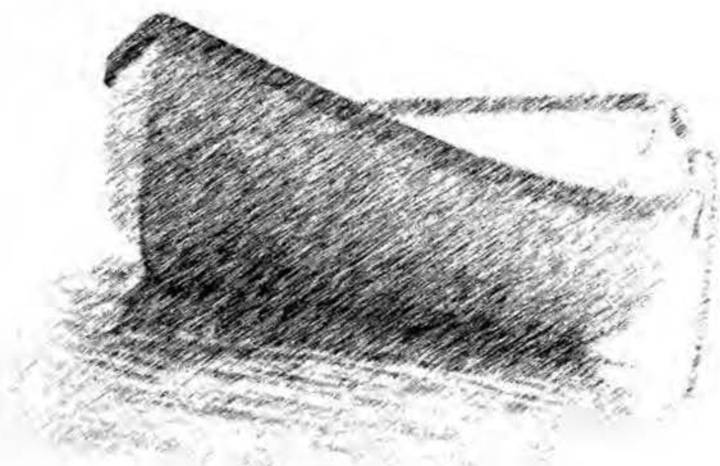
The most significant deficiencies are described above in the sections titled Compliance and Internal Control over Compliance. The Department of Health and Human Services (DHHS) administers 11 of the 25 programs that we audited. However, the 11 DHHS programs expended 76% of the dollars audited and comprised 70% of total State expenditures of federal funds. Given its size and complexity one would expect a significant number of audit findings in this department. Of the 71 federal findings included in our report, 51 relate to programs delivered by DHHS. As the Department of Administrative and Financial Services has since established accounting "Service Centers", some DHHS related findings are directed to DAFS for resolution. While DHHS has taken action to address some of our findings from prior year audits, there is still much to be done. It should also be noted that, in the year of audit, the Department was restructured to include the former Department of Mental Health, Mental Retardation and Office of Substance Abuse Services.

Questioned Costs

We reported $8.2 million of known questioned costs that resulted from our specific testing; we also projected additional amounts as likely questioned costs. In one instance, we were not able to determine an amount to report. 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

STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO, CPA, CIA
DEPUTY, SINGLE AUDIT
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT AND ADMINISTRATION

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, 2005, 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
Component Units	100%	100%

Fund Financial Statements	Percent of Assets	Percent of Revenues or Additions
Proprietary Funds-Governmental Activities- Internal Service Funds	44%	2%
Fiduciary Funds- Private Purpose Trust Funds	27.5%	9.62%

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 Child Development Services System and the Maine Educational Loan 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, 2005, and the respective changes in financial position and, where applicable, cash flows, 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 December 9, 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 required supplementary information. However, we did not audit the information and express no opinion on it.

As discussed in Note 3 to the financial statements, the State reclassified certain activities in 2005 and also corrected the recording of a prior period liability. As discussed in Notes 1 and 3 to the financial statements, the State changed its policy for determining which items are treated as cash equivalents.

As discussed in Note 3 to the financial statements, the State has implemented Governmental Accounting Standards Board Statement #40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.*

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, CIA
State Auditor

December 9, 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, 2005. 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 4.6 percent from the previous fiscal year. Net assets of Governmental Activities increased by $203.7 million, while net assets of Business-type Activities decreased by $45.9 million. The State's assets exceeded its liabilities by $3.6 billion at the close of fiscal year 2005. Component units reported net assets of $1.7 billion, an increase of $89 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 $537.7 million, an increase of $140 million from the previous year. The General Fund's total fund balance was $46.4 million, an increase of $48.6 million from the previous year.

- The proprietary funds reported net assets at year end of $491.5 million, a decrease of $105.9 million.

Long-term Debt:

- The State's liability for general obligation bonds increased by $70.7 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $137.5 million in bonds and made principal payments of $66.8 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. Complete financial statements of the individual component units may be obtained directly from their respective administrative offices as shown in Note 1 A to the financial statements.

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 4.6 percent to $3.6 billion at June 30, 2005, 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**	
	2005	2004*	2005	2004*	2005	2004*
Current and other noncurrent assets	$ 1,783,079	$ 1,322,362	$ 521,130	$ 528,528	$ 2,304,209	$ 1,850,890
Capital assets	3,468,381	3,239,067	49,961	52,718	3,518,342	3,291,785
Total Assets	5,251,460	4,561,429	571,091	581,246	5,822,551	5,142,675
Current liabilities	1,247,806	830,316	32,710	22,051	1,280,516	852,367
Long-term liabilities	823,245	754,372	100,327	75,247	923,572	829,619
Total Liabilities	2,071,051	1,584,688	133,037	97,298	2,204,088	1,681,986
Net assets:						
Investment in capital assets, net of related debt	3,061,098	2,855,166	49,961	52,718	3,111,059	2,907,884
Restricted	290,385	217,608	459,538	450,475	749,923	668,083
Unrestricted	(171,074)	(96,033)	(71,445)	(19,245)	(242,519)	(115,278)
Total Net Assets	$ 3,180,409	$ 2,976,741	$ 438,054	$ 483,948	$ 3,618,463	$ 3,460,689

* *As restated*

Changes in Net Assets

The State's fiscal year 2005 revenues totaled $6.5 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 46.9 percent and 38.9 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 $6.3 billion for the year 2005. (See Table A-2) These expenses (70.8 percent) are predominantly related to health & human services and education activities. The State's governmental support & operations activities accounted for 7.6 percent of total costs. Total net assets increased by $157.7 million.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004*	2005	2004*	2005	2004*
Revenues						
Program Revenues:						
Charges for Services	$ 370,519	$ 375,087	$ 382,747	$ 396,444	$ 753,266	$ 771,531
Grants/Contributions	2,498,863	2,470,193	24,109	27,698	2,522,972	2,497,891
General Revenues:						
Corporate Income Taxes	244,842	216,366	-	-	244,842	216,366
Individual Income Taxes	1,296,606	1,149,109	-	-	1,296,606	1,149,109
Fuel Taxes	176,020	166,174	-	-	176,020	166,174
Property Taxes	50,962	28,412	-	-	50,962	28,412
Sales & Use Taxes	1,049,890	1,086,049	-	-	1,049,890	1,086,049
Other Taxes	223,326	117,168	-	-	223,326	117,168
Investment Earnings	20,650	17,049	-	-	20,650	17,049
Other	142,745	170,026	-	-	142,745	170,026
Total Revenues	6,074,423	5,795,633	406,856	424,142	6,481,279	6,219,775
Expenses						
Governmental Activities:						
Governmental Support	480,837	476,149	-	-	480,837	476,149
Arts, Heritage & Culture	13,273	12,498	-	-	13,273	12,498
Business Lic & Reg	49,553	46,249	-	-	49,553	46,249
Economic Development & Workforce Training	171,092	191,869	-	-	171,092	191,869
Education	1,412,524	1,357,080	-	-	1,412,524	1,357,080
Health & Human Services	3,051,822	2,776,925	-	-	3,051,822	2,776,925
Justice & Protection	322,072	302,293	-	-	322,072	302,293
Natural Resources	171,307	166,195	-	-	171,307	166,195
Transportation Safety	246,837	203,968	-	-	246,837	203,968
Interest	32,530	31,324	-	-	32,530	31,324
Business-Type Activities:						
Employment Security	-	-	113,642	118,965	113,642	118,965
Alcoholic Beverages	-	-	7	61,958	7	61,958
Lottery	-	-	161,691	146,214	161,691	146,214
Airport	-	-	892	819	892	819
Marine Ports	-	-	1,829	1,415	1,829	1,415
Ferry Services	-	-	7,876	7,296	7,876	7,296
Military Equip. Maint.	-	-	50,908	24,639	50,908	24,639
Dirigo Health	-	-	13,587	821	13,587	821
Other	-	-	2,107	2,107	2,107	2,107
Total Expenses	5,951,847	5,564,550	352,539	364,234	6,304,386	5.928,784
Excess (Deficiency) before Special Items and Tranfers	122,576	231,083	54,317	59,908	176,893	290,991
Special Items	30,881	75,000	(50,000)	(85,703)	(19,119)	(10,703)
Transfers	50,211	15,137	(50,211)	(15,137)	-	-
Increase (Decrease) in Net Assets	203,668	321,220	(45,894)	(40,932)	157,774	280,288
Beginning Net Assets *	2,976,741	2,655,521	483,948	524,880	3,460,689	3,180,401
Ending Net Assets	$ 3,180,409	$2,976,741	$ 438,054	$ 483,948	$ 3,618,463	$ 3,460,689

** As restated*

Governmental Activities

Revenues for the State's Governmental Activities totaled $6.1 billion while total expenses equaled $5.9 billion. Therefore, the increase in net assets for Governmental Activities was $203.7 million in 2005. This is due, primarily, to increases in employment and construction, which resulted in higher-than-expected revenues in the major tax lines. The users of the State's programs financed $370.5 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $2.5 billion. $3.2 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 2005

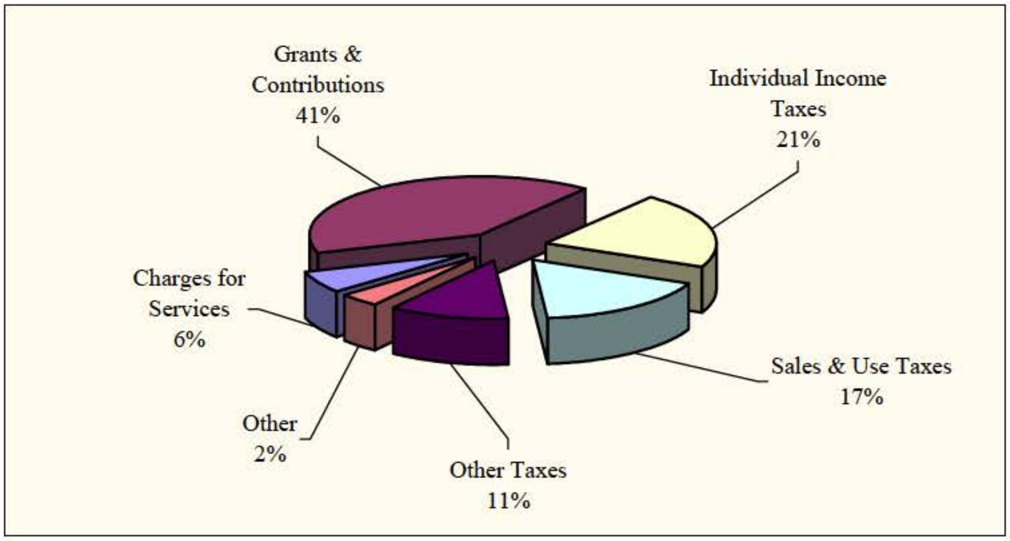
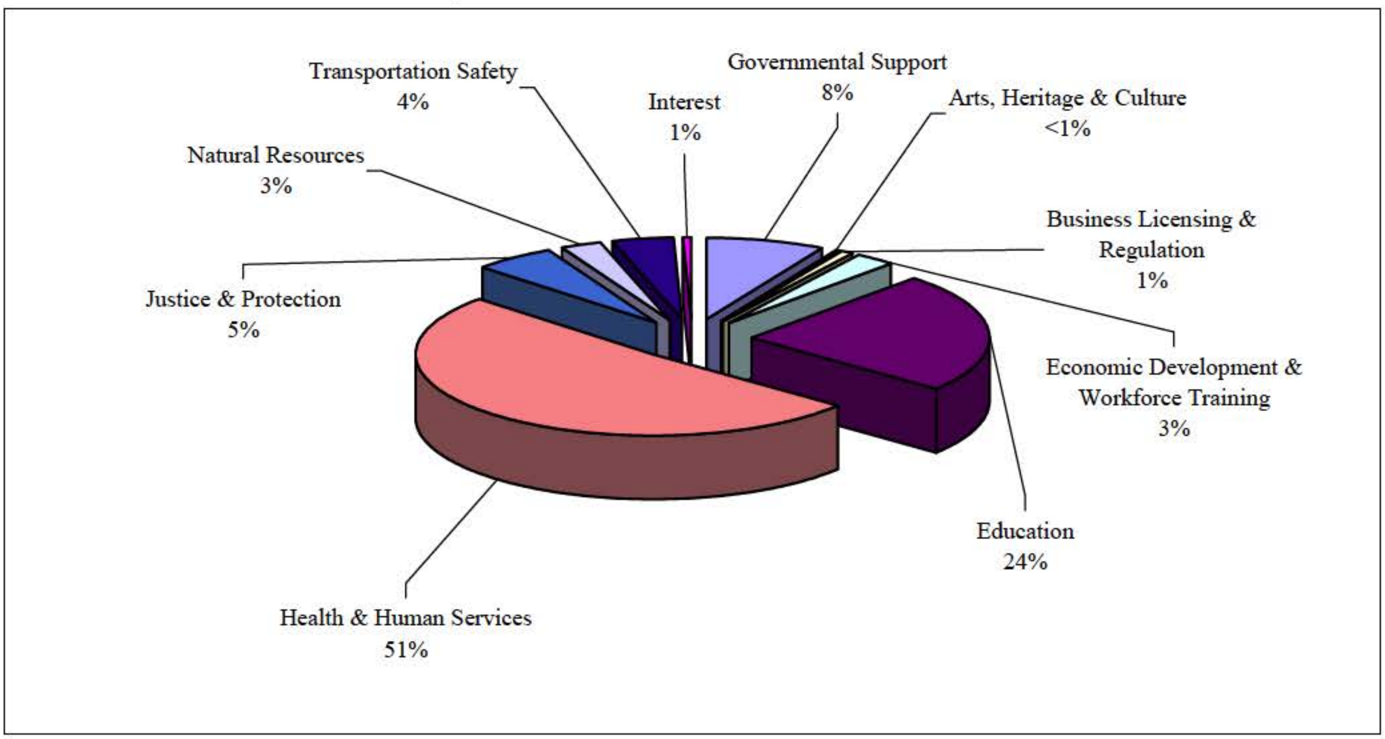


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2005



Business-type Activities

Revenues for the State's Business-type Activities totaled $406.9 million while expenses totaled $352.5 million. The decrease in net assets for Business-type Activities was $45.9 million in 2005. One major event, recorded as a special item, contributed to the decrease: in fiscal year 2004, 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 $50 million of proceeds from the sale of those operating rights from the Alcoholic Beverages enterprise fund to the General Fund in the current fiscal year.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, airport, marine ports, ferry services, military equipment maintenance, Dirigo Health 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	2005	2004*	2005	2004*
Employment Security	$ 113,642	$ 118,965	$ 10,182	$ (6,905)
Alcoholic Beverages	7	61,958	12,575	27,129
Lottery	161,691	146,214	50,274	42,457
Airport	892	819	(754)	(672)
Marine Ports	1,829	1,415	(1,402)	99
Ferry Services	7,876	7,296	(3,827)	(3,854)
Military Equip. Maint.	50,908	24,639	(4,431)	2,704
Dirigo Health	13,587	821	(8,371)	(821)
Other	2,107	2,107	71	(229)
Total	$ 352,539	$ 364,234	$ 54,317	$ 59,908

**As restated.*

The cost of all Business-type Activities this year was $352.5 million. The users of the State's programs financed most of the cost. The State's net revenue from Business-type Activities was $54.3 million. The State's Business-type Activities transferred $100.2 million (net) to the Governmental Activities, which includes $50.2 in statutorily required profit transfers and $50 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 $537.7 million in its governmental funds. The Other Special Revenue Fund, at $259.9 million, comprises 48.3 percent of the total, while the General Fund, at 46.4 million, the Highway Fund, at $83.1 million, and the Federal Fund, at $31.2 million comprise slightly less than 30 percent of the total fund balances. Miscellaneous non-major governmental funds, in the aggregate, comprise 21 percent of the total. Total fund balances in the governmental funds increased by $140 million. More than 34 percent of that increase occurred in the General Fund, while 25 percent occurred in the Other Special Revenue Fund and 23 percent in the Highway Fund. Proceeds from the sale of operating rights for the State's wholesale liquor distribution accounted for $50 million, or 36 percent of the increase in total fund balances in the governmental funds.

Budgetary Highlights

For the 2005 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $2.8 billion, an increase of about $160.6 million from the original legally adopted budget of approximately $2.7 billion. Actual expenditures on the budgetary basis were $80 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 $28 million mainly due to higher than expected personal income tax and sales tax revenues.

On the modified accrual basis, General Fund revenues and other financing sources exceeded expenditures and other financing uses by $48.6 million for the fiscal year. A legislatively authorized contract with a vendor to manage and operate wholesale liquor distribution as the State's agent contributed 50 million and the return of excess equity from the Retiree Health Fund contributed 68.4 million towards the excess. The General Fund ended the year with a $46 million surplus.

During Fiscal Year 2005, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers, which affected the General Fund: $9.6 million from the Highway Fund to the Other Special Revenue Fund for distribution to municipalities for highway-related purposes and $9.6 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.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2005, the State had roughly $3.5 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2005, the State acquired or constructed more than $269 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	
	2005	2004*	2005	2004*	2005	2004*
Land	$ 375,105	$ 366,443	$ 7,304	$ 6,517	$ 382,409	$ 372,960
Buildings	459,349	441,316	8,747	8,747	468,096	450,063
Equipment	226,825	223,229	19,904	20,148	246,729	243,377
Improvements	25,022	24,372	51,410	51,410	76,432	75,782
Infrastructure	2,636,582	2,429,192	-	-	2,636,582	2,429,192
Construction in Progress	28,013	26,972	708	1,904	28,721	28,876
Total Capital Assets	3,750,896	3,511,524	88,073	88,726	3,838,969	3,600,250
Accumulated Depreciation	(282,515)	(272,457)	(38,112)	(36,008)	(320,627)	(308,465)
Capital Assets, net	$ 3,468,381	$ 3,239,067	$ 49,961	$ 52,718	$ 3,518,342	$ 3,291,785

* *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 8,760 highway miles or 17,747 lane miles within the State. Bridges have a deck area of 11.4 million square feet among 2,967 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2005, the actual average condition was 79.3. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 77 at June 30, 2005. Preservation costs for fiscal year 2005 totaled $46 million compared to estimated preservation costs of $31 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 33, P&S 2003, $22 million was spent during FY2005.

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 $1.1 billion 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**	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	$ 487,095	$ 416,360	$ -	$ -	$ 487,095	$ 416,360
Other Long-Term Obligations	575,708	451,939	383	277	576,091	452,216
Total	$1,062,803	$ 868,299	$ 383	$ 277	$1,063,186	$ 868,576

During the year, the State reduced outstanding long-term obligations by $66.8 million for outstanding general obligation bonds and $250.8 million for other long-term debt. Also during fiscal year 2005, the State incurred $513 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 2005, Moody’s Investors Service rated the State at Aa3, 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

Maine continues to recover economically. Our State is home to many renowned institutions of higher education, both public and private, industries, vacation areas, and world famous retailers, keeping the economy relatively stable and an incubator for new ideas and growth. Unemployment has remained at or below the national average due to these stabilization factors. The State of Maine with an international reputation for recreational, cultural, historical and educational institutions remains a significant spoke of the New England economy. Maine's economy remains diversified.

Inflation continued to rise though the past year. The Consumer Price Index rose nearly 4% from July 2004 to July 2005; however, fuel and utilities prices rose nearly 16% and transportation 6%. This extended to September 2005 to include the oil price escalation due to Hurricane Katrina, with a huge 26.3% jump in fuel and utilities prices and a nearly 17.2% rise in other transportation prices. Though the oil price shock seems to be leveling, it will affect budgeting decisions throughout FY06.

Per capita income continues to rise in Maine faster than inflation. According to the latest statistics available, per capita net income rose 4.8% in FY05, ahead of the 4.7% rise nationally. However, Maine ranked 30th in the nation in growth for personal income. Unemployment has hovered at or below the national average throughout the year. Preliminary figures indicate that the rate in Maine stood at 4.9% in November of 2005 which is still below the national rate of 5.0%.

The General Fund Revenue estimate for the 2006 – 2007 Biennium provides approximately $5.8 billion in resources to be available for general purpose spending. At the beginning of the budgeting process for the 2006-2007 Biennium, the Legislature's Office of Program and Fiscal Review estimated structural gap at approximately $701.3 million between available revenues and costs to maintain current services. Maine is once again challenged to make significant adjustments to the spending expectations over the course of the 2006 and 2007 fiscal years.

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
financialreporting@maine.gov

BASIC FINANCIAL STATEMENTS

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2005
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 423,839	$ 39,136	$ 462,975	$ 48,483
Cash and Cash Equivalents	282	974	1,256	18,956
Cash with Fiscal Agent	45,775	-	45,775	-
Investments	67,930	-	67,930	597,064
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	15,611	-	15,611	-
Restricted Deposits and Investments	40,753	430,372	471,125	-
Inventories	6,461	839	7,300	1,564
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	359,225	-	359,225	-
Loans Receivable	4,323	-	4,323	31,561
Notes Receivable	-	-	-	232
Other Receivables	235,872	52,079	287,951	40,801
Internal Balances	7,208	(7,208)	-	-
Due from Other Governments	477,161	-	477,161	177,498
Due from Primary Government	-	-	-	18,192
Loans Receivable from Primary Government	-	-	-	3,155
Due from Component Units	6,682	-	6,682	-
Other Current Assets	1,912	2,615	4,527	11,304
Total Current Assets	1,693,034	518,807	2,211,841	948,810
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	46,238	2,323	48,561	2,878
Assets Held in Trust	-	-	-	2
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	885	-	885	-
Restricted Deposits and Investments	-	-	-	445,348
Investments	-	-	-	409,452
Receivables, Net of Current Portion:				
Taxes Receivable	42,922	-	42,922	-
Loans Receivable	-	-	-	1,099,377
Notes Receivable	-	-	-	105,094
Other Receivables	-	-	-	5,439
Due from Other Governments	-	-	-	1,066,615
Loans Receivable from Primary Government	-	-	-	46,268
Due From Primary Government	-	-	-	1,803
Other Noncurrent Assets	-	-	-	40,755
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	3,039,700	8,012	3,047,712	112,294
Buildings and Equipment	711,196	80,061	791,257	897,621
Less: Accumulated Depreciation	(282,515)	(38,112)	(320,627)	(329,177)
Capital Assets, Net of Accumulated Depreciation	3,468,381	49,961	3,518,342	680,738
Total Noncurrent Assets	3,558,426	52,284	3,610,710	3,903,769
Total Assets	5,251,460	571,091	5,822,551	4,852,579

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Liabilities				
Current Liabili ies:				
Accounts Payable	$ 688,599	$ 4,319	$ 692,918	$ 59,327
Accrued Payroll	34,474	1,235	35,709	716
Compensated Absences	4,894	56	4,950	2,120
Tax Refunds Payable	138,721	-	138,721	-
Due to Component Units	24,707	-	24,707	-
Due to Other Governments	96,917	-	96,917	5,174
Due to Primary Government	-	-	-	7,496
Amounts Held under State & Federal Loan Programs	-	-	-	29,143
Undistributed Grants and Administra ive Funds	-	-	-	8,925
Allowances for Losses on Insured Commercial Loans	-	-	-	9,189
Claims Payable	136,463	-	136,463	-
Bonds and Notes Payable	71,935	-	71,935	150,253
Revenue Bonds Payable	12,245	-	12,245	112
Obligations under Capital Leases	5,833	-	5,833	228
Cer ificates of Participation and Other Financing Arrangements	17,254	-	17,254	-
Pledged Future Revenues	3,155	-	3,155	-
Accrued Interest Payable	6,521	-	6,521	16,935
Deferred Revenue	2,109	13,192	15,301	60,284
Other Current Liabilities	3,979	13,908	17,887	37,429
Total Current Liabilities	1,247,806	32,710	1,280,516	387,331
Long-Term Liabilities:				
Compensated Absences	35,352	327	35,679	-
Due to Other Governments	6	-	6	4,822
Amounts Held under State & Federal Loan Programs	-	-	-	41,399
Claims Payable	49,000	-	49,000	-
Bonds and Notes Payable	415,160	-	415,160	2,680,055
Revenue Bonds Payable	177,325	-	177,325	2,483
Obligations under Capital Leases	34,072	-	34,072	4,945
Cer ificates of Participation and Other Financing Arrangements	19,611	-	19,611	-
Pledged Future Revenues	46,268	-	46,268	-
Deferred Revenue	12,215	100,000	112,215	664
Pension Obliga ion	34,236	-	34,236	-
Other Noncurrent Liabilities	-	-	-	76,863
Total Long-Term Liabilities	823,245	100,327	923,572	2,811,231
Total Liabilities	2,071,051	133,037	2,204,088	3,198,562
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,061,098	49,961	3,111,059	545,272
Restricted:				
Highway Fund Purposes	80,686	-	80,686	-
Federal Programs	31,240	-	31,240	-
Natural Resources	20,170	-	20,170	-
Capital Projects and Debt Service	60,754	-	60,754	-
Unemployment Compensation	-	459,538	459,538	-
Other Purposes	29,444	-	29,444	909,671
Funds Held as Permanent Investments:				
Expendable	56,844	-	56,844	-
Nonexpendable	11,247	-	11,247	-
Unrestricted	(171,074)	(71,445)	(242,519)	199,074
Total Net Assets	$ 3,180,409	$ 438,054	$ 3,618,463	$ 1,654,017

STATE OF MAINE
STATEMENT OF ACTIVITIES

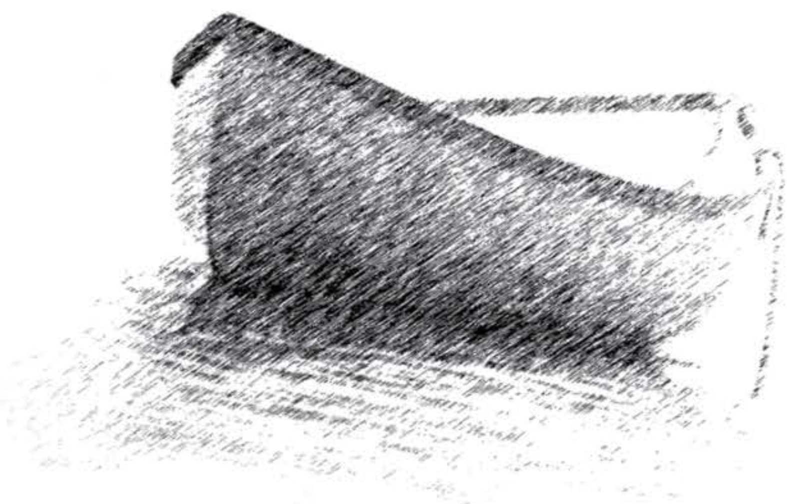
Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

		Program Revenues		
	Expenses	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government:				
Governmental Activities:				
Governmental Support & Operations	$ 480,837	$ 67,067	$ 17,705	$ -
Arts, Heritage & Cultural Enrichment	13,273	816	2,345	-
Business Licensing & Regulation	49,553	51,374	811	-
Economic Development & Workforce Training	171,092	3,355	88,019	-
Education	1,412,524	1,362	183,074	-
Health & Human Services	3,051,822	13,649	1,924,451	-
Justice & Protection	322,072	63,274	58,711	-
Natural Resources Development & Protection	171,307	72,450	30,501	1,522
Transportation, Safety & Development	246,837	97,172	19,106	172,618
Interest Expense	32,530	-	-	-
Total Governmental Activities	5 951 847	370 519	2 324 723	174 140
Business-Type Activities:				
Employment Security	113,642	100,136	23,688	-
Alcoholic Beverages	7	12,582	-	-
Lottery	161,691	211,965	-	-
Airport	892	125	-	13
Marine Ports	1,829	427	-	-
Ferry Services	7,876	3,642	226	181
Military Equipment Maintenance	50,908	46,476	1	-
Dirigo Health	13,587	5,216	-	-
Other	2,107	2,178	-	-
Total Business-Type Activities	352,539	382,747	23,915	194
Total Primary Government	$ 6,304,386	$ 753,266	$ 2,348,638	$ 174,334
Component Units:				
Child Development Services	$ 26,296	$ 4,669	$ 21,878	$ -
Finance Authority of Maine	26,207	8,486	21,120	-
Governor Baxter School for the Deaf	6,012	102	107	-
Loring Development Authority	4,028	1,410	2,723	268
Maine Community College System	93,785	19,874	25,558	6,716
Maine Educational Loan Authority	3,320	2,536	614	-
Maine Maritime Academy	21,875	10,780	1,790	1,433
Maine Municipal Bond Bank	74,752	52,608	13,656	21,834
Maine Port Authority	1,056	99	306	-
Maine State Housing Authority	204,645	75,752	138,607	-
Northern New England Passenger Rail Authority	7,700	114	4,709	1,216
University of Maine System	574,850	225,653	189,255	26,264
Total Component Units	$ 1,044,526	$ 402,083	$ 420,323	$ 57,731

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
$ (396,065)	$ -	$ (396,065)	$ -
(10,112)	-	(10,112)	-
2,632	-	2,632	-
(79,718)	-	(79,718)	-
(1,228,088)	-	(1,228,088)	-
(1,113,722)	-	(1,113,722)	-
(200,087)	-	(200,087)	-
(66,834)	-	(66,834)	-
42,059	-	42,059	-
(32,530)	-	(32,530)	-
(3 082 465)	-	(3 082 465)	-
-	10,182	10,182	-
-	12,575	12,575	-
-	50,274	50,274	-
-	(754)	(754)	-
-	(1,402)	(1,402)	-
-	(3,827)	(3,827)	-
-	(4,431)	(4,431)	-
-	(8,371)	(8,371)	-
-	71	71	-
-	54,317	54,317	-
(3,082,465)	54,317	(3,028,148)	-
-	-	-	251
-	-	-	3,399
-	-	-	(5,803)
-	-	-	373
-	-	-	(41,637)
-	-	-	(170)
-	-	-	(7,872)
-	-	-	13,346
-	-	-	(651)
-	-	-	9,714
-	-	-	(1,661)
-	-	-	(133,678)
-	-	-	(164,389)
244,842	-	244,842	-
1,296,606	-	1,296,606	-
176,020	-	176,020	-
50,962	-	50,962	-
1,049,890	-	1,049,890	-
223,326	-	223,326	-
20,650	-	20,650	9,891
-	-	-	235,768
92,851	-	92,851	7,755
(112)	-	(112)	(38)
50,006	-	50,006	-
30,881	(50,000)	(19,119)	-
50,211	(50,211)	-	-
3,286,133	(100,211)	3,185,922	253,376
203,668	(45,894)	157,774	88,987
2 976 741	483 948	3 460 689	1 565 030
$ 3,180,409	$ 438,054	$ 3,618,463	$ 1,654,017



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 107.

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2005
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Current Assets:						
Equity in Treasurer's Cash Pool	$ 11,921	$ 68,934	$ 40,954	$ 191,045	$ 152	$ 313,006
Cash and Short-Term Investments	124	114	4	37	-	279
Cash with Fiscal Agent	8,782	4,561	-	31,428	-	44,771
Investments	-	-	-	-	67,930	67,930
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	700	-	-	-	14,911	15,611
Restricted Deposits and Investments	-	-	-	-	37,550	37,550
Inventories	1,382	-	1,139	-	-	2,521
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	331,563	20,253	-	7,409	-	359,225
Loans Receivable	1	89	-	4,233	-	4,323
Other Receivable	79,238	2,327	60,958	69,009	-	211,532
Due from Other Funds	26,074	7,762	36,810	2,694	-	73,340
Due from Other Governments	-	-	408,778	-	-	408,778
Due from Component Units	5,900	-	-	-	782	6,682
Other Current Assets	378	73	67	-	-	518
Total Current Assets	466,063	104,113	548,710	305,855	121,325	1,546,066
Noncurrent Assets:						
Equity in Treasurer's Cash Pool	749	9,670	2,431	26,799	9	39,658
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	-	-	-	-	885	885
Taxes Receivable	42,922	-	-	-	-	42,922
Working Capital Advances Receivable	219	-	-	-	-	219
Total Noncurrent Assets	43,890	9,670	2,431	26,799	894	83,684
Total Assets	$ 509,953	$ 113,783	$ 551,141	$ 332,654	$ 122,219	$ 1,629,750
Liabilities and Fund Balances						
Current Liabilities:						
Accounts Payable	$ 235,106	$ 12,206	$ 390,075	$ 27,496	$ 1,314	$ 666,197
Accrued Payroll	15,929	8,153	4,142	5,061	-	33,285
Tax Refunds Payable	138,721	-	-	-	-	138,721
Due to Other Governments	-	-	96,174	-	-	96,174
Due to Other Funds	22,290	2,687	19,621	2,447	-	47,045
Due to Component Units	3,025	1,033	6,880	5,926	3,717	20,581
Compensated Absences	2,322	893	664	702	-	4,581
Deferred Revenue	-	-	1,750	24,950	-	26,700
Other Accrued Liabilities	3,282	421	595	269	-	4,567
Total Current Liabilities	420,675	25,393	519,901	66,851	5,031	1,037,851
Long-Term Liabilities:						
Working Capital Advances Payable	-	-	-	108	-	108
Deferred Revenue	42,922	5,307	-	5,827	-	54,056
Total Long-Term Liabilities	42,922	5,307	-	5,935	-	54,164
Total Liabilities	463,597	30,700	519,901	72,786	5,031	1,092,015
Fund Balances:						
Reserved						
Continuing Appropriations	78,510	93,597	66,928	214,313	175	453,523
Maine Budget Stabilization Fund	47,071	-	-	-	-	47,071
Debt Service	8,611	3,046	-	-	-	11,657
Capital Projects	-	-	-	-	49,097	49,097
Permanent Trusts	-	-	-	-	11,247	11,247
Other	58,492	89	-	26,823	56,669	142,073
Unreserved	(146,328)	(13,649)	(35,688)	18,732	-	(176,933)
Total Fund Balances	46,356	83,083	31,240	259,868	117,188	537,735
Total Liabilities and Fund Balances	$ 509,953	$ 113,783	$ 551,141	$ 332,654	$ 122,219	$ 1,629,750

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, 2005
(Expressed in Thousands)

Total fund balances for governmental funds		$ 537,735
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	3,541,580	
Less: Accumulated depreciation	(159,927)	3,381,653
Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported in the governmental fund statements. However, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:		
Bonds Payable	(487,095)	
Interest Payable Related to Long-term Financing	(3,530)	
Certificates of Participation and Other Financing Arrangements	(23,235)	
Claims Payable	(107,305)	
Pledged Future Revenues	(21,896)	
Compensated Absences	(34,252)	
Pension Obligation	(34,236)	(711,549)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		108,728
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.		(136,158)
Net assets of governmental activities		$ 3,180,409

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, 2005
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,653,628	$ 218,815	$ -	$ 163,545	$ -	$ 3,035,988
Assessments and Other Revenue	88,514	92,798	-	75,378	-	256,690
Federal Grants and Reimbursements	28,894	-	2,469,632	1,997	-	2,500,523
Service Charges	38,351	6,665	656	74,324	-	119,996
Investment Income	6,877	1,441	266	2,085	6,071	16,740
Miscellaneous Revenue	12 437	3 838	9 217	105 077	40	130 609
Total Revenues	2,828,701	323,557	2,479,771	422,406	6,111	6,060,546
Expenditures						
Current:						
Governmental Support & Operations	270,370	34,227	5,861	142,337	8,850	461,645
Economic Development & Workforce Training	42,278	-	90,475	31,325	9,841	173,919
Education	1,201,008	-	180,790	11,137	32,309	1,425,244
Heatlh and Human Services	957,371	-	1,934,930	205,018	533	3,097,852
Business Licensing & Regulation	3	-	763	50,117	-	50,883
Natural Resources Development & Protection	67,310	33	32,325	68,608	15,895	184,171
Justice and Protection	220,141	33,203	63,993	29,284	228	346,849
Arts, Heritage & Cultural Enrichment	8,521	-	2,437	862	1,651	13,471
Transportation Safety & Development	831	208,771	189,258	37,250	33,868	469,978
Debt Service:						
Principal Payments	53,510	13,280	-	-	-	66,790
Interest Payments	12,541	2,477	954	-	-	15,972
Total Expenditures	2 833 884	291 991	2 501 786	575 938	103 175	6 306 774
Revenue over (under) Expenditures	(5,183)	31,566	(22,015)	(153,532)	(97,064)	(246,228)
Other Financing Sources (Uses):						
Transfer from Other Funds	101,813	8,402	38,203	194,247	300	342,965
Transfer to Other Funds	(168,173)	(25,594)	(22,455)	(54,717)	(17,926)	(288,865)
Other	-	-	-	(739)	6,800	6,061
Proceeds from Pledged Future Revenues	-	-	-	49,423	-	49,423
Bonds Issued	1,681	819	-	-	137,525	140,025
Net Other Finance Sources (Uses)	(64,679)	(16,373)	15,748	188,214	126,699	249,609
Special Items:						
Return of Excess Equity from Retiree Health Insurance Fund	68,484	17,441	19,119	667	-	105,711
Refund to Federal Government Resulting from Excess Equity Distribution	-	-	(19,119)	-	-	(19,119)
Proceeds from Sale of Liquor Operating Rights	50,000	-	-	-	-	50,000
Net Special Items	118 484	17 441	-	667	-	136 592
Revenues and Other Sources over (under) Expenditures and Other Uses	48,622	32,634	(6,267)	35,349	29,635	139,973
Fund Balances at Beginning of Year (As Restated)	(2,266)	50,449	37,507	224,519	87,553	397,762
Fund Balances at End of Year	$ 46,356	$ 83,083	$ 31,240	$ 259,868	$ 117,188	$ 537,735

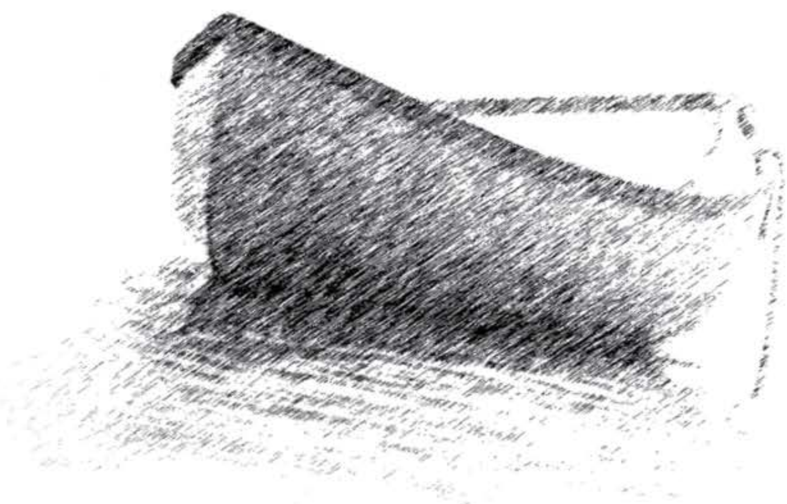
The accompanying notes are an integral part of the financial statements.

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

June 30, 2005
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 139,973
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, the amounts are:		
Capital outlay	246,458	
Depreciation expense	(14,034)	232,424
The net effect of various transac ions involving capital assets (ie. sales, trade ins and contribu ions) is to increase net assets.		(112)
The issuance of long-term debt provides current financial resources to governmental funds which increases long-term debt in the Statement of Net Assets. Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, but repayment reduces long-term debt in the Statement of Net Assets. This is he amount that proceeds exceed repayments:		
Bond proceeds	(137,525)	
Proceeds from other financing arrangements	(2,500)	
Repayment of bond principal	66,790	
Repayment of other financing debt	9,911	
Accrued interest	(2,031)	(65,355)
Certain expenditures are reported in the funds. However, hey either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from he Statement of Ac ivities as follows:		
Pension obligation	11,824	
Pledged future revenues	(21,896)	
Claims payable	(83,135)	
Compensated absences	(921)	(94,128)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		42,522
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 he Statement of Ac ivities.		(51,656)
Changes in net assets of governmental activi ies		$ 203,668

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



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.

Alcoholic Beverages Fund - This fund was established to license and regulate the sale of alcoholic beverages. During fiscal year 2004, the State entered into a ten-year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent.

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 119.

Combining fund statements for the internal service funds, whose combined totals are presented on these statements, begin on page 127.

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds: Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	Governmental Activities Internal Service Funds
Assets					
Current Assets:					
Equity in Treasurer's Cash Pool	$ -	$ -	$ 39,136	$ 39,136	$ 110,833
Cash and Short-Term Investments	217	-	757	974	3
Cash with Fiscal Agent	-	-	-	-	1,004
Restricted Assets:					
Restricted Deposits and Investments	430,372	-	-	430,372	3,203
Inventories	-	-	839	839	3,940
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	12,245
Other Receivable	31,136	-	20,943	52,079	24,340
Due from Other Funds	8	-	3,483	3,491	17,123
Other Current Assets	-	-	2,615	2,615	1,394
Total Current Assets	461,733	-	67,773	529,506	174,085
Noncurrent Assets					
Equity in Treasurer's Cash Pool	-	-	2,323	2,323	6,580
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	177,325
Capital Assets - Net of Depreciation	-	-	49,961	49,961	86,728
Total Noncurrent Assets	-	-	52,284	52,284	270,633
Total Assets	461,733	-	120,057	581,790	444,718
Liabilities					
Current Liabilities:					
Accounts Payable	693	-	3,626	4,319	22,402
Accrued Payroll	-	-	1,235	1,235	1,189
Due to Other Governments	-	-	-	-	749
Due to Other Funds	-	-	10,897	10,897	36,012
Due to Component Units	-	-	-	-	4,126
Current Portion of Long-Term Obligations:					
Certificates of Participation and Other Financing Arrangements	-	-	-	-	6,282
Revenue Bonds Payable	-	-	-	-	12,245
Obligations Under Capital Leases	-	-	-	-	5,833
Claims Payable	-	-	-	-	29,158
Compensated Absences	-	-	56	56	313
Deferred Revenue	-	12,500	692	13,192	359
Other Accrued Liabilities	1,502	-	12,406	13,908	2,403
Total Current Liabilities	2,195	12,500	28,912	43,607	121,071
Long-Term Liabilities:					
Working Capital Advances Payable	-	-	-	-	111
Deferred Revenue	-	100,000	-	100,000	1,081
Certificates of Participation and Other Financing Arrangements	-	-	-	-	7,348
Revenue Bonds Payable	-	-	-	-	177,325
Obligations Under Capital Leases	-	-	-	-	34,072
Claims Payable	-	-	-	-	49,000
Compensated Absences	-	-	327	327	1,100
Total Long-Term Liabilities	-	100,000	327	100,327	270,037
Total Liabilities	2,195	112,500	29,239	143,934	391,108
Net Assets					
Invested in Capital Assets, Net of Related Debt	-	-	49,961	49,961	33,193
Restricted for:					
Unemployment Compensation	459,538	-	-	459,538	-
Other Purposes	-	-	-	-	20
Unrestricted	-	(112,500)	40,857	(71,643)	20,397
Total Net Assets	$ 459,538	$ (112,500)	$ 90,818	437,856	$ 53,610
Amounts reported for business-type activities in the government-wide Statement of Net Assets are different due to elimination of the State's internal business-type activities.				198	
Net Assets of Business-Type Activities				$ 438,054	

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, 2005
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	Internal Service Funds
Operating Revenues					
Charges for Services	$ -	$ 24	$ 269,825	$ 269,849	$ 379,552
Assessments	100,136	-	-	100,136	-
Miscellaneous Revenues	-	51	78	129	73
Total Operating Revenues	100,136	75	269,903	370,114	379,625
Operating Expenses					
General Operations	-	5	235,431	235,436	304,545
Depreciation	-	2	3,411	3,413	15,220
Claims/Fees Expense	113,642	-	-	113,642	10,320
Other Operating Expenses	-	-	-	-	246
Total Operating Expenses	113,642	7	238,842	352,491	330,331
Operating Income (Loss)	(13,506)	68	31,061	17,623	49,294
Nonoperating Revenues (Expenses)					
Investment Revenue (Expense) - net	23,688	-	-	23,688	4,125
Interest Expense	-	-	-	-	(14,528)
Other Nonoperating Revenues (Expenses)- net	-	12,507	353	12,860	(614)
Total Nonoperating Revenues (Expenses)	23,688	12,507	353	36,548	(11,017)
Income (Loss) Before Capital Contribu ions, Transfers and Special Items	10,182	12,575	31,414	54,171	38,277
Capital Contributions, Transfers and Special Items					
Capital Contributions from (to) Other Funds	-	-	194	194	-
Transfers from (to) Other Funds	(1,119)	(75)	(49,017)	(50,211)	7,352
Special Items	-	(50,000)	-	(50,000)	(105,711)
Total Capital Contributions, Transfers In (Out) and Special Items	(1,119)	(50,075)	(48,823)	(100,017)	(98,359)
Change in Net Assets	9,063	(37,500)	(17,409)	(45,846)	(60,082)
Total Net Assets - Beginning of Year (As Restated)	450,475	(75,000)	108,227	483,702	113,692
Total Net Assets - End of Year	$ 459,538	$ (112,500)	$ 90,818	437,856	$ 53,610
Amounts reported for business-type activi ies in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities.				198	
Net Assets of Business-Type Activities				$ 438,054	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2005
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds				Governmental Activities
	Major Employment Security	Major Alcoholic Beverages	Non-Major Other Enterprise	Totals	Internal Service Funds
Cash Flows from Operating Activities					
Receipts from Customers and Users	$ 93,602	$ 1,565	263,709	$ 358,876	$ 374,939
Other Operating Cash Receipts (Payments)	-	-	-	-	-
Payments of Benefits	(114,046)	-	-	(114,046)	-
Payments to Prize Winners	-	-	(128,902)	(128,902)	-
Payments to Suppliers	-	(6,251)	(72,386)	(78,637)	(213,896)
Payments to Employees	-	(7)	(26,198)	(26,205)	(28,219)
Net Cash Provided (Used) by Operating Activities	(20,444)	(4,693)	36,223	11,086	132,824
Cash Flows from Noncapital Financing Activities					
Operating Transfers in		-	3,582	3,582	3,082
Operating Transfers out	(1,119)	(75)	(52,599)	(53,793)	(4,322)
Special Item - Proceeds from Sale of Right to Operate Liquor Business		50,000	-	50,000	
Special Item - Transfer of Proceeds to General Fund		(50,000)	-	(50,000)	
Special Item - Return of Excess Equity					(105,711)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,119)	(75)	(49,017)	(50,211)	(106,951)
Cash Flows from Capital and Related Financing Activities					
Payments for Acquisition of Capital Assets	-	-	(807)	(807)	(9,132)
Proceeds from Financing Arrangements	-	-	-	-	62,921
Principal and Interest Paid on Financing Arrangements	-	3	-	3	(91,420)
Proceeds from Sale of Capital Assets	-	7	342	349	584
Net Cash Provided (Used) by Capital Financing Activities	-	10	(465)	(455)	(37 047)
Cash Flows from Investing Activities					
Interest Revenue	23,688	-	353	24,041	4,125
Payments to Purchase Investments	-	-	-	-	-
Proceeds from Sale of Investments	-	-	-	-	-
Net Cash Provided (Used) by Investing Activities	23,688	-	353	24,041	4,125
Net Increase (Decrease) in Cash/Cash Equivalents	2,125	(4,758)	(12,906)	(15,539)	(7,049)
Cash/Cash Equivalents - Beginning of Year	428 464	4 758	55 122	488 344	128 672
Cash/Cash Equivalents - End of Year	$ 430,589	$ -	42,216	$ 472,805	$ 121,623
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities					
Operating Income (Loss)	$ (13 506)	$ 68	31 061	$ 17 623	$ 49 294
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities					
Depreciation Expense	-	2	3,411	3,413	15,220
Decrease (Increase) in Assets					
Accounts Receivable	(6,547)	1,436	(4,998)	(10,109)	(3,977)
Interfund Balances	13	51	4,863	4,927	33,415
Inventories	-	-	7	7	(581)
Increase (Decrease) in Liabilities					
Accounts Payable	(1,778)	(5,365)	1,304	(5,839)	14,132
Accrued Payroll Expenses	-	(8)	519	511	162
Change in Compensated Absences	-	-	106	106	91
Other Accruals	1,374	(877)	(50)	447	25,068
Total Adjustments	(6,938)	(4,761)	5,162	(6,537)	83,530
Net Cash Provided (Used) by Operating Activities	$ (20,444)	$ (4,693)	36,223	$ 11,086	$ 132,824
Non Cash Investing, Capital and Financing Activities					
Property Leased, Accrued, or Acquired	-	-	-	-	$ 4,289
Contributed Capital Assets	-	-	$ 194	$ 194	-
Decrease of deferred revenue from the sale of liquor operations	-	$ 12,500	-	-	-

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.

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. *Private-Purpose Trusts* also include assets of Maine Health & Higher Educational Facilities Authority, a discrete component unit included with Fiduciary Funds per GASB Statement No. 34.

A listing of fiduciary funds and combining fund statements for private-purpose trusts and agency funds begin on page 135.

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2005
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 764	$ 5,613
Cash and Short-Term Investments	433,389	88,039	40
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	23,251	-	-
Loans to Institutions	-	986,101	-
Interest and Dividends	23,059	462	-
Due from Brokers for Securities Sold	68,065	-	-
Other	-	608	-
Investments at Fair Value:			
Debt Securities	3,217,596	-	-
Equity Securities	2,076,149	-	-
Common/Collective Trusts	3,269,364	-	-
Restricted Deposits & Investments	-	99,536	-
Other	6,924	45,836	-
Securities Lending Collateral	2,636,501	-	-
Investments Held on Behalf of Others	-	3,169,856	57,225
Capital Assets - Net of Depreciation	1,445	3,632	-
Other Assets	-	22,416	290
Total Assets	11,755,743	4,417,250	63,168
Liabilities			
Accounts Payable	966	2,014	28
Due to Other Governments	-	1,726	-
Due to Brokers for Securities Purchased	125,407	-	-
Agency Liabilities	-	-	63,128
Obligations Under Securities Lending	2,636,501	-	-
Bonds Payable	-	1,096,041	-
Deferred Revenue	-	1,482	-
Other Accrued Liabilities	20,606	25,594	12
Total Liabilities	2,783,480	1,126,857	63,168
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	8,972,263	3,290,393	-
Total Net Assets	$ 8,972,263	$ 3,290,393	$ -

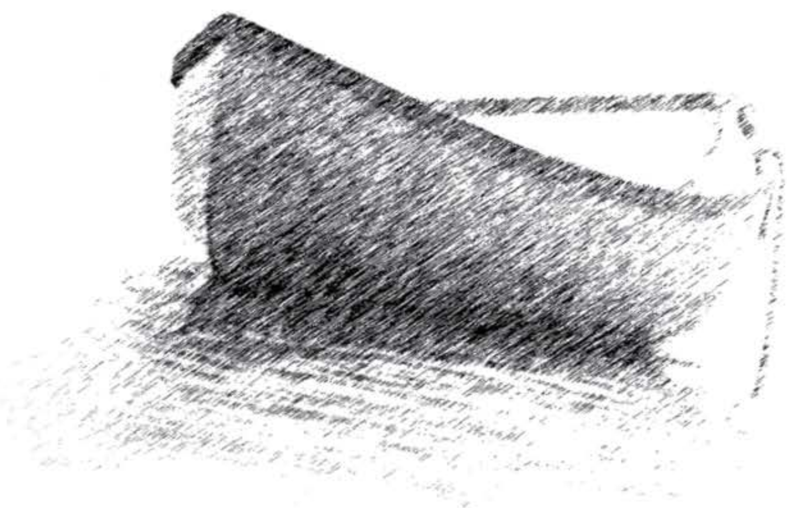
The accompanying notes are an integral part of the financial statements.

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

Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Pension (and Other Employee Benefit Trusts)	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 147,079	$ 1,191,882
State and Local Agencies	291,827	-
Investment Income:		
Net Increase (Decrease) in the Fair Value of Investments	841,288	128,527
Capital Gains Distributions from Investments	-	18,795
Interest and Dividends	115,961	54,538
Less Investment Expense:		
Investment Activity Expense	12,967	-
Cost of Securities Lending	854	-
Net Investment Income	943,428	201,860
Bond and Note Proceeds	-	42,265
Received from Institutions	-	89,694
Miscellaneous Revenues	-	27,262
Total Additions	1,382,334	1,552,963
Deductions:		
Benefits Paid to Participants or Beneficiaries	478,064	712,389
Construction and Program Costs	-	35,416
Bond Refunding and Refinancing Escrows	-	30,566
Principal Payments on Bonds	-	37,728
Interest Expense	-	51,231
Refunds and Withdrawals	15,993	3,268
Administrative Expenses	9,535	30,609
Transfers Out	-	11,241
Total Deductions	503,592	912,448
Net Increase (Decrease)	878,742	640,515
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year (As Restated)	8,093,521	2,649,878
End of Year	$ 8,972,263	$ 3,290,393

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



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, 2005
(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:					
Equity in Treasurer's Cash Pool	$ -	$ 36,972	$ -	$ -	$ 1,805
Cash and Cash Equivalents	2,365	4,739	462	1,110	-
Investments	-	156,611	-	-	18,913
Inventories	-	-	-	-	1,215
Receivables, Net of Allowance for Uncollectibles:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	-	-	22	-
Other Receivables	115	1,315	45	202	2,534
Due from Other Governments	-	107	-	134	-
Due from Primary Government	2,609	-	-	472	5,306
Loans Receivable from Primary Government	-	-	-	-	-
Other Current Assets	44	1,900	1	31	461
Total Current Assets	5,133	201,644	508	1,971	30,234
Noncurrent Assets:					
Equity in Treasurer's Cash Pool	-	2,195	-	-	107
Assets Held in Trust	-	-	2	-	-
Restricted Assets:					
Restricted Deposits and Investments	-	-	-	-	578
Investments	-	-	442	-	4,080
Receivables, Net of Current Portion:					
Loans Receivable	-	-	-	-	-
Notes Receivable	-	59,218	-	1,149	-
Other Receivables	-	-	-	-	-
Due from Other Governments	-	-	-	-	-
Due from Primary Government	-	-	-	-	-
Loans Receivable from Primary Government	-	-	-	-	-
Capital Assets - Net of Depreciation	700	1,822	95	69,209	84,776
Other Noncurrent Assets	-	570	-	-	-
Total Noncurrent Assets	700	63,805	539	70,358	89,541
Total Assets	5,833	265,449	1,047	72,329	119,775
Liabilities					
Current Liabilities:					
Accounts Payable	2,095	1,171	327	111	2,205
Accrued Payroll	294	-	422	-	-
Compensated Absences	351	-	145	51	1,561
Due to Other Governments	-	-	-	189	-
Due to Primary Government	814	-	-	782	-
Amounts Held under State & Federal Loan Programs	-	-	-	-	-
Undistributed Grants and Administrative Funds	-	8,925	-	-	-
Allowances for Losses on Insured Commercial Loans	-	9,189	-	-	-
Bonds Payable	-	52	-	-	-
Obligations under Capital Leases	7	-	-	-	-
Accrued Interest Payable	-	244	-	-	-
Deferred Revenue	60	1,642	-	32	837
Other Current Liabilities	-	335	29	77	6,616
Total Current Liabilities	3,621	21,558	923	1,242	11,219
Long-Term Liabilities:					
Due to Other Governments	-	-	-	-	-
Amounts Held under State & Federal Loan Programs	-	41,399	-	-	-
Bonds Payable	-	175,358	-	-	-
Obligations under Capital Leases	20	-	-	-	4,490
Deferred Revenue	-	-	-	-	-
Other Noncurrent Liabilities	-	-	-	-	-
Total Long-Term Liabilities	20	216,757	-	-	4,490
Total Liabilities	3,641	238,315	923	1,242	15,709
Net Assets					
Invested in Capital Assets, Net of Related Debt	700	1,822	95	68,991	80,864
Restricted	1,433	(83)	293	-	12,868
Unrestricted	59	25,395	(264)	2,096	10,334
Total Net Assets	$ 2,192	$ 27,134	$ 124	$ 71,087	$ 104,066

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
$ -	$ 469	$ -	$ -	$ -	$ -	$ 9,237	$ 48,483
4,157	307	322	1,038	2,590	500	1,366	18,956
-	5,298	13,611	-	279,898	-	122,733	597,064
-	315	-	-	-	34	-	1,564
4,223	214	-	-	27,124	-	-	31,561
-	-	-	-	8	-	202	232
837	671	997	19	15,790	33	18,243	40,801
-	-	166,620	-	3,449	142	7,046	177,498
-	-	533	-	-	880	8,392	18,192
-	-	3,155	-	-	-	-	3,155
120	932	2,127	-	-	57	5,631	11,304
9,337	8,206	187,365	1,057	328,859	1,646	172,850	948,810
-	28	-	-	-	-	548	2,878
-	-	-	-	-	-	-	2
-	1,149	274,234	-	145,863	2,617	20,907	445,348
20,458	10,895	-	-	139,036	-	234,541	409,452
47,239	2,554	-	-	1,049,584	-	-	1,099,377
-	-	-	1,251	2,271	-	41,205	105,094
-	480	-	-	-	-	4,959	5,439
-	-	1,066,433	-	-	-	182	1,066,615
-	-	-	-	-	-	1,803	1,803
-	-	46,268	-	-	-	-	46,268
-	18,744	836	18,684	1,288	1,097	483,487	680,738
707	5,141	7,725	-	3,425	-	23,187	40,755
68,404	38,991	1,395,496	19,935	1,341,467	3,714	810,819	3,903,769
77,741	47,197	1,582,861	20,992	1,670,326	5,360	983,669	4,852,579
161	2,453	457	55	37,671	1,546	11,075	59,327
-	-	-	-	-	-	-	716
-	-	-	-	-	12	-	2,120
145	-	2,098	-	2,742	-	-	5,174
-	-	5,900	-	-	-	-	7,496
-	-	29,143	-	-	-	-	29,143
-	-	-	-	-	-	-	8,925
-	-	-	-	-	-	-	9,189
5,310	112	100,804	-	37,495	-	6,592	150,365
-	-	-	-	-	-	221	228
126	-	8,821	-	7,744	-	-	16,935
230	88	4,985	-	33,450	-	18,960	60,284
-	420	-	-	5,529	-	24,423	37,429
5,972	3,073	152,208	55	124,631	1,558	61,271	387,331
1,034	1,710	2,078	-	-	-	-	4,822
-	-	-	-	-	-	-	41,399
67,372	2,483	1,004,934	-	1,291,515	-	140,876	2,682,538
-	-	-	-	-	-	435	4,945
664	-	-	-	-	-	-	664
-	-	-	-	-	-	76,863	76,863
69,070	4,193	1,007,012	-	1,291,515	-	218,174	2,811,231
75,042	7,266	1,159,220	55	1,416,146	1,558	279,445	3,198,562
-	13,313	-	18,684	1,288	1,097	358,418	545,272
1,776	14,828	363,586	834	237,084	3,915	273,137	909,671
923	11,790	60,055	1,419	15,808	(1,210)	72,669	199,074
$ 2,699	$ 39,931	$ 423,641	$ 20,937	$ 254,180	$ 3,802	$ 704,224	$ 1,654,017

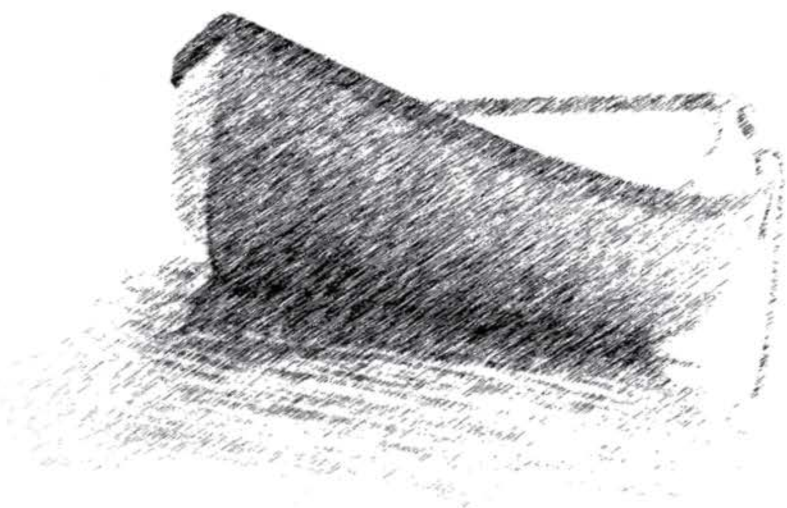
STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

June 30, 2005
(Expressed in Thousands)

	Child Development Services	Finance Authority of Maine	Governor Baxter School for the Deaf	Loring Development Authority	Maine Community College System
Expenses	$ 26,296	$ 26,207	$ 6,012	$ 4,028	$ 93,785
Program Revenues					
Charges for Services	4,669	8,486	102	1,410	19,874
Program Investment Income	24	1,047	-	-	385
Operating Grants and Contr butions	21,854	20,073	107	2,723	25,173
Capital Grants and Contr butions	-	-	-	268	6,716
Net Revenue (Expense)	251	3,399	(5,803)	373	(41,637)
General Revenues					
Unrestricted Investment Earnings	-	-	37	84	1,135
Non-program Specific Grants, Contributions and Appropriations	-	-	5,868	770	41,504
Miscellaneous Income	48	-	-	7	5,476
Gain (Loss) on Assets Held for Sale	1	-	-	30	(71)
Total General Revenues	49	-	5,905	891	48,044
Change in Net Assets	300	3,399	102	1,264	6,407
Net Assets, Beginning of the Year (As Restated)	1,892	23,735	22	69,823	97,659
Net Assets, End of Year	$ 2,192	$ 27,134	$ 124	$ 71,087	$ 104,066

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
$ 3,320	$ 21,875	$ 74,752	$ 1,056	$ 204,645	$ 7,700	$ 574,850	$ 1,044,526
2,536	10,780	52,608	99	75,752	114	225,653	402,083
614	-	11,757	-	11,483	-	7,323	32,633
-	1,790	1,899	306	127,124	4,709	181,932	387,690
-	1,433	21,834	-	-	1,216	26,264	57,731
(170)	(7,872)	13,346	(651)	9,714	(1,661)	(133,678)	(164,389)
-	832	257	15	208	63	7,260	9,891
-	7,722	-	-	-	-	179,904	235,768
-	502	1,722	-	-	-	-	7,755
-	(306)	-	-	-	-	308	(38)
-	8,750	1,979	15	208	63	187,472	253,376
(170)	878	15,325	(636)	9,922	(1,598)	53,794	88,987
2,869	39,053	408,316	21,573	244,258	5,400	650,430	1,565,030
$ 2,699	$ 39,931	$ 423,641	$ 20,937	$ 254,180	$ 3,802	$ 704,224	$ 1,654,017



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 of Maine's reporting entity includes all funds, organizations, agencies, boards, commissions and authorities. 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 reported in the fiduciary funds. Those component units are the Maine State Retirement System and the Maine Health & Higher Educational Facilities Authority. The State's discrete component units are:

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. Net assets of the program, NextGen College Investing Plan, are included in the State's fiduciary fund financial statements. 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.

Maine Health & Higher Educational Facilities Authority – 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. 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 remaining two members include the Treasurer of State and Superintendent of Financial Institutions who serve as commissioners, *ex officio*.

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, which include employees of the State, some public school employees, employees of approximately 270 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 Ed. 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
16 Central Street
Bangor, ME 04401

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 funds:

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

The *Alcoholic Beverages Fund* was established to license and regulate the sale of alcoholic beverages. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent.

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 Trust 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 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.

Private Purpose Trust Funds report resources of all other trust arrangements in which principal and income benefit individuals, private organizations, or other governments as well as component units which are fiduciary in nature. Examples include Abandoned Property, Public Reserved Lands, Permanent School funds, the NextGen College Investing Plan and MHHEFA.

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.

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

Equity in Treasurer's Cash Pool

The State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. 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. The Treasurer's Cash Pool has the general characteristics of a demand deposit account and is comprised primarily of prime commercial paper, repurchase agreements, U.S. Treasury Bills, U.S. Treasury Notes, and other U.S. Agency Obligations, certificates of deposit, and corporate bonds.

For those component units that participate in the cash pool, equity in the cash pool is shown at fair value.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments that are both readily convertible to known amounts of cash and are near maturity. On the Statement of Cash Flows, the amount reported as "Cash and Cash Equivalents" is equal to the total of the amounts reported on the Statement of Net Assets as "Equity in Treasurer's Cash Pool," "Cash and Cash Equivalents," "Cash with Fiscal Agent," "Restricted Equity in Treasurer's Cash Pool," and "Restricted Deposits and Investments."

Cash with Fiscal Agent

Cash with Fiscal Agent in the Governmental Funds represents cash that will be used for debt service on bonds, the unspent proceeds of bonds and Certificates of Participation, as well as unspent funds of the Maine Biological Research Board being held by the State.

Cash with Fiscal Agent in Proprietary Funds represents proceeds of Certificates of Participation and other financing arrangements that have not been spent.

Other investments of the State are carried at fair value. Donated investments are stated at fair value at the date of donation.

Investments Held on Behalf of Others

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. Generally, these investments are reported at fair value or at amortized cost which approximates fair value. The State also holds $175 million of Workers' Compensation and $21 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: 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 to construct and modernize agricultural storage facilities and local commercial enterprises, as well as Department of Transportation loans to local governments. Receivables in the component units column arise 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.

Due from/to Primary Government/Component Units

Numerous transactions are made between the primary government and component units to finance operations, provide services, acquire or construct assets, or repay bonds. To the extent that transactions between funds were not completed as of June 30, "Due from Primary Government" and "Due to Component Unit" receivables and payables have been recorded.

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 health and human services programs, and federal grants receivable for transportation-related expenditures. Due from Other Governments in the component units column represents amounts receivable 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.

Capital Assets

Capital assets, which include land, buildings, equipment and infrastructure assets (i.e., 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.

Accounts Payable

Accounts payable represent the gross amount of expenditures or expenses that have been incurred as a result of normal operation, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements, however, are actuarially estimated and recorded net of any receivables that may be due from related providers. The recorded net value of IBNP claims totals approximately $194 million.

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, retiree health, employee health, 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. Deferred revenue in the Alcoholic Beverages Fund is comprised of the proceeds from the sale of the State's liquor operations.

Pledged Future Revenues
In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unspent GARVEE bond proceeds is called "Pledged Future Revenues." The offsetting receivables are classified as "Loans Receivable from Primary Government."

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

Appropriation Limits

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 Title 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.

Budget Stabilization Fund

The Maine Budget Stabilization Fund, established in 2003 in Chapter 451, Public Laws 2003 to replace the Maine Rainy Day Fund, is a General Fund reserve account intended to be used when revenues are under budget and critical services must be preserved. The Governor may also allocate funds from the Budget Stabilization Fund for payment of death benefits for law enforcement officers, firefighters and emergency medical services persons.

Balances in the fund do not lapse; but carry forward each year. The money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. In addition to interest earnings, the fund is capitalized at the close of each fiscal year. As the first priority before any other transfer, the State Controller is required to transfer 32% of the unappropriated surplus of the General Fund, when the fund is not at its statutory cap. In accordance with statute, the State Controller made the required transfer for fiscal year 2005.

The statutory cap for the fund is 10% of the total General Fund revenue received in the immediately preceding fiscal year. At the close of the fiscal year, the cap is based on the revenue received in the fiscal year being closed. Based on fiscal year 2005 actual General Fund revenue, the statutory cap at the close of fiscal year 2005 and during fiscal year 2005 was $279 million. At the close of fiscal year 2005, the balance of the Maine Budget Stabilization Fund was $47 million.

No reductions to the Maine Budget Stabilization Fund balance are required when it exceeds the balance of the statutory cap as a result of a decline of General Fund revenue.

Budgetary Overexpenditures
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, 2005, the legislature approved $138.5 million of supplemental appropriations for the General Fund.

Actual expenditures did not exceed legislatively authorized appropriations at the Department level; therefore, the State complied with all related budget laws.

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
During fiscal year 2005, the State implemented the Governmental Accounting Standards Board (GASB) Statement No. 40, Deposit and Investment Risk Disclosures, (an amendment of GASB Statement No. 3). This Statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit risk and concentrations of credit risk), interest rate risk, and foreign currency risk. The Statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

Restatements – Primary Government
The beginning net assets for Governmental Activities in the Statement of Net Assets was reduced by $23.4 million to correct an error in recorded capital assets; reduced by $6.3 million to correct an error in reported claims payable; and increased by $3.6 million to correct an error in reported federal revenue. Beginning net assets for the Federal Fund, a major governmental fund, were also increased by $3.6 to correct the federal revenue error.

The Dirigo Health program, formerly reported as part of the Other Special Revenue Fund, a major governmental fund, was reclassified as a non-major enterprise fund. The effect of this change was to increase beginning net assets of the Dirigo Health Fund and Business-Type Activities by $52.1 million. Beginning net assets for the Other Special Revenue Fund and Governmental Activities were reduced by like amounts.

The Alcoholic Beverages Fund was reclassified from a non-major enterprise fund to a major enterprise fund; thereby, increasing that fund's beginning net assets by $75 million. Beginning net assets of the non-major enterprise funds were reduced by $75 million as a result.

Beginning balances were restated to correctly record capital assets that were not previously reported. The beginning net assets of the Maine Military Authority Fund, a non major enterprise fund, and Business-Type activities increased by $1.3 million.

The NextGen College Investing plan, formerly reported as an Agency Fund, was reclassified as a Private Purpose Trust Fund. Beginning net assets of the Private Purpose Trust Funds were increased by $2.6 billion due to the reclassification.

Cash/Cash Equivalents -Beginning of Year Cash/Cash Equivalents were restated on the Statement of Cash Flows for the Proprietary Funds to include investments reported in fiscal year 2004 due to a change in presentation.

Restatements – Component Units
The Maine Health and Higher Educational Facilities Authority, a discrete component unit that is fiduciary in nature, was previously reported in a separate column in the Statement of Fiduciary Net Assets and Statement of Changes in Fiduciary Net Assets. Balances associated with this fund were reclassified as part of the Private Purpose Trusts column on these statements, resulting in an increase in beginning nets assets of $106.9 million.

The beginning net assets of the Loring Development Authority, a discretely presented component unit, were reduced by $842 thousand to correctly report capital assets acquired from the United States Air Force.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Two internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2005. The Workers' Compensation Fund reported a deficit of $34.7 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund showed a deficit of $3.8 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 $112.5 million. During fiscal year 2004, the State of Maine entered into a 10 year contract with a vendor to manage and operate wholesale liquor distribution as the State's agent. The deficit reflects the deferral of license fees that will be amortized over that 10 year period.

The Maine Military Authority Enterprise Fund shows a deficit of $1.3 million. Expenses are recognized when incurred; however, related revenue is not earned until repair projects are satisfactorily completed. The deficit will be funded by future billings as projects are completed.

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 State follows the practice of pooling cash and cash equivalents for a variety of State agencies and public sector entities. 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.

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.

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.

The Primary Government's Deposits and Investments excluding component units that are fiduciary in nature at June 30, 2005 consisted of:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business-Type Activities	Private Purpose Trusts (1)	Agency Funds	Total
Equity in Treasurer's Cash Pool	$ 470,077	$ 41,459	$ 764	$ 5,613	$ 517,913
Cash and Cash Equivalents	282	974	-	40	1,296
Cash with Fiscal Agent	45,775	-	-	-	45,775
Investments	67,930	-	10,511	-	78,441
Restricted Equity in Treasurer's Cash Pool	16,496	-	-	-	16,496
Restricted Deposits and Investments	40,753	430,372	-	-	471,125
Investments Held on Behalf of Others	-	-	3,169,856	57,225	3,227,081
Other Assets	-	-	20,849	-	20,849
Total Primary Government	$ 641,313	$ 472,805	$ 3,201,980	$ 62,878	$ 4,378,976

(1) Maine Health & Higher Educational Facilities Authority, a component unit that is fiduciary in nature, has been excluded.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. In general, the State holds securities to maturity.

All debt securities are reported at full-term.

The following table provides the segmented time distribution of the Primary Government's investments at June 30, 2005:

Maturities in Years (Expressed in Thousands)

	Less than 1	1-5	6-10	11-20	More than 20	No Maturity	Fair Value
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	$ 64,325	$ 43,846	$ -	$ -	$ -	$ -	$ 108,171
US Treasury Notes	12,922	-	-	-	-	-	12,922
Repurchase Agreements	84,225	-	-	-	-	-	84,225
Corporate Notes and Bonds	2,864	2,615	-		-	-	5,479
Commercial Paper	298,112	-	-	-	-	-	298,112
Certificates of Deposit	9,861		-	-	-	-	9,861
Money Market	46,814	-	-	-	-	-	46,814
Cash and Cash Equivalents	-	-	-	-	-	4,459	4,459
Unemployment Fund Deposits with US Treasury	-	-	-	-	-	430,372	430,372
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	1,289	3,995	3,102	2,514	2,450	-	13,350
US Treasury Notes	1,115	17,866	5,174	4,683	7,606	-	36,444
Repurchase Agreements	564	-	-	-	-	-	564
Corporate Notes and Bonds	439	5,431	2,439	684	1,732	-	10,725
Other Fixed Income Securities	-	176	80	-	-	-	256
Commercial Paper	3,600	-	-	-	-	-	3,600
Certificates of Deposit	119	-	-	-	-	-	119
Money Market	565	-	-	-	-	430	995
Cash and Cash Equivalents	-	-	-	-	-	25,472	25,472
Equities	-	-	-	-	-	50,545	50,545
Other	-	-	-	-	-	11	11
	$ 526,814	$ 73,929	$ 10,795	$ 7,881	$ 11,788	$ 511,289	$ 1,142,496
NextGen College Investing Plan							3,169,856
Other Assets							20,849
Cash with Fiscal Agent							45,775
Total Primary Government							$ 4,378,976

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality ratings of investments as described by nationally recognized statistical rating organizations. To the extent possible in the Treasurer's Cash Pool, at least 30% of the portfolio shall be invested in U.S. Treasury, Federal Agency or Federal Instrumentality securities, or Repurchase Agreements. The State limits credit risk in its trusts by ensuring that at least 85% of the debt securities are rated A or better.

The Primary Government's total investments by credit quality rating as of June 30, 2005 is presented below:

Standard & Poor's Credit Rating (Expressed in Thousands)

	A1	A	AA	AA+	AAA	BB	BBB	Not Rated	Total
Governmental and Business-Type Activities, excluding Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	$ -	$ -	$ -	$ -	$ 108,171	$ -	$ -	$ -	$ 108,171
US Treasury Notes	-	-	-	-	12,922	-	-	-	12,922
Corporate Notes and Bonds	-	-	-	2,614	2,865	-	-	-	5,479
Commercial Paper	263,246	-	-	-	-	-	-	34,866	298,112
Money Market	-	-	-	-	-	-	-	46,814	46,814
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds									
US Instrumentalities	-	-	105	-	8,453	-	-	4,792	13,350
US Treasury Notes	-	-	-	-	36,444	-	-	-	36,444
Corporate Notes and Bonds	-	3,407	1,180	32	4,354	50	1,517	185	10,725
Commercial Paper	3,179	-	-	-	-	-	-	421	3,600
Money Market	-	-	-	-	-	-	-	995	995
Other Fixed Income Securities	-	-	256	-	-	-	-	-	256
Total Primary Government	$ 266,425	$ 3,407	$ 1,541	$ 2,646	$ 173,209	$ 50	$ 1,517	$ 88,073	$ 536,868

Concentration of Credit Risk –Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The State limits concentration of credit risk in its trusts by requiring that no single stock represent more than 10 percent of the total portfolio. There is no concentration of credit risk policy for the Treasurer's Cash Pool. At June 30, 2005, more than 5% of the cash pool's investments were in FHLB and TD Banknorth. These investments are 11% and 14%, respectively, of the cash pool's total investments.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the State will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The State limits its custodial credit risk for the Treasurer's Cash Pool by maintaining a file of the most recent credit rating analysis reports performed for each approved financial institution. The State also requires that all securities be perfected in the name of the State and held in third party safekeeping by a state approved custodian. The State does not have a policy regarding custodial credit risk for its trusts. Of the cash pool's $11.3 million invested in non-negotiable certificates of deposit, $5.6 million exceed the FDIC insured amounts for the institutions at which they were held. The Percival P. Baxter Trust is held by the counterparty's trust department, but not in the State's name. The fair value of the trust's investments as of June 30, 2005 was $56.6 million and was comprised of the following investments (in thousands):

U.S. Instrumentalities	$ 6,554
US Treasury Notes	4,102
Corporate Notes and Bonds	4,744
Other fixed Income Securities	256
Equities	38,193
Cash and Equivalents	2,821
Other	11
Total	$ 56,681

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to the vendors. During fiscal year 2005, these disbursements, on average, exceeded $138 million per month. The funds in transit are not collateralized and are not held by the State Treasurer so, until the vendor receives payment, the State retains some liability.

MAINE STATE RETIREMENT SYSTEM

The 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.

NEXTGEN COLLEGE INVESTING PLAN

The Maine College Savings Program Fund (the Fund) doing business as NextGen College Investing Plan (the Program), was established in accordance with Title 20 M.R.S.A. §11473, to encourage the investment of funds to be used for Qualified Higher Education Expenses at institutions of higher education. The Program is designed to comply with the requirements for treatment as a Qualified State Tuition Program under Section 529 of the Internal Revenue Code.

The statute authorizes the Finance Authority of Maine ("FAME") to administer the Program and act as administrator of the Fund. The Fund is held by the Treasurer of the State who invests it under the direction of and with the advice of a seven member Advisory Committee on College Savings, which is chaired by the Treasurer. FAME and the Treasurer have selected Merrill Lynch as the Program Manager.

The Program is reported as a private purpose trust fund in the financial statements of the State.

NextGen's investments are comprised of 52 different investment portfolios which are reported at fair value and total $3.2 billion at June 30, 2005.

Custodial Credit Risk – NextGen, in accordance with its Program Description, primarily invests in open-end mutual funds, which according to GASB Statement No. 40, do not bear custodial credit risk; hence, the Program's exposure to custodial credit risk arising from its investment in mutual funds is considered to be insignificant.

The Program makes some investments in entities which are not mutual funds including a Guaranteed Investment Contract (GIC) issued by Transamerica Life Insurance Company in the Principal Plus Portfolio. Because an investment in a GIC represents a contractual investment rather than a security, it is not deemed to be subject to custodial credit risk.

The Program also invests in the Cash Allocation Account (the Account), a separate account that was established by FAME. All of the Account's investments are held in either the name of the Account or the Account's Agent's name, thereby minimizing the custodial credit risk.

Credit Risk - The Program has not established an investment policy that specifically limits its exposure to credit risk. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account may bear credit risk. The GIC underlying the Program's investment in the Principal Plus Portfolio has not been rated by any of the nationally recognized statistical rating organizations. The fair value of the GIC at June 30, 2005 was $34.7 million.

The assets of the Account are invested in a portfolio of high-quality, short-term money-market securities consisting primarily of direct U.S. Government obligations, U.S. Government agency securities, obligations of domestic and foreign banks, U.S. dollar denominated commercial paper, and other short-term debt securities issued by U.S. and foreign entities repurchase agreements. In addition, the Account invests in certificates of deposit issued by Maine financial institutions in accordance with instructions of FAME and the Treasurer. All Maine CD's are FDIC insured or fully collateralized. The value of the Account at June 30, 2005 was $141.3 million.

Concentration of Credit Risk – The Program has not established an investment policy that specifically limits its exposure to concentration of credit risk because the Program principally invests in mutual funds which have been excluded by GASB Statement No. 40 from its concentration of risk disclosures. The Account intends to invest no more than a maximum of 10 percent of its assets in Maine CDs even though it has no prescribed limit on such investments.

Interest Rate Risk – The Program has not established an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Program's investments in fixed income mutual funds, the Principal Plus Portfolio, and the Account all invest in securities that are subject to interest rate risk.

Market values of the above-mentioned investments are presented below (in thousands):

	Fair Value
Principal Plus Portfolio	$ 34,739
Cash Allocation Account	141,352
Fixed Income Securities	659,666
Total Fair Value	$ 835,757

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.

Certain component units also invest in the Treasurer's Cash Pool and comprise approximately 11 percent of pool assets. The component units reported their participation as either Cash and Cash Equivalents or Investments on their financial statements. The State reclassified $51.4 million of the component units' participation to "Equity in Treasurer's Cash Pool" on the State's financial statements. In addition to the amounts reported, the State Treasurer's Cash Pool includes $17.1 million, 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	$506,700	$95,588	$ 1	$ (148,565)	$ 453,724
Highway	23,314	2,329	89	(3,063)	22,669
Federal	-	70,088	-	(9,130)	60,958
Other Special Revenue	7,742	71,467	5,458	(4,016)	80,651
Other Governmental Funds	-	-	-	-	-
Total Governmental Funds	537,756	239,472	5,548	(164,774)	618,002
Allowance for Uncollectibles	(135,609)	(27,940)	(1,225)		-
Net Receivables	$ 402,147	$ 211,532	$ 4,323		$ 618,002
Proprietary Funds:					
Employment Security	$ -	$ 38,083	$ -	$ (6,947)	$ 31,136
Nonmajor Enterprise	-	21,064	-	(121)	20,943
Internal Service	-	24,341	189,570	(1)	213,910
Total Proprietary Funds	-	83,488	189,570	(7,069)	265,989
Allowance for Uncollectibles	-	(7,069)	-		-
Net Receivables	$ -	$ 76,419	$189,570		$ 265,989

Component Units - Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance for Uncollectibles	Net Receivables
Finance Authority of Maine	$ 1,315	$ -	$63,449	$(4,231)	$60,533
Maine Educational Loan Authority	837	52,604	-	(1,142)	52,299
Maine State Housing Authority	15,790	1,087,129	2,381	(10,523)	1,094,777
University of Maine System	25,181	-	42,030	(2,602)	64,609

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, 2005 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds			
Due from Other Funds	**General**	**Highway**	**Federal Fund**	**Other Special Revenue**
General	$ -	$	$ 6,319	
Highway	-	-	7,532	
Federal	16,483	15	134	843
Other Special Revenue	439	159	682	395
Employment Security		-	8	-
Non-Major Enterprise	3	8	3,081	1
Internal Service	5,365	2,505	1,865	1,208
Total	$22,290	$2,687	$19,621	$2,447

Due from Other Funds	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Total**
General	$ -	$ 10,411	$9,344	$26,074
Highway	-		230	7,762
Federal	-		19,335	36,810
Other Special Revenue		33	986	2,694
Employment Security	-	-	-	8
Non-Major Enterprise			390	3,483
Internal Service	-	453	5,727	17,123
Total	$ -	$10,897	$36,012	$93,954

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 $219 thousand to the General Fund for operating capital: Department of Defense, Veterans and Emergency Management (a special revenue fund) $108 thousand; and, Postal Printing & Supply (an internal service fund) $111 thousand.

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 Lottery Fund, and 5) transfer accumulated surpluses from other funds to the General Fund when authorized by statute.

During fiscal year 2005, the State of Maine, in accordance with the legislatively authorized budget, recorded the following non-routine, nonrecurring transfers: $9.6 million from the Highway Fund to the Other Special Revenue Fund for distribution to municipalities for highway-related purposes and $9.6 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, 2005, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ -	$ 14,400	$86	$ 27,454	$ 300
Highway	6,801	-	2	1,599	-
Federal	12,689	-	-	24,380	-
Other Special Revenue	141,818	9,611	20,985	-	17,626
Other Governmental Funds	300	-	-	-	-
Employment Security	-	-	-	-	-
Non-Major Enterprise	2,737	-	3	-	-
Internal Service	3,828	1,583	1,379	1,284	-
Fiduciary	-	-	-	-	-
Total	$168,173	$25,594	$22,455	$54,717	$17,926

	Transferred From					
Transferred To	**Alcoholic Beverages**	**Employment Security**	**Non-Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ 75	$ -	$48,998	$500	$10,000	$101,813
Highway	-	-	-	-	-	8,402
Federal	-	1,119	15	-	-	38,203
Other Special Revenue	-	-	2,965	1	1,241	194,247
Other Governmental Funds	-	-	-	-	-	300
Employment Security	-	-	-	-	-	-
Non-Major Enterprise	-	-	-	366	-	3,106
Internal Service	-	-	145	3,455	-	11,674
Fiduciary	-	-	-	-	-	-
Total	$ 75	$1,119	$52,123	$4,322	$11,241	$357,745

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, 2005:

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	$ 366,443	$ 8,774	$ 112	$ 375,105
Construction in progress	26,972	15,129	14,088	28,013
Infrastructure	2,429,192	207,390	-	2,636,582
Total capital assets, not being depreciated	2,822,607	231,293	14,200	3,039,700
Capital assets, being depreciated				
Buildings	441,316	22,287	4,254	459,349
Equipment	223,229	26,939	23,343	226,825
Improvements other than buildings	24,372	653	3	25,022
Total capital assets, being depreciated	688,917	49,879	27,600	711,196
Less accumulated depreciation for:				
Buildings	103,373	16,213	4,377	115,209
Equipment	161,461	11,031	14,818	157,674
Improvements other than buildings	7,623	2,012	3	9,632
Total accumulated depreciation	272,457	29,256	19,198	282,515
Total capital assets being depreciated, net	416,460	20,623	8,402	428,681
Governmental Activities Capital Assets, net	$ 3,239,067	$ 251,916	$ 22,602	$ 3,468,381
Business-Type Activities:		**Net Additions**	**Net Deletions**	
Capital assets, not being depreciated				
Land	$ 6,517	$ 787	$ -	$ 7,304
Construction in progress	1,904	160	1,356	708
Total capital assets, not being depreciated	8,421	947	1,356	8,012
Capital assets, being depreciated				
Buildings	8,747	-	-	8,747
Equipment	20,148	1,068	1,312	19,904
Improvements other than buildings	51,410	-	-	51,410
Total capital assets, being depreciated	80,305	1,068	1,312	80,061
Less accumulated depreciation	36,008	3,420	1,316	38,112
Total capital assets, being depreciated, net	44,297	(2,352)	(4)	41,949
Business-Type Activities Capital Assets, net	$ 52,718	$ (1,405)	$ 1,352	$ 49,961

** 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	$ 72
Business Licensing and Regulation	287
Economic Development and Workforce Training	759
Education	122
Governmental Support and Operations	5,562
Health and Human Services	2,380
Justice and Protection	7,721
Natural Resources Development and Protection	3,485
Transportation Safety and Development	8,868
Total Depreciation Expense – Governmental Activities	$29,256

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. Additional schedules and information are presented in the accompanying Required Supplementary Information (RSI). The Maine State Retirement System issues a stand-alone financial report which includes schedules of funding progress and employer contributions. That comprehensive annual financial report for June 30, 2005 may be obtained from the Maine State Retirement System, 46 State House Station, Augusta, ME 04333.

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, 2005, the membership consisted of:

Active vested and nonvested members	52,434
Terminated vested participants	6,248
Retirees and benefit recipients	32,250
Total	90,932

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 2004, 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 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 12 years remained at June 30, 2005.

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 4 years to 16 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 2005, this additional contribution was approximately $13.1 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 2005 for participating entities are:

State:	
Employees[1]	7.65-8.65%
Employer[1]	13.39-38.18%
Teachers:	
Employees	7.65%
Employer	16.02%
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 State is one of several employers whose employees are System members. The State's net pension obligation shown at the end of the year includes the pension liability related to its employees. It does not include the pension liability related to participating local districts. The State'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	$261,698
Interest on net pension obligation	3,685
Adjustment to annual required contribution	(2,509)
Annual pension cost	262,874
Contributions made	274,698
Increase (decrease) in net pension obligation	(11,824)
Net pension obligation beginning of year	46,060
Net pension obligation end of year	$ 34,236

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2005	$262,874	104.50%	$34,236
2004	253,282	107.98%	46,060
2003	253,370	103.88%	66,261

The annual required contribution for the current year was determined as part of the June 30, 2003 actuarial valuation using the entry age normal cost method based on a level percentage of covered payrolls. The actuarial assumptions included (a) 8% return on investments and (b) projected salary increases of 5.5% to 9.5% per year, including cost of living. The assumptions include post retirement benefit increases of 4% per annum. The System also uses the level percentage of payroll method to amortize the unfunded liability of the State and teacher plan over a 25 year 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, (i.e., separate or pooled) and the amount of the unfunded liability. Amortization periods range from 4 to 16 years.

COMPONENT UNIT PARTICIPANTS

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.

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, 2005, there were 8,964 retired eligible State employees and 6,535 retired teachers. In fiscal year 2005, the State paid into the Retiree Health Insurance Fund $63.6 million for retired employees and $13.9 million for retired teachers. Premium charges paid were $37 million and $11.6 million, respectively. Overall, Net Assets decreased by $82.8 million to $7.6 million at June 30, 2005 as a result of refunding excess contributions back to originating funds or entities.

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, 2005, claims totaled $1.9 million for retired State employees and $1.5 million for retired teachers. The number of participants eligible to receive benefits at fiscal year end was 6,665 retired State employees and 5,188 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; pledged future revenues for repayment of bonds issued by the MMBB on behalf of the Maine Department of Transportation; 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 2005 were:

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

	Balance July 1, 2004	Additions	Retirements	Balance June 30, 2005	Due Within One Year
General Obligation Debt:					
General Fund	$ 355,025	$ 137,525	$ 53,440	$ 439,110	$ 57,915
Special Revenue Fund	61,105	-	13,280	47,825	13,950
Self Liquidating	230	-	70	160	70
Total	$ 416,360	$ 137,525	$ 66,790	$ 487,095	$ 71,935

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2005 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2006	71,935	17,271	89,206
2007	74,520	16,431	90,951
2008	65,660	13,411	79,071
2009	57,435	10,740	68,175
2010	51,635	8,256	59,891
2011-2015	165,910	14,262	180,172
Total	$ 487,095	$ 80,371	$ 567,466

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2005 are as follows:

Primary Government – General Obligation Bonds Outstanding
(Expressed in Thousands)

			Fiscal Year Maturities		
	Amounts Issued	**Outstanding 6/30/2005**	**First Year**	**Last Year**	**Interest Rates**
General Fund:					
Series 1991	$109,625	$7,695	1994	2007	5.70% - 8.95%
Series 1995	51,350	4,300	1997	2006	4.25% - 7.50%
Series 1996	51,700	4,250	1997	2006	4.10% - 7.00%
Series 1997	37,700	5,360	1998	2007	4.875% - 7.125%
Series 1998	54,500	15,615	1999	2008	4.20% - 6.50%
Series 1999	54,385	15,485	2000	2009	4.20% - 6.75%
Series 2000	66,290	28,025	2000	2010	4.875% - 7.75%
Series 2001	22,050	12,830	2002	2011	4.00% - 6.08%
Series 2002	27,610	19,320	2003	2012	3.00% - 5.75%
Series 2003	97,080	77,655	2003	2013	1.50% - 5.00%
Series 2004	117,275	110,765	2005	2014	2.00% - 5.27%
Series 2005	137,525	137,525	2006	2015	2.00% - 5.27%
Miscellaneous	6,000	285	1966	2006	4.00%
Total General Fund		$439,110			
Special Revenue Fund:					
Series 1991	26,500	3,760	1994	2007	5.70% - 7.875%
Series 1995	10,000	1,000	1997	2006	4.25% - 5.10%
Series 1996	25,000	2,500	1997	2006	4.20% - 5.375%
Series 1997	5,000	1,000	1998	2007	4.30% - 5.00%
Series 1998	30,000	9,000	1999	2008	4.00% - 5.25%
Series 1999	16,900	6,760	2000	2009	4.00% - 5.50%
Series 2001	19,225	11,525	2002	2011	4.00% - 5.00%
Series 2004	13,000	12,280	2005	2014	2.00% - 4.00%
Total Special Revenue		$47,825			
Self Liquidating:					
Maine Veteran's Home	1,700	$160	1982	2008	8.3421%

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, 2005, general obligations bonds authorized and unissued totaled $71.5 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State has included $189.6 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 $227.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2005, the Authority issued the Series 2005 Bonds, which totaled $54 million at an average interest rate of 4.65%. These bonds were used to in-substance defease $51.5 million of Series 1999, 2000A and 2000B bonds with an average interest rate of 5.58%. Net proceeds from the bonds totaled $57.5 million, including bond premiums of approximately $4.3 million, and after payment of $976,000 of issuance costs.

Although the in-substance defeasance resulted in the recognition of a deferred accounting loss of $3.3 million, the Authority reduced its aggregate debt service payments by $2.8 million over the next 15 years and obtained an economic gain of $2.7 million. Proceeds were used to purchase U.S. Government securities which will provide for all future debt service payments on the defeased bonds. At June 30, 2005, there were approximately $81.5 million of MGFA in-substance defeased bonds 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, 2005:

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

	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 197,950	$ 54,210	$ 62,590	$ 189,570	$ 12,245
COP's and Other Financing Arrangements	45,346	6,900	15,381	36,865	17,254
Compensated Absences	38,510	5,737	4,001	40,246	4,894
Claims Payable	83,216	259,089	156,842	185,463	136,463
Pledged Future Revenues	-	49,423	-	49,423	3,155
Net Pension Obligation	46,060	-	11,824	34,236	
Total Governmental Activities	$ 411,082	$ 375,359	$ 250,638	$ 535,803	
Business-Type Activities:					
Compensated Absences	$ 277	$ 106	$ -	$ 383	$ 56
Total Business-Type Activities	$ 277	$ 106	$ -	$ 383	$ 56

Debt service requirements (principal and interest) for all COP's and other financing arrangements of the primary government, from June 30, 2005 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**
2006	$ 10,973	$ 815	11,788	18,526	8,932	27,458
2007	5,276	398	5,674	17,305	8,061	25,366
2008	3,233	259	3,492	15,933	7,346	23,279
2009	1,452	140	1,592	15,073	6,675	21,748
2010	1,010	84	1,094	13,324	6,060	19,384
2011 - 2015	1,290	62	1,352	62,365	21,996	84,361
2016 - 2020	-	-	-	55,295	8,096	63,391
2021 - 2025	-	-	-	5,380	315	5,695
Total	$ 23,234	$ 1,758	$ 24,992	$ 203,201	$ 67,481	$ 270,682

SHORT TERM OBLIGATIONS

The State of Maine issued and retired $190 million in Tax Anticipation Notes and $142.9 million in Bond Anticipation Notes during fiscal year 2005. At June 30, 2005 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

CONDUIT DEBT OBLIGATIONS

To enable local school districts to purchase learning technology at a lower cost than they would be able to negotiate independently, the State has entered into a series of lease agreements with Apple Computer. These leases are special limited obligations of the State, payable solely from and secured by a pledge of rentals to be received from participating school administrative units. The leases do not constitute a debt or pledge of the faith and credit of the State or any political subdivision thereof, and accordingly have not been reported in the accompanying financial statements.

At June 30, 2005, the lease agreements outstanding totaled $2.5 million.

PLEDGED FUTURE REVENUES

On December 16th, 2004, the Maine Municipal Bond Bank (MMBB) issued $48.4 million of GARVEE grant anticipation revenue bonds on behalf of the Maine Department of Transportation, to provide financing for construction of a new Waldo-Hancock bridge. Net proceeds from the bonds totaled $49.4 million including bond premium of approximately $.9 million. The bonds payable bear interest rates from 2.5% to 5.0%, and have maturities from 2005 to 2015. The State has committed to appropriate each year a portion of the State's future federal transportation funds, in amounts sufficient to cover the principal and interest requirements of MMBB's debt for these bonds. The State's receipt of these funds is subject to continuing federal appropriations. MMBB has insured payments of principal and interest with a financial guaranty insurance policy. The Bonds do not constitute a debt or obligation of the State.

Total principal and interest requirements over the life of the bonds are $60.2 million, with annual requirements of up to $5.6 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the bonds totaled $178 million. Total federal transportation funds received in federal fiscal year 2005 were $175 million, and current year payments to MMBB were $366,480 (0.2% of federal transportation funds received).

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, 2005 capital assets include $59.9 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $23.8 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, 2005:

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

Fiscal Year	Capital Leases	Operating Leases
2006	$ 5,833	$ 981
2007	5,670	451
2008	5,437	363
2009	5,038	268
2010	4,618	229
2011-2015	16,989	310
2016-2020	6,402	24
2021-2025	439	-
2026-2030	59	-
Total Minimum Payments	50,485	$ 2,626
Less: Amount Representing Interest	10,580	
Present Value of Future Minimum Payments	$ 39,905	

MGFA revenue bonds will be liquidated by the MGFA Internal Service Fund, from revenues received through lease agreements with various governmental funds. The liability for pledged future revenues will be liquidated from the Federal Fund. The vast majority of COP's and other financing arrangements will be liquidated by the internal service fund in which the leases are recorded, while relatively small amounts will be paid by the General Fund and Highway Fund. Claims payable that represent Medicaid claims will be paid from the General Fund and Federal Fund. Claims payable that represent workers' compensation and retiree/employee health will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees.

Compensated absence liabilities will be liquidated by the applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on their respective required contribution rates. Other claims and judgments attributable to governmental activities will generally be liquidated by the General Fund and related special revenue funds.

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 selected material balances of 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	Interest Rates	Amount	Maturity Dates
Finance Authority of Maine	1.0 – 2.92%	175,410	2003 - 2035
Maine Municipal Bond Bank	1.0 - 10.25%	1,105,738	1990 - 2034
Maine Educational Loan Authority	1.85 - 3.65%	72,682	2005 - 2032
Maine State Housing Authority	1.40 - 6.40%	1,329,010	2005 - 2038
University of Maine System	2.0 - 5.75%	147,468	2000 - 2034

Fiduciary Component Units Bonds Outstanding
(expressed in thousands)

Maine Health and Higher Educational Facilities Authority	4.5 - 7.3%	$1,096,041	1988 - 2043

On December 9, 2004, the Authority issued $42.3 million Series 2004B bonds with an average interest rate of 4.4%, a portion of which was used to refund $24.9 million of outstanding 1999 bonds with an average interest rate of 7.54%. Approximately $700 thousand in issuance costs were paid. Total interest payments over the next 29 years were reduced by approximately $5.9 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, 2005, there were approximately $77.6 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 $1.8 million as of June 30, 2005. 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, 2005, 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, 2005 until maturity, are summarized in the following table:

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MELA	MSHA	UMS	MHHEFA*
2006	$ 52	$ 102,577	$ 5,310	$ 37,495	$ 6,485	$ 40,986
2007	53	95,225	-	34,130	6,180	43,456
2008	53	93,969	-	36,430	6,467	44,529
2009	54	88,618	11,615	40,940	5,930	44,180
2010	54	84,841	-	187,588	6,123	44,100
2011-2015	280	343,564	-	205,145	61,994	238,470
2016-2020	295	205,135	-	220,450	21,419	228,240
2021-2025	298	96,480	36,500	237,425	15,119	195,845
2026-2030	-	2,100	20,000	193,375	9,890	165,515
2031-2035	175,000	970	-	109,930	5,710	46,940
2036-2040	-	-	-	43,200	-	1,995
2041-2045	-	-	-	-	-	1,785
2046-2050	-	-	-	-	-	-
Net unamortized premium or (deferred amount)	(729)	(7,741)	(743)	(17,098)	2,151	-
Total Principal Payments	$175,410	$1,105,738	$72,682	$1,329,010	$147,468	$1,096,041

* MHHEFA is reported in fiduciary fund financial statements.

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 professionals, 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 $250 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). Settlements have not exceeded insurance coverage in any of the past three fiscal years. 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 *	$250 million	$2 million	$250 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, 2005. 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, 2004, the present value of the claims payable for the State's self-insurance plan was estimated at $3.5 million. At June 30, 2005, 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)

	2005	2004
Liability at Beginning of Year	$3,547	$4,073
Current Year Claims and		
Changes in Estimates	1,415	449
Claims Payments	1,415	975
Liability at End of Year	$3,547	$3,547

As of June 30, 2005, fund assets of $16.2 million exceeded fund liabilities of $3.9 million by $12.3 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, 2005.

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 $980 thousand for the fiscal year ended June 30, 2005.

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, 2005:

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

	2005	2004
Liability at Beginning of Year	$ 61,839	$ 61,839
Current Year Claims and		
Changes in Estimates	1,329	9,616
Claims Payments	9,825	9,616
Liability at End of Year	$ 53,343	$ 61,839

Current year claims and changes in estimates include an $8.5 million reduction in estimated outstanding claims. In prior periods, changes in the estimate of outstanding claims were not material and were reported as an increase or decrease to claims expense. The significant change in the current year estimate is partially due to a change in the June 30, 2004 estimate, which resulted in excess premiums being charged to user funds. These excess premiums have been reported as an operating transfer. Current year premium revenue and claims expense reflect actual operating activity for the fiscal year.

Based on the actuarial calculation as of June 30, 2005, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $67.1 million. The discounted amount is $53.3 million and was calculated based on a 4.0 percent yield on investments.

D. EMPLOYEE HEALTH INSURANCE

The employee health and retiree health insurance programs are accounted for in two Internal Service Funds. The State became self insured for employee and retiree 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, 2005, the State recorded a receivable of $21.7 million for an overpayment of health care premiums.

Expenses and liabilities for incurred but not reported claims, based on an actuarial analysis of claim lag pattern, have been recorded as liabilities in the amount of $21.3 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2005 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ -	$ -
Current Year Claims and Changes in Estimates	117,796	49,074
Claims Payments	103,508	42,094
Liability at End of Year	$ 14,288	$ 6,980

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 two separate joint venture arrangements; the Tri-State Lotto Commission (Commission) and the Multi-State Lottery Association (MUSL).

Tri-State Lotto 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 2005, 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	$ 42,783
Noncurrent Assets	139,087
Total Assets	$ 181,870
Current Liabilities	$ 26,360
Long-term Liabilities	131,599
Total Liabilities	157,959
Designated Prize Reserves	4,096
Unrealized Gain on Investments Held for Installment Prize Obligations	19,815
Total Net Assets	23,911
Total Liabilities and Net Assets	$ 181,870
Total Revenue	$ 65,120
Total Expenses	43,746
Allocation to Member States	21,374
Change in Unrealized Gain on Investments Held for Resale	4,460
Change in Net Assets	$ 4,460

Multi-State Lottery Association

The Maine State Lottery became a member of the Multi-State Lottery Association (MUSL) in July 2004. The MUSL currently has 29 member State lotteries, including the District of Columbia and the United States Virgin Islands. The MUSL is managed by a Board of Directors, which is comprised of the lottery directors or their designee from each of the party States and authorized to initiate, promulgate, administer and carry out one or more lottery product offerings that will enhance the participating party lottery's revenue.

Participating lotteries sell Powerball tickets, collect all revenues, and remit prize funds to the MUSL, net of lower tier prize awards. The operating costs of the Board are divided equally among all of the participating lotteries. Jackpot prizes that are payable in installments are satisfied through investments purchased by the MUSL. The MUSL purchases US government obligations, which are held in irrevocable trusts established by the MUSL for the benefit of participating State lotteries. Each week the MUSL allocates 50 percent of sales to the prize pool. If no winning ticket is selected, the available jackpot is carried over to the following jackpot drawing.

The Multi-State Lottery Association's financial report for fiscal year 2005, 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 information:

Multi-State Lottery Association
(Expressed in Thousands)

Cash and Cash Equivalents	$ 113,929
Investments in US Government Securities	72,666
US Government Securities Held for Prize Annuities	939,939
Due from Party Lotteries	11,064
Other Assets	1,184
Total Assets	$ 1,138,782
Amount Held for Future Prizes	180,636
Grand Prize Annuities Payable	954,972
Other Liabilities	2,948
	1,138,556
Net Assets, Unrestricted	226
Total Liabilities and Net Assets	$ 1,138,782
Total Revenue	$ 3,521
Total Expenses	3,518
Excess (deficit) of revenue over expenses	3
Net assets, beginning	223
Net assets, ending	$ 226

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 $3.2 billion in net assets at June 30, 2005, which have been recorded in an Agency Fund on the financial statements of the State.

General Obligation Bonds of the State include $60 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 served as Minority Floor Leader in the Maine House of Representatives until his retirement in November, 2004. During fiscal year 2005, the State of Maine paid $14.1 million for services under these contracts; $5.2 million from the General Fund, $7.8 million from the Federal Fund and $1.1 million from the Other Special Revenue Fund. At fiscal year end, no accounts payable balances existed for services provided under these contracts.

The State of Maine pays a local company as a provider for prescription drugs through the MaineCare program. The recently retired 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 2005, the State paid $14.3 million to this company; $5.7 million from the General Fund and $8.6 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 2005, the State paid $10.7 million for these services; $5.2 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, $214.1 million; Child Development Services, $27.0 million; Maine Community College System, $50.6 million; Maine Municipal Bond Bank, $13.5 million; Finance Authority of Maine, $17.3 million; Maine Maritime Academy, $7.5 million; Maine State Housing Authority, $9.3 million; Loring Development Authority, $1.4 million; and the Governor Baxter School for the Deaf, $5.8 million.

The Finance Authority of Maine (FAME) administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $31.2 million at June 30, 2005, 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 2005, the State expended $455 thousand 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 2005, FAME paid approximately $5.9 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.

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 2005.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

PRIMARY GOVERNMENT

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.

Inland Hospital v. DHHS . This case was filed on August 12, 2005 in Superior Court, Kennebec County. The issue is whether DHHS correctly calculated Medicaid prospective payments to the hospital. The potential liability is $1.3 million to $1.4 million. The potential for expenditure regarding this matter is possible.

Callahan Mine Superfund Site. 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. The State has only agreed to conduct feasibility studies to date. Potential liability for remedial actions could exceed $1 million, however feasibility studies have not yet been completed. 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. A motion for summary judgment is pending. Potential for expenditure is possible, however, the State cannot reasonably estimate the amount of potential loss.

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. Therefore, these suits have not been individually identified.

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.

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.

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.

In September 2005, the United States Department of Education (USDOE) estimated that it would disallow $5.3 million of federal financial participation in the State's Migrant Education Program. The State has settled $2.3 million of this disallowance by de-obligating federal grant award balances for federal fiscal years 2003 and 2004. The USDOE and the State are currently negotiating a mechanism to repay the remaining balance that may not require the use of existing financial resources. The State has not accrued a liability for the estimated disallowance at June 30, 2005.

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 $65 thousand for fiscal year 2005.

During the 2005 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 2005 fiscal year, the State expended $65 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. Current outstanding remedial obligations total approximately $235 thousand. Bonds have not been issued to cover these outstanding obligations.

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 $18.9 million. This consists of approximately $11.9 million for State-owned facilities and approximately $7 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 M.R.S.A. § 411 establishes within DEP a cost-sharing program for pollution abatement projects. Subject to funding by the Legislature and the approval of the Commissioner, the State may contribute to the design, engineering and construction of municipal pollution abatement facilities. During the 2005 fiscal year, $6.95 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2005, amounts encumbered for pollution abatement projects totaled $1.49 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $2.12 million. At June 30, 2005, DEP estimated the total cost (federal, State, and local) of future projects to be $367 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, 2005 there were 302 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, 2005, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $788.0 million.

At June 30, 2005, the Department of Transportation had contractual commitments of approximately $119.1 million for construction of various highway projects. The State's share of that amount is expected to be approximately $22.4 million. This amount 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, 2005, the Authority paid claims of $10.5 million, and the State accrued an additional $8.1 million in claims payable. The Authority has a statutory sunset of July 1, 2007.

DIRIGO HEALTH AGENCY

Chapter 469 PL 2003 established the Dirigo Health Agency to arrange for the provision of comprehensive, affordable health care coverage to eligible small employers, including the self-employed, their employees and dependents, and individuals on a voluntary basis (DirigoChoice).

Because DirigoChoice members had no prior claims history, the Dirigo Health Agency agreed to share claims costs that exceed an agreed upon level through an Experience Modification Program (EMP) with its carrier, Anthem Blue Cross Blue Shield (Anthem). The EMP is a form of experience rating not uncommon in start up association-like plans where the risk of the population is unknown. The EMP protects the DirigoChoice pool from adverse selection.

The Dirigo Health Agency prepays the EMP quarterly, based on enrollment assumptions. Because the Dirigo Health Agency assumes the most adverse outcome, the EMP liability cannot exceed the total prepayments. If the experience outcome is favorable in the DirigoChoice plan, Anthem returns all of the EMP to the Dirigo Healthy Agency. Terms of the outcome sharing are detailed in the contractual agreement between the Dirigo Health Agency and Anthem.

Claims for calendar year 2005 will not be finalized until July 1, 2006, when a six month run-out period elapses. Due to limited claims and experience data for DirigoChoice members for 2005, the medical loss ratio and related amount that may be returned to the Dirigo Health Agency, if any, cannot be reasonably estimated. EMP payments for State fiscal year 2005 totaled $3.2 million.

DISPROPORTIONATE SHARE PAYMENTS TO HOSPITALS

In State fiscal years 2004 and 2005, the Department of Health & Human Services funded the federal share of the Non-Categorical Childless Adult Medicaid Waiver with Disproportionate Share allotments. An undeterminable amount of the allotted funds may be required to fund Disproportionate Share payments to Acute Care Hospitals in the future.

UNION ARBITRATION AWARD

As the result of an arbitration award dated October 4, 2005, the State was ordered to increase the pay grade for Department of Health and Human Services (DHHS) Caseworkers. The increase in pay is retroactive to 1998 when the Maine State Employees Association (MSEA) formally requested a pay scale review. The MSEA has estimated that the settlement could exceed $6 million. Due to changes in employment and position status for affected Caseworkers since 1998, DHHS estimates the negotiated settlement will be between $2.1 and $2.5 million. The State has accrued a liability for claims payable of $2.3 million in the Entity-wide Statements at June 30, 2005.

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, 2005, HUD completed refinancings for nine institutions which, at the time they were refinanced, had combined bond-related loans and advances due MHHEFA of approximately $44.3 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, 2005, record 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.

The Authority advanced approximately $2.2 million from the operating fund as of June 30, 2005 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $15.5 million at June 30, 2005, including loans of $10.2 million reserved at June 30, 2005. These advances were primarily 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, 2005, loans outstanding pursuant to these authorizations are $36.9 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, 2005.

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, 2005.

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 *	$ 1,062,835	$ 90,851	no limit	22 MRSA § 2075
Finance Authority of Maine	84,483	23,570	619,483	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	1,105,738	122,443	no limit	30-A MRSA §6006
Maine Educational Loan Authority	32,115	1,285	50,000	20-A MRSA §11424
University of Maine System	141,591	4,948	220,000	5 MRSA §10952
Maine State Housing Authority	1,183,147	106,234	2,150,000	30-A MRSA §4906
Total	$3,609,909	$ 349,331		

** MHHEFA is reported in fiduciary fund financial statements.

****** 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 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On July 14, and October 11, 2005, the State issued $13.7 million and $9.2 million respectively of Bond Anticipation Notes. The BAN's will mature on June 22, 2006.

On July 21, 2005 the State issued $123.6 million of Tax Anticipation Notes which become due on June 30, 2006.

On November 1st, 2005, the State issued $9.2 million of Certificates of Participation, with an interest rate of 3.59%, and maturity date in 2010, for the purpose of financing the upgrade of the State's integrated financial processing and reporting system.

Several Maine hospitals, 21 out of a total of 39, were 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. The hospitals agreed to a discounted settlement of $96.4 million, which was paid by the State in September, 2005. The hospitals have subsequently dismissed their claims.

Effective September, 2005, MGFA's debt limit increased $35 million in order to provide more judicial financing in accordance with Title 4, MRSA, Section 1606. Pursuant to Title 4, MRSA, Section 1610-D, MGFA received authorization to issue up to $9 million in debt in order to pay for specific capital improvements and repairs costs associated with state-owned facilities as designated by the Commissioner of Administrative and Financial Services.

COMPONENT UNITS

On March 1, 2005 the Maine State Housing Authority (MSHA) redeemed $9.0 million of its 2004-A General Housing Draw Down bonds, with variable interest rates maturing in 2010. In January, February and March 2005, MSHA issued a total of $35.0 million Series A and B General Housing Draw Down bonds at par, with variable interest rates maturing in 2010.

In January, February and March 2005, MSHA redeemed a total of $52.7 million of various series of its Mortgage Purchase Program bonds at par. The bonds carried interest rates from 3.65% to 6.125%, and maturities from 2005 to 2035. In March 2005, MSHA committed to redeem a further $9.9 million of Mortgage Purchase Program bonds at par. On January 18, 2005, MSHA issued $40.0 million of various series of its Mortgage Purchase Program bonds. These bonds carry interest rates ranging from 2.08% to 4.9%, with maturities from 2005 to 2039.

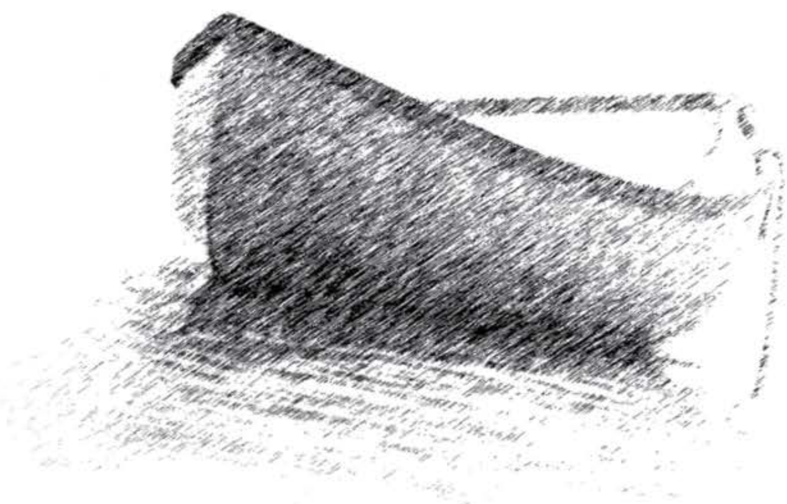
In accordance with the Higher Education Loan Purchase Program, the Finance Authority of Maine purchased FFELP student loan portfolios totaling approximately $2.8 million and $24.0 million in July 2005 and September 2005, respectively.

On November 3, 2005, the University of Maine System issued $69.1 million of its 2005 Series A Revenue Bonds to advance refund a total of $8.8 million of previously issued revenue bonds and to fund new capital projects. These bonds carry interest rates ranging from 3.5% to 5.0%, with maturities from 2006 to 2035.

NOTE 17 – 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 during fiscal year 2004. 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 $50 million of proceeds from the license fee from the Alcoholic Beverages enterprise fund to the General Fund as a Special Item.

Chapter 673 PL 2003 required the State of Maine to manage the Retiree Health Insurance Fund (the Fund), an internal service fund, on a cost-reimbursement basis beginning June 30, 2005. Prior to the effective date, with agreement from the federal government, the State had been preparing to change to an actuarial funding basis. Likewise, the Fund had been allowed to accumulate significant resources to facilitate the funding change. Chapter 673 further required 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 returned $105.7 million of excess equity available for distribution to all groups. Additionally, the State returned $19.1 million to the federal government for its share of the equity distribution. The returns of excess equity from the Fund to its participants, as well as the return of funds to the federal government have been recorded as Special Items in the financial statements for the fiscal year ended June 30, 2005.



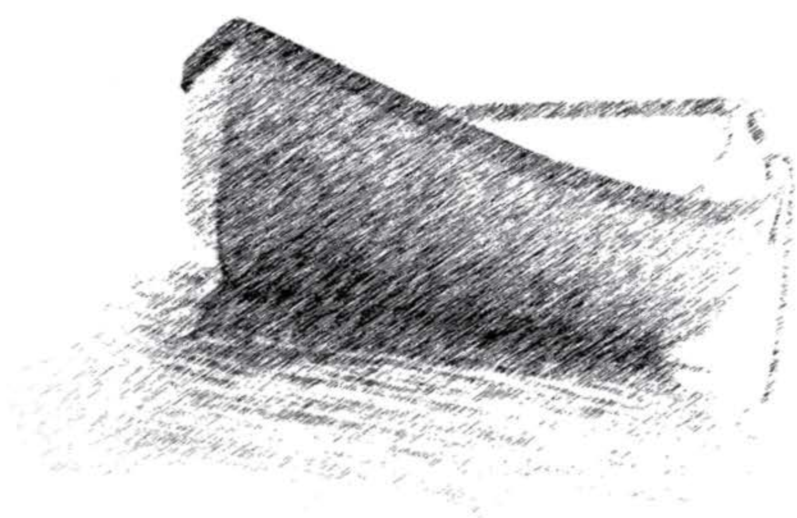
REQUIRED SUPPLEMENTARY INFORMATION

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2005
(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	$ 2,487,229	$ 2,591,964	$ 2,623,546	$ 31,582	$ 216,638	220,839	$ 220,461	$ (378)
Assessments and Other	76,364	87,332	90,006	2,674	84,329	87,550	90,432	2,882
Federal Grants	24,673	26,803	26,162	(641)	-	-	-	-
Service Charges	36,271	35,458	39,814	4,356	5,937	6,814	6,665	(149)
Income from Investments	1,026	4,896	6,632	1,736	1,026	1,060	1,441	381
Miscellaneous Revenue	60,384	56,988	45,355	(11,633)	687	5,405	5,685	280
Total Revenues	2,685,947	2,803,441	2,831,515	28,074	308,617	321,668	324,684	3,016
Expenditures								
Governmental Support and Operations	325,332	333,921	321,530	12,391	34,413	36,112	34,239	1,873
Economic Development & Workforce Training	46,363	46,655	41,756	4,899	-	-	-	-
Education	1,188,842	1,212,648	1,206,090	6,558	-	-	-	-
Health and Human Services	818,251	937,783	892,524	45,259	-	-	-	-
Business Licensing & Regulation	-	-	-	-	-	-	-	-
Natural Resources Development & Protection	69,689	73,101	68,922	4,179	36	37	30	7
Justice and Protection	221,536	226,114	219,571	6,543	36,547	36,527	32,460	4,067
Arts, Heritage & Cultural Enrichment	8,370	8,748	8,508	240	-	-	-	-
Transportation Safety & Development	3,589	3,588	3,584	4	244,591	308,271	232,868	75,403
Total Expenditures	2,681,972	2,842,558	2,762,485	80,073	315,587	380,947	299,597	81,350
Revenues Over (Under) Expenditures	3,975	(39,117)	69,030	108,147	(6,970)	(59,279)	25,087	84,366
Other Financing Sources (Uses)								
Operating Transfers Net	(54,698)	(49,458)	11,378	60,836	2,056	1,834	(1)	(1,835)
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(54,698)	(49,458)	11,378	60,836	2,056	1,834	(1)	(1,835)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (50,723)	$ (88,575)	$ 80,408	$ 168,983	$ (4,914)	$ (57,445)	$ 25,086	$ 82,531
Fund Balances at Beginning of Year			151,866				94,110	
Fund Balances at End of Year			$ 232,274				$ 119,196	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 62,786	$ 141,743	$ 145,278	$ 3,535
-	-	-	-	100,326	98,434	74,930	(23,504)
2,708,263	3,251,515	2,601,303	(650,212)	128,932	53,904	2,087	(51,817)
-	-	656	656	195,731	199,409	131,257	(68,152)
-	-	266	266	2,832	2,839	1,870	(969)
5,513	4,768	19,207	14,439	44,289	220,087	94,017	(126,070)
2,713,776	3,256,283	2,621,432	(634,851)	534,896	716,416	449,439	(266,977)
6,391	20,035	5,637	14,398	145,409	155,319	137,889	17,430
136,501	139,738	91,167	48,571	25,689	34,097	21,453	12,644
150,346	222,527	176,144	46,383	16,262	17,748	11,556	6,192
1,739,518	2,075,667	1,963,718	111,949	290,713	438,365	254,701	183,664
1,240	1,685	732	953	60,727	65,443	51,293	14,150
34,273	47,121	30,278	16,843	93,544	101,330	69,274	32,056
62,265	157,782	97,105	60,677	27,061	31,095	24,598	6,497
2,874	3,181	2,407	774	978	1,540	840	700
213,208	223,684	187,395	36,289	15,231	66,687	37,181	29,506
2,346,616	2,891,420	2,554,583	336,837	675,614	911,624	608,785	302,839
367,160	364,863	66,849	(298,014)	(140,718)	(195,208)	(159,346)	35,862
(11,080)	(11,062)	12,824	23,886	157,717	158,474	139,729	(18,745)
						27,527	27,527
(11,080)	(11,062)	12,824	23,886	157,717	158,474	167,256	8,782
$ 356,080	$ 353,801	$ 79,673	$ (274,128)	$ 16,999	$ (36,734)	$ 7,910	$ 44,644
		(72,706)				260,676	
		$ 6,967				$ 268,586	



STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances - Non-GAAP Budgetary Basis	$ 232,274	$ 119,196	$ 6,967	$ 268,586
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	194,320	(464)	-	6,196
Intergovernmental Receivables	-	-	407,308	-
Other Receivables	41,378	(14,555)	60,688	60,979
Due from Component Units	5,900			
Due from Other Funds	13,646	8,443	36,507	45,867
Other Assets	(3,322)	-	(18,753)	(55)
Deferred Revenues	(42,922)	(5,307)	18,286	(25,727)
Total Revenue Accruals/Adjustments	209,000	(11,883)	504,036	87,260
Expenditure Accruals/Adjustments:				
Accounts Payable	(214,313)	(12,283)	(447,868)	(26,104)
Due to Component Units	(3,025)	(1,033)	(6,880)	(5,926)
Bonds Issued	1,681	819	-	-
Accrued Liabilities	(18,250)	(9,046)	(5,394)	(3,757)
Taxes Payable	(138,721)			
Due to Other Funds	(22,290)	(2,687)	(19,621)	(60,191)
Total Expenditure Accruals/Adjustments	(394,918)	(24,230)	(479,763)	(95,978)
Fund Balances - GAAP Basis	$ 46,356	$ 83,083	$ 31,240	$ 259,868

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING

Statutory/Budgetary Presentation

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.

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, 2005, the legislature approved $138.5 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.

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.

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 2004-2005, 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 23, 2004, 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 June 13, 2005, 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.

Compliance at the Legal Level of Budgetary Control

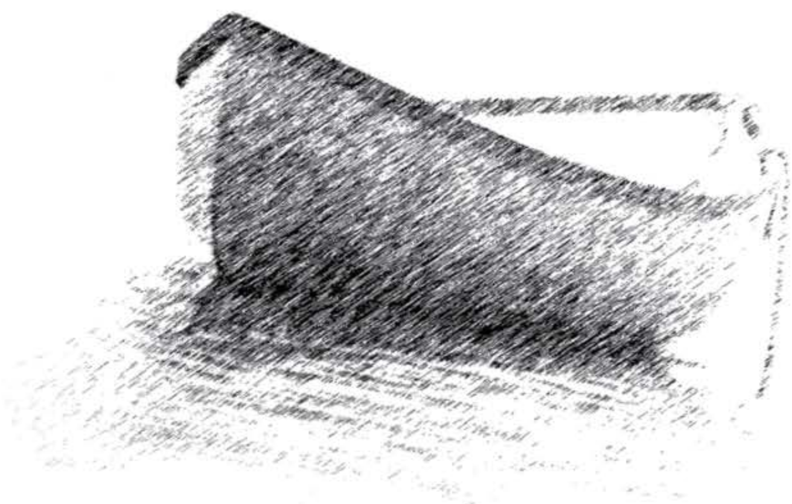
The following schedules depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds.

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND EXPENDITURES BY AGENCY

Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Final Budget	Actual	Variance with Final Budget
Department of Administrative and Financial Services			
Administrative Services	$ 12,818	$ 11,961	$ 857
Employee Relations	741	726	15
Financial Services	194,761	188,988	5,773
Human Resources	1,772	1,606	166
Financial and Personnel Services	1,014	951	63
Purchasing	493	487	6
	211,599	204,719	6,880
Department of Agriculture	8,753	8,279	474
Attorney General	13,886	13,781	105
Department of Audit	1,495	1,494	1
Department of Corrections			
Corrections	43,475	41,254	2,221
Maine State Prison	34,221	33,907	314
Maine Correctional Center	19,689	19,572	117
Downeast Correctional Facility	5,121	5,076	45
Charleston Correctional Facility	14,732	14,652	80
Long Creek Youth Development Center	13,996	13,527	469
	131,234	127,988	3,246
Department of Conservation	22,532	21,019	1,513
Department of Economic and Community Development	13,486	12,597	889
Department of Environmental Protection	6,529	6,293	236
Department of Human Services			
Human Services	663,471	630,214	33,257
Behavioral and Developmental Services	239,988	229,733	10,255
Augusta Mental Health Institute	10,528	10,000	528
Dorothea Dix Psychiatric Center	10,953	10,295	658
Office of Substance Abuse	8,449	7,965	484
Freeport Towne Square	1,261	1,256	5
Elizabeth Levinson Center	2,876	2,833	43
Aroostook Residential Center	42	16	26
	937,568	892,312	45,256
Department of Labor			
Labor	19,546	15,537	4,009
Labor Relations Board	447	447	-
	19,993	15,984	4,009
Department of Transportation			
Transportation	645	643	2
Air Transportation	233	231	2
Ferry Service/Ports and Marine	2,510	2,510	-
Rail/Van Pool	201	200	1
	3,589	3,584	5
Defense, Veterans and Emergency Management	5,426	4,912	514
Department of Education			
Education	966,572	961,485	5,087
Education - Unorganized Territory	11,328	9,929	1,399
	977,900	971,414	6,486
General Government			
Office of the Governor	3,401	2,708	693
State Planning	2,693	2,250	443
Ombudsman Program	64	63	1
	6,158	5,021	1,137

	Final Budget	Actual	Variance with Final Budget
Department of Inland Fisheries and Wildlife	$ 24,503	$ 22,969	$ 1,534
Judicial Department	54,791	53,673	1,118
Legislative Department			
Legislative	23,558	21,974	1,584
Law and Legislative Reference Library	1,512	1,339	173
Statehouse Preservation and Maintenance	1,800	1,302	498
Program Evaluation and Government Accountability	450	129	321
	27,320	24,744	2,576
Department of Marine Resources	9,981	9,560	421
Department of Public Safety	20,120	18,574	1,546
Secretary of State			
Secretary of State	2,708	2,396	312
Archives Services	841	840	1
	3,549	3,236	313
Treasurer of State	77,166	75,755	1,411
Other Agencies			
Museum	1,576	1,550	26
Maine State Cultural Affairs Council	100	35	65
Maine Historic Preservation Commission	319	319	-
Library	3,530	3,406	124
Maine Humanities Council	71	71	-
Finance Authority of Maine	12,558	12,558	-
Centers for Innovation	157	157	-
Com. On Governmental Ethics and Election Practices	167	138	29
Maine Indian Tribal State Council	36	36	-
Board of Property Tax Review	105	98	7
Maine Municipal Bond Bank	92	92	-
Maine State Retirement System	233	195	38
Maine Criminal Justice Commission	17	17	-
Maine Fire Protection Services Commission	16	4	12
Human Rights Commission	488	485	3
Saco River Corridor Commission	54	54	-
Atlantic Salmon Commission	664	664	-
NE International Water Pollution Control Commission	10	10	-
Downeast Institutes Appl Marine	15	15	-
Atlantic States Marine Fisheries Commission	36	36	-
St. Croix International Waterway	25	25	-
Maine Public Broadcasting Corporation	2,280	2,280	-
Maine State Housing Authority	461	461	-
Governor Baxter School for the Deaf	5,758	5,758	-
Baxter Compensation Authority	6,000	6,000	-
Board of Education	158	84	74
Maine Historical Society	58	58	-
Foundation for Blood Research	69	69	-
Pine Tree Legal	136	136	-
Maine Community College System	41,472	41,472	-
Maine Maritime Academy	7,457	7,457	-
University of Maine	179,904	179,904	-
Arts and Humanities Administration	815	790	25
Disability Rights Center	74	74	-
Maine Hospice Counsel	69	69	-
	264,980	264,577	403
Grand Total	$ 2,842,558	$ 2,762,485	$ 80,073



STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
HIGHWAY FUND EXPENDITURES BY AGENCY

Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Final Budget	Actual	Variance with Final Budget
Department of Administrative and Financial Services			
Administrative Services	$ 2,477	$ 2,387	$ 90
Financial Services	711	593	118
	3,188	2,980	208
Department of Environmental Protection	36	30	6
Department of Transportation			
Transportation	307,631	232,228	75,403
Rail/Van Pool	640	640	-
	308,271	232,868	75,403
Department of Public Safety	36,527	32,460	4,067
Secretary of State			
Motor Vehicles	32,925	31,259	1,666
Grand Total	$ 380,947	$ 299,597	$ 81,350

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
FEDERAL FUND EXPENDITURES BY AGENCY

Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Final Budget	Actual	Variance with Final Budget
Department of Administrative and Financial Services			
Bureau of Information Services	$ 223	$ 113	$ 110
Financial Services	5	2	3
Financial and Personnel Services	30	6	24
State Employee Health Commission	96	-	96
	354	121	233
Department of Agriculture	6,086	2,983	3,103
Attorney General	4,925	3,788	1,137
Department of Corrections			
Corrections	7,318	3,304	4,014
Maine State Prison	19	14	5
Maine Correctional Center	107	73	34
Downeast Correctional Facility	53	2	51
Charleston Correctional Facility	248	140	108
Long Creek Youth Development Center	486	222	264
	8,231	3,755	4,476
Department of Conservation	8,942	5,530	3,412
Department of Economic and Community Development	37,484	19,062	18,422
Department of Environmental Protection	16,184	11,155	5,029
Department of Human Services			
Human Services	2,040,664	1,939,469	101,195
Behavioral and Developmental Services	16,345	11,139	5,206
Dorothea Dix Psychiatric Center	38	-	38
Office of Substance Abuse	18,548	13,097	5,451
	2,075,595	1,963,705	111,890
Department of Labor	102,255	72,104	30,151
Department of Transportation			
Transportation	218,583	184,462	34,121
Air Transportation	3,821	2,765	1,056
Ferry Service/Ports and Marine	500	145	355
Rail/Van Pool	781	23	758
	223,685	187,395	36,290
Defense, Veterans and Emergency Management	128,109	78,447	49,662
Department of Education			
Education	222,038	175,698	46,340
Education - Unorganized Territory	489	446	43
	222,527	176,144	46,383
General Government			
Office of the Governor	1,018	309	709
State Planning	5,811	3,822	1,989
	6,829	4,131	2,698
Department of Inland Fisheries and Wildlife	8,678	5,727	2,951
Judicial Department	3,910	3,205	705
Department of Marine Resources	5,436	3,494	1,942
Department of Professional and Financial Regulation			
Professional and Financial Regulation	52	35	17
Department of Public Safety	12,188	7,582	4,606

		Final Budget		Actual		Variance with Final Budget
Public Utilities Commission	$	1,633	$	697	$	936
Secretary of State						
Secretary of State		12,148		1,102		11,046
Motor Vehicles		485		155		330
Archives Services		157		85		72
		12,790		1,342		11,448
Treasurer of State		61		42		19
Other Agencies						
Arts and Humanities Administration		838		626		212
Atlantic Salmon Commission		1,795		1,389		406
Human Rights Commission		419		329		90
Library		1,304		1,080		224
Maine Health Data Organization		71		15		56
Maine Historic Preservation Commission		676		525		151
Museum		363		175		188
		5,466		4,139		1,327
Grand Total	$	2,891,420	$	2,554,583	$	336,837

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
OTHER SPECIAL REVENUE FUND EXPENDITURES BY AGENCY

Fiscal Year Ended June 30, 2005
(Expressed in Thousands)

	Final Budget	Actual	Variance with Final Budget
Department of Administrative and Financial Services			
Administrative Services	$ 1,262	$ 522	$ 740
Financial Services	18,893	11,601	7,292
Human Resources	866	407	459
Financial and Personnel Services	2,765	2,169	596
State Employee Health Commission	1,200	394	806
	24,986	15,093	9,893
Department of Agriculture	14,211	10,676	3,535
Attorney General	8,114	7,353	761
Department of Audit	1,524	1,196	328
Department of Corrections			
Corrections	1,353	838	515
Maine State Prison	202	106	96
Maine Correctional Center	576	423	153
Downeast Correctional Facility	150	64	86
Charleston Correctional Facility	455	276	179
Long Creek Youth Development Center	38	38	-
	2,774	1,745	1,029
Department of Conservation	18,438	12,133	6,305
Department of Economic and Community Development	10,057	7,726	2,331
Department of Environmental Protection			
Environmental Protection	51,551	35,567	15,984
A.C.E. Service Center	1,033	1,009	24
	52,584	36,576	16,008
Department of Human Services			
Human Services	363,501	195,438	168,063
Behavioral and Developmental Services	5,669	4,314	1,355
Augusta Mental Health Institute	19,814	17,914	1,900
Dorothea Dix Psychiatric Center	15,243	13,668	1,575
Office of Substance Abuse	6,322	6,049	273
Freeport Towne Square	85	49	36
	410,634	237,432	173,202
Department of Labor			
Labor	7,475	3,766	3,709
Labor Relations Board	117	53	64
	7,592	3,819	3,773
Department of Transportation			
Transportation	65,942	36,670	29,272
Air Transportation	208	84	124
Rail/Van Pool	537	427	110
	66,687	37,181	29,506
Defense, Veterans and Emergency Management	3,440	1,719	1,721
Department of Education			
Education	16,303	10,639	5,664
Education - Unorganized Territory	8	-	8
	16,311	10,639	5,672
General Government			
Office of the Governor	405	317	88
State Planning	2,719	1,301	1,418
Public Advocate	2,448	1,675	773
	5,572	3,293	2,279
Department of Inland Fisheries and Wildlife	7,612	3,656	3,956

		Final Budget	Actual	Variance with Final Budget
Judicial Department	$	3,312	$ 2,276	$ 1,036
Legislative Department				
Legislative		37	5	32
Department of Marine Resources		5,204	3,257	1,947
Department of Professional and Financial Regulation				
Professional and Financial Regulation		24,074	18,612	5,462
Board of Dental Examiners		324	268	56
Board of Nursing		723	557	166
Board of Optometry		53	41	12
Board of Osteopathic Examination and Registration		161	151	10
Board of Professional Engineers		245	189	56
Board of Registration in Medicine		1,227	1,140	87
		26,807	20,958	5,849
Department of Public Safety		13,431	11,505	1,926
Public Utilities Commission		27,440	20,333	7,107
Secretary of State				
Secretary of State		629	169	460
Motor Vehicles		977	917	60
Archives Services		71	33	38
		1,677	1,119	558
Treasurer of State		120,130	117,611	2,519
Other Agencies				
Arts and Humanities Administration		161	62	99
Atlantic Salmon Commission		108	76	32
Baxter Compensation Authority		758	528	230
Baxter State Park Authority		3,042	2,820	222
Board of Water System Operators		82	33	49
Com. On Governmental Ethics and Election Practices		3,083	718	2,365
Dirigo Health		26,067	16,054	10,013
Finance Authority of Maine		619	599	20
Harness Racing Promotion Board		184	146	38
Human Rights Commission		24	-	24
Library		308	263	45
Lobster Promotion Council		480	400	80
Maine Community College System		904	904	-
Maine Consumer Choice Health Plan		1		1
Maine Health Data Organization		1,564	1,184	380
Maine Historic Preservation Commission		583	349	234
Maine Potato Board		1,353	581	772
Maine State Cultural Affairs Council		76	10	66
Maine State Housing Authority		12,337	7,304	5,033
Mine Children's Trust Incorporated		100	32	68
Museum		410	155	255
Saco River Corridor Commission		47	47	-
University of Maine		533	13	520
Worker's Compensation Board		8,750	8,328	422
Wild Blueberry Commission of Maine		1,476	878	598
		63,050	41,484	21,566
Grand Total	$	911,624	$ 608,785	$ 302,839

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

	(a)	(b)	(b-a)	(a/b)	(c)	(b-a)/c)
Actuarial Valuation Date	Actuarial Value Of Assets	Actuarial Accrued Liability (AAL) – Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Annual Covered Payroll	UAAL (as a percentage of covered payroll)
June 30, 2005	7,013,846,148	10,048,587,643	3,034,741,495	69.8%	1,516,390,862	200.1%
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
2005	261,697,901	274,697,901	105.0%
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, 2005	1,874,310,141	1,641,144,382	(233,165,759)	114.2%	304,975,678	-76.5%
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
2005	7,587,753	7,594,557	100.1%
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, 2005 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 2004, 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 13 years that will then remain in the earlier shortened period. In 2005, the State repealed the "sunset" provision, with the result that the period for reduction of these unfunded actuarial liabilities continues to the full extent permitted by the State constitution, or June 30, 2028. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 12 years remained at June 30, 2005.

The IUUAL of PLDs are amortized over periods established for each PLD separately. During fiscal year 2005 and 2004, various PLD's contributed approximately $6,800 and $9.4 million to decrease their initial unpooled unfunded actuarial liability, respectively.

Significant actuarial assumptions employed by the actuary for funding purposes as of June 30, 2005 are as follows:

Investment Return – 8% per annum, compounded annually

Salary Increases – 5.5% to 9.5% per year (including 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 on or after July 1, 1998 – 1964 Commissioners Disability Table; All recipients of disability benefits with retirement dates before 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 active 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, 2005 and 2004, the net assets held in trust for group life insurance benefits were $41.8 million and $40.0 million, respectively. At June 30, 2005 and 2004, the plan had the following actuarially determined liabilities:

	(In millions)	
	2005	**2004**
Actuarial Liabilities:		
Active Members	$ 58.9	$ 49.2
Retired Members	68.1	42.5
Total	$ 127.0	$ 91.7

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 8,760 highway miles or 17,747 lane miles of roads and 2,967 bridges having a total deck area of 11.4 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.

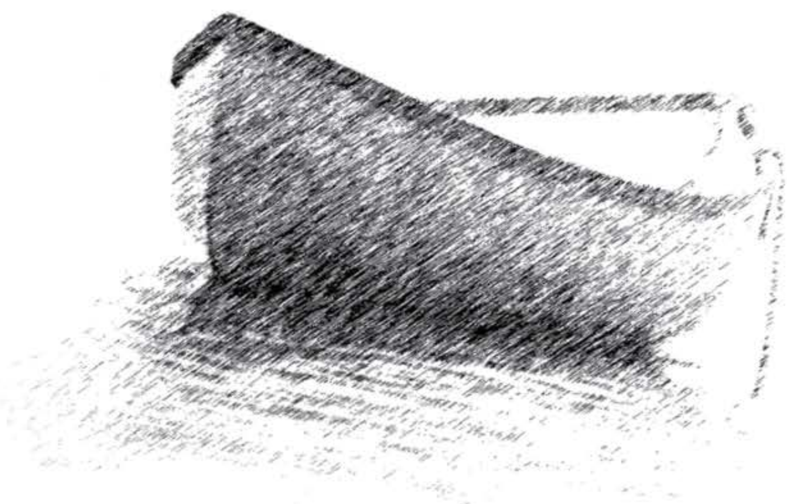
Fiscal Year	Highways	Bridges
2005	79.3	77.0
2004	78.2	77.0
2003	77.6	76.0

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
2006	$ 52	$ -
2005	31	46.1
2004	30	35.3
2003	36	34.3
2002	-	41.4
2001	-	29.4

Transportation Bonds
Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 33, P&S 2003, $22 million was spent during FY2005.

STATE OF MAINE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2005



STATE OF MAINE
DEPARTMENT OF AUDIT
66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA, CIA
DEPUTY, SINGLE AUDIT
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT AND ADMINISTRATION

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, 2005, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated December 9, 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 Child Development Services System and the Maine Educational Loan 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 will report to management of the State of Maine in a separate letter dated December 9, 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 05-01 through 05-03.

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.

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, JD, CIA
State Auditor

December 9, 2005

STATE OF MAINE
DEPARTMENT OF AUDIT

66 STATE HOUSE STATION
AUGUSTA, MAINE 04333-0066

TEL: (207) 624-6250
FAX: (207) 624-6273

NERIA R. DOUGLASS, JD, CIA
STATE AUDITOR

RICHARD H. FOOTE, CPA
DEPUTY STATE AUDITOR
CAROL A. LEHTO CPA, CIA
DEPUTY, SINGLE AUDIT
MICHAEL J. POULIN, CIA
DIRECTOR OF AUDIT AND ADMINISTRATION

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, 2005. 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, 2005. Our audit, described below, did not include the operations of these component units because the component units engaged other auditors.

Except as discussed in the following paragraph, 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 item 05-57 in the accompanying Schedule of Findings and Questioned Costs, we were unable to obtain sufficient documentation supporting the compliance of the State of Maine with Medicaid Cluster requirements regarding allowable activities, allowable costs and procurement, nor were we able to satisfy ourselves as to the State of Maine's compliance with those requirements by other auditing procedures.

As described in items 05-31 and 05-56 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with special tests and provisions requirements regarding having a functional claims management system that are applicable to its Medicaid Cluster. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with requirements applicable to this program.

As described in item 05-54 in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with requirements regarding 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 effects of such noncompliance, if any, as might have been determined had we been able to examine sufficient evidence regarding the State of Maine's compliance with the requirements of the Medicaid Cluster regarding allowable activities, allowable costs and procurement described in the third preceding paragraph, and except for the effects of the matters discussed in the two preceding paragraphs, 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, 2005. 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 05-04, 05-10, 05-15, 05-20, 05-22, 05-24, 05-27, 05-34, 05-35, 05-47, 05-53, 05-54, and 05-55.

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.

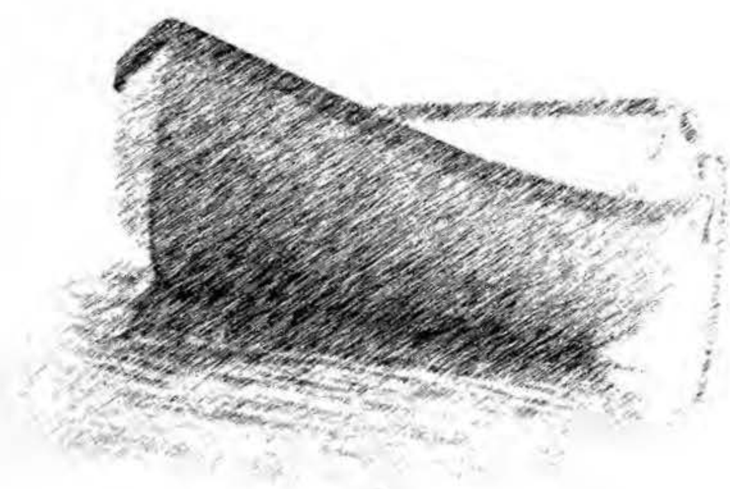
We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance 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 05-04 through 05-75.

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 05-31, 05-56, and 05-57 to be material weaknesses.

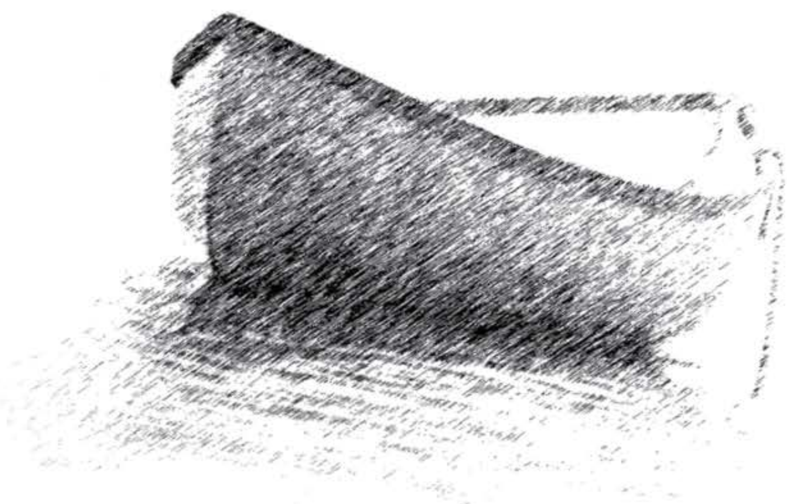
This report is intended solely for the information and use of management, the Legislature, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neria R. Douglass, JD, CIA
State Auditor

March 17, 2006



STATE OF MAINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005



STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

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	$ 455,289	
10.025	Plant & Animal Disease, Pest Control & Animal Care	Conservation	43,879	
Agricultural Marketing Service				
10.162	Inspection Grading & Standardization	Agriculture	631,353	
10.163	Market Protection and Promotion	Agriculture	73,658	
Education and Extension Service				
10.200	Grants for Agricultural Research, Special Research Grants	Agriculture	4,937	
Farm Service Agency				
10.435	State Mediation Grants	Agriculture	48,028	
Food & Nutrition Service				
10.550	Food Donation	Corrections	35,352	
10.550	Food Donation	Education	3,412,924	
10.557	Special Supplemental Nutrition Program for Women, Infants and Children	Human Services	12,423,988	**
10.558	Child and Adult Care Food Program	Human Services	9,405,704	**
10.560	State Administrative Expenses for Child Nutrition	Human Services	289,300	
10.560	State Administrative Expenses for Child Nutrition	Education	349,825	
10.570	Nutrition Services Incentive	Human Services	609,210	
10.572	WIC Farmers' Market Nutrition Program (FMNP)	Human Services	21,038	
10.574	Team Nutrition Grants	Education	113,014	
10.576	Senior Farmers Market Nutrition Program	Agriculture	802,675	
Forest Service				
10.652	Forestry Research	Conservation	524,717	
10.664	Cooperative Forestry Assistance	Conservation	1,478,519	
10.672	Rural Development, Forestry and Communities	Conservation	54,570	
10.675	Urban and Community Forestry Program	Conservation	5,187	
10.676	Forest Legacy Program	Conservation	1,522,000	
10.677	Forest Land Enhancement Program	Conservation	25,176	
10.678	Forest Stewardship Program	Conservation	57,414	
Natural Resources Conservation Service				
10.913	Farm and Ranch Lands Protection Program	Agriculture	140,000	
Cooperative State Research, Education, And Extension Service				
10.999	New England Small Farm Institute Grant	Agriculture	4,449	
Food Stamp Cluster				
Food & Nutrition Service				
10.551	Food Stamps	Human Services	156,567,780	**
10.561	State Administrative Matching Grants for Food Stamp Program	Human Services	10,751,390	**
Child Nutrition Cluster				
Food & Nutrition Service				
10.553	School Breakfast Program	Education	5,142,213	
10.555	National School Lunch Program	Education	20,378,178	
10.555	National School Lunch Program	Corrections	1,479	
10.556	Special Milk Program for Children	Education	79,338	
10.559	Summer Food Service Program for Children	Education	735,273	
Emergency Food Assistance Cluster				
Food & Nutrition Service				
10.568	Emergency Food Assistance Program (Administrative Costs)	Agriculture	216,221	
10.569	Emergency Food Assistance Program (Food Commodities)	Agriculture	2,268,619	
Total U.S. Department of Agriculture Federal Programs			**228,672,697**	
U.S. Department of Commerce				
Economic Development Administration				
11.302	Support for Planning Organizations	Economic Devel	390,918	
National Oceanic & Atmospheric Administration				
11.405	Anadromous Fish Conservation Act Program	Marine Resource	62,792	
11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource	152,194	
11.417	Sea Grant Support	Marine Resource	2,523	
11.419	Coastal Zone Management Administration Awards	State Planning	1,858,588	
11.419	Coastal Zone Management Administration Awards	Environment	671,882	
11.419	Coastal Zone Management Administration Awards	Marine Resource	228,308	
11.419	Coastal Zone Management Administration Awards	Agriculture	24,774	
11.420	Coastal Zone Management Estuarine Research Reserves	Conservation	36	
11.463	Habitat Conservation	Marine Resource	32,054	
11.472	Unallied Science Program	Salmon Comm	1,139,502	
11.472	Unallied Science Program	Marine Resource	54,789	
11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource	360,996	
National Telecommunications & Information Administration				
11.552	Technology Opportunities Program	Corrections	79,478	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
National Oceanic & Atmospheric Administration				
11.999	Escape Panel Configurations Urchin Drags Testing	Marine Resource	26,496	
11.999	Relationship Between Traps, Effort and Fishing Mortality	Marine Resource	1,964	
11.999	Kites in Shrimp Codends to Reduce Small Shrimps and Bycatch Shrimp	Marine Resource	4,692	
11.999	A Pilot Gillnet Survey of Cashes Ledge Closed Area	Marine Resource	10,616	
11.999	NMFS Joint Enforcement Agreement	Marine Resource	75,906	
11.999	Joint Enforcement Agreement	Marine Resource	631,220	
11.999	Maine Scallop Fishery Monitoring and Enhancement	Marine Resource	2,192	
11.999	State of Maine Large Whale Take Reduction Plan	Marine Resource	4,297	
11.999	Maine New Hampshire Inshore Trawl Survey	Marine Resource	62,680	
11.999	Large Whale Cooperative Management Plan	Marine Resource	47,684	
11.999	NMFS Large Pelagic Intercept Survey	Marine Resource	17,479	
11.999	Seasonal Movement of Atlantic Cod in The Gulf of Maine	Marine Resource	247,370	
11.999	GOM Abundance, Migration and Recruitment of Northern Shrimp	Marine Resource	1,733	
11.999	Improving Size Selectively for Northern Shrimp Through Nordmore Grate	Marine Resource	1,377	
11.999	Distribution and Abundance of Jonah Crabs	Marine Resource	24,164	
11.999	Cooperative Development of Jonah Crab Trap	Marine Resource	1,066	
11.999	Manipulative Trapping Experiments - Monhegan Lobster Conservative Area	Marine Resource	21,100	
11.999	Right Whale Entanglement with the Lines of Fixed Fishing Gear	Marine Resource	1,555	
11.999	Evaluation of Maine Sea Cucumbers Resources & Impacts of Exploitation	Marine Resource	31,386	
11.999	Penobscot River Restoration Project	Marine Resource	8,765	
11.999	JEA Support Atlantic Large Whale Take Reduction Plan	Marine Resource	36,624	
11.999	Develop GEO Info Atlantic Cod	Marine Resource	43,600	
11.999	Maine New Hampshire Inshore Trawl Survey	Marine Resource	184,523	
11.999	Stock Intermix. and Migrat. of Atlantic Herring in Gulf of Maine	Marine Resource	56,542	
Public Works and Economic Development Cluster				
Economic Development Administration				
11.307	Economic Adjustment Assistance	Marine Resource	54,078	
Total U.S. Department of Commerce Federal Programs			**6,657,943**	
U.S. Department of Defense				
Office of the Chief Engineers				
12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment	442,937	
Office of Naval Research				
12.300	Basic and Applied Scientific Research	Marine Resource	14,681	
National Guard Bureau				
12.400	Military Construction, National Guard	Defense	1,215,438	
12.401	National Guard Military Operations & Maintenance Projects	Defense	12,082,666	**
12.404	National Guard Civilian Youth Opportunities	Defense	208,414	
12.999	Readiness Sustainment Maintenance Center	Defense	51,610,505	**
Office of the Chief Engineers				
12.999	St. John River Basin Interim Report - Cropland Irrigation & Conservation	Agriculture	63,878	
Total U.S. Department of Defense Federal Programs			**65,638,519**	
U.S. Department of Housing & Urban Development				
Housing, Department of Housing and Urban Development				
14.171	Manufactured Home Construction and Safety Standards	Professional Reg	55,684	
Community Planning & Development				
14.228	Community Development Block Grants / State's Program	Economic Devel	18,837,354	**
14.238	Shelter Plus Care	Human Services	3,042,691	
Office of Fair Housing and Equal Opportunity				
14.401	Fair Housing Assistance Program: State and Local	Human Rights	81,423	
Total U.S. Department of Housing & Urban Development Federal Programs			**22,017,152**	
U.S. Department of the Interior				
U.S. Fish & Wildlife Service				
15.615	Cooperative Endangered Species Conservation Fund	Inland Fisheries	71,816	
15.616	Clean Vessel Act	Environment	98,879	
15.617	Wildlife Conservation and Appreciation Fund	Inland Fisheries	8,857	
15.622	Sportfishing and Boating Safety Act	Transportation	144,730	
15.623	North American Wetlands Conservation Act	Inland Fisheries	203,133	
15.625	Wildlife Conservation and Restoration	Inland Fisheries	890,391	
15.633	Landowner Incentive	Inland Fisheries	171,123	
Geological Survey				
15.808	U. S. Geological Survey: Research and Data Collection	Financial Serv	27,000	
15.808	U. S. Geological Survey: Research and Data Collection	Conservation	11,623	
15.809	Nat'l Spatial Data Infrastructure Cooperative Agreements Program	Financial Serv	86,283	
15.810	Nat'l Cooperative Geologic Mapping Program	Conservation	115,912	

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures
National Park Service			
15.904	Historic Preservation Fund Grants-in-Aid	Historic Preserve	525,049
15.916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	1,095,069
15.916	Outdoor Recreation: Acquisition, Development, & Planning	Transportation	91,036
U.S. Fish & Wildlife Service			
15.999	Atlantic Salmon Management Project	Salmon Comm	211,712
15.999	Flag Island Cooperative Agreement	Inland Fisheries	2,742
Fish and Wildlife Cluster			
U.S. Fish & Wildlife Service			
15.605	Sport Fish Restoration	Marine Resource	503,665
15.605	Sport Fish Restoration	Inland Fisheries	1,885,251
15.611	Wildlife Restoration	Inland Fisheries	1,806,715
Total U.S. Department of the Interior Federal Programs			**7,950,986**
U.S. Department of Justice			
Drug Enforcement Administration			
16.005	Public Education on Drug Abuse: Information	Public Safety	56,323
Office of Justice Programs			
16.202	Offender Reentry Program	Corrections	324,390
16.523	Juvenile Accountability Incentive Block Grants	Corrections	804,018
16.523	Juvenile Accountability Incentive Block Grants	Judicial	463,041
16.523	Juvenile Accountability Incentive Block Grants	Human Services	230,533
16.540	Juvenile Justice & Delinquency Prevention-Allocation to States	Corrections	776,450
16.548	Title V-Delinquency Prevention Program	Corrections	336,375
16.549	Part E-State Challenge Activities	Corrections	89,720
Bureau of Justice Statistics			
16.550	State Justice Statistics Program for Statistical Analysis Centers	Corrections	52,652
Office of Justice Programs			
16.554	National Criminal History Improvement Program	Public Safety	7,375
16.560	Nat'l Inst of Justice Research Evaluation and Development Project Grants	Public Safety	91,351
16.564	Crime Lab: Comb. Offender DNA Index System Backlog Reduction	Public Safety	386,945
16.575	Crime Victim Assistance	Human Services	1,942,935
16.576	Crime Victim Compensation	Attorney General	142,898
16.579	Byrne Formula Grant Program	Public Safety	2,051,859
16.579	Byrne Formula Grant Program	Corrections	201,093
16.579	Byrne Formula Grant Program	Attorney General	599,469
16.579	Byrne Formula Grant Program	Judicial	24,388
16.580	Byrne Memorial Law Enforcement Assistance Discretionary Grants	Human Services	194,611
16.582	Crime Victim Assistance/Discretionary Grants	Public Safety	37,855
16.585	Drug Court Discretionary Grant Program	Judicial	27,081
16.585	Drug Court Discretionary Grant Program	Human Services	99,590
16.588	Violence Against Women Formula Grants	Public Safety	916,566
16.588	Violence Against Women Formula Grants	Attorney General	65,089
16.588	Violence Against Women Formula Grants	Judicial	46,231
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Judicial	372,235
16.592	Local Law Enforcement Block Grants Program	Public Safety	410,099
16.593	Residential Substance Abuse Treatment for State Prisoners	Public Safety	949
16.593	Residential Substance Abuse Treatment for State Prisoners	Corrections	157,281
16.606	State Criminal Alien Assistance Program	Corrections	36,261
16.607	Bulletproof Vest Partnership Program	Financial Serv	5,803
16.609	Community Prosecution and Project Safe Neighborhoods	Public Safety	187,378
Office of Community Oriented Policing Services			
16.710	Public Safety Partnership and Community Policing Grants	Public Safety	463,177
Office of Juvenile Justice & Delinquency Prevention			
16.727	Enforcing Underage Drinking Laws Program	Human Services	250,984
16.730	Reduction and Prevention of Children's Exposure to Violence	Human Services	489,026
16.999	Healthy Partners of Maine	Public Safety	5,173
Pass Through Federal Programs			
Office of Justice Programs			
16.579	Byrne Formula Grant Program	Corrections	17,512
(through Cumberland County, Maine)			
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Corrections	65,886
(through Cumberland County, Maine)			
16.590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Corrections	59,024
(through York County, Maine)			
Total U.S. Department of Justice Federal Programs			**12,489,626**

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
U.S. Department of Labor				
Bureau of Labor Statistics				
17.002	Labor Force Statistics	Labor	1,240,640	
17.005	Compensation and Working Conditions	Labor	66,657	
Employment & Training Administration				
17.202	Certification of Foreign Workers for Temporary Agricultural Employment	Labor	308,901	
17.225	Unemployment Insurance	Labor	130,579,691	**
17.235	Senior Community Service Employment Program	Human Services	453,261	
17.245	Trade Adjustment Assistance: Workers	Labor	13,332,217	**
17.261	Employment and Training Admin Pilots, Demos and Research Projects	Labor	65,629	
17.266	Work Incentives Grant	Labor	8,934	
17.267	WIA Incentive Grants, Section 503 Grants to States	Labor	44,406	
Occupational Safety & Health Administration				
17.502	Occupational Safety and Health: Susan Harwood Training Grants	Labor	3,353	
17.504	Consultation Agreements	Labor	672,470	
Mine Safety & Health Administration				
17.600	Mine Health and Safety Grants	Labor	49,041	
Office of the Asst Secretary for Veterans' Employment & Training				
17.802	Veterans' Employment Program	Labor	695,423	
17.805	Homeless Veterans Reintegration Project	Labor	173,000	
Employment Service Cluster				
Employment & Training Administration				
17.207	Employment Service	Labor	4,663,436	
17.801	Disabled Veterans' Outreach Program (DVOP)	Labor	490,631	
17.804	Local Veterans' Employment Representative Program	Labor	337,342	
WIA Cluster				
Employment & Training Administration				
17.258	WIA Adult Program	Labor	2,411,437	**
17.259	WIA Youth Activities	Labor	2,539,785	**
17.260	WIA Dislocated Workers	Labor	10,038,902	**
Total U.S. Department of Labor Federal Programs			**168,175,156**	
U.S. Department of Transportation				
Federal Aviation Administration				
20.106	Airport Improvement Program	Transportation	2,765,392	
Federal Motor Carrier Safety Administration				
20.217	Motor Carrier Safety	Public Safety	141,868	
20.218	National Motor Carrier Safety	State	155,625	
20.218	National Motor Carrier Safety	Financial Serv	1,730	
Federal Highway Administration				
20.219	Recreational Trails Program	Conservation	596,531	
Federal Transit Administration				
20.505	Federal Transit: Metropolitan Planning Grants	Transportation	281,387	
20.509	Formula Grants for Other Than Urbanized Areas	Transportation	2,608,876	
20.513	Capital Assistance Program for Elderly Persons & Persons w/Disabilities	Transportation	324,610	
20.514	Transit Planning and Research	Transportation	295,577	
Pipeline and Hazardous Materials Safety Administration				
20.700	Pipeline Safety	Public Utilities	139,846	
20.703	Interagency Hazardous Materials Pub Sector Train & Plan Grant	Defense	9,846	
Federal Rail Administration				
20.999	Local Freight Assistance	Transportation	22,891	
Highway Planning and Construction Cluster				
Federal Highway Administration				
20.205	Highway Planning and Construction	Transportation	181,623,028	**
Federal Transit Cluster				
Federal Transit Administration				
20.500	Federal Transit: Capital Investment Grants	Transportation	384,092	
20.507	Federal Transit: Formula Grants	Transportation	2,075,783	
Highway Safety Cluster				
National Highway Traffic Safety Administration				
20.600	State and Community Highway Safety	Human Services	168,248	
20.600	State & Community Highway Safety	Public Safety	820,910	
20.603	Federal Highway Safety Data Improvements Incentive Grants	Public Safety	46,550	
20.604	Safety Incentive Grants for Use of Seatbelts	Public Safety	250,986	
20.605	Prevent Operation of Motor Vehicles by Intoxicated Persons	Public Safety	182,622	
Total U.S. Department of Transportation Federal Programs			**192,896,398**	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
U. S. Department of Treasury				
21.999	CMIA Administration	Treasurer	42,263	
Total U. S. Department of Treasury Federal Programs			**42,263**	
Equal Employment Opportunity Commission				
30.002	Employment Discrimination: Fair Employment Practices Agency Contracts	Human Rights	247,370	
Total Equal Employment Opportunity Commission Federal Programs			**247,370**	
General Services Administration				
Office of the Secretary				
39.003	Donation of Federal Surplus Personal Property	Financial Serv	1,715,516	
39.011	Election Reform Payments	State	1,051,525	
Total General Service Administration Federal Programs			**2,767,041**	
National Foundation on the Arts & the Humanities				
National Endowment for the Arts				
45.024	Promotion of the Arts: Grants to Organizations and Individuals	Museum	52,094	
45.025	Promotion of the Arts: Partnership Agreements	Arts	606,534	
45.026	Promotion of the Arts: Leadership Initiatives	Arts	20,000	
45.149	Promotion of the Humanities: Division of Preservation & Access	Museum	53,000	
45.164	Promotion of the Humanities: Public Programs	Museum	70,498	
Institute of Museum & Library Services				
45.310	State Library Program	Library	1,079,984	
Total National Foundation on the Arts & the Humanities Federal Programs			**1,882,110**	
U.S. Department of Veterans Affairs				
Veterans Benefits Administration				
64.101	Burial Expenses Allowance for Veterans	Defense	190,986	
National Cemetery Administration				
64.203	State Cemetery Grants	Defense	5,780	
Total U.S. Department of Veterans Affairs Federal Programs			**196,766**	
U.S. Environmental Protection Agency				
Office of Air & Radiation				
66.032	State Indoor Radon Grants	Human Services	156,773	
66.034	Surveys, Studies, Investigations, Demonstrations: Clean Air Act	Environment	398,600	
Office of Water				
66.432	State Public Water System Supervision	Human Services	884,755	
66.436	Surveys, Studies, Investigations, Demonstrations: Clean Water Act	Environment	79,824	
66.454	Water Quality Management Planning	Environment	148,279	
66.461	Regional Wetland Program Grants	Environment	10,125	
66.461	Regional Wetland Program Grants	State Planning	10,074	
66.463	Water Quality Cooperative Agreements	Environment	38,239	
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	Environment	51,192	
66.468	Capitalization Grants For Drinking Water State Revolving Funds	Human Services	74,008	
66.472	Beach Monitoring & Notification Program Implementation Grants	State Planning	269,497	
Office of Administration				
66.500	Environmental Protection Consolidated Research	Conservation	77,017	
66.605	Performance Partnership Grants	Environment	7,478,708	**
66.605	Performance Partnership Grants	Agriculture	528,865	**
66.606	Surveys, Studies, Investigations and Special Purpose Grants	Environment	265,491	
Office of Environmental Information				
66.608	Environmental Info Exchange Network Grant Program & Related Assist.	Environment	105,700	
66.611	Environmental Policy and Innovation Grants	Environment	33,006	
Office of Prevention, Pesticides, Toxic Substances				
66.707	TSCA Title IV State Lead Grants: Cert of Lead-Based Paint Professionals	Environment	25,000	
Office of Enforcement & Compliance Assurance				
66.709	Multi-Media Capacity Bldg. Grants & Coop. Agree. for States & Tribes	Environment	64,977	
Office of Solid Waste & Emergency Response				
66.802	Superfund State: Specific Cooperative Agreements	Environment	219,325	
66.804	State and Tribal Underground Storage Tanks Program	Environment	8,607	
66.805	Leaking Underground Storage Tank Trust Fund Program	Environment	695,482	
66.809	Superfund State: Core Program Cooperative Agreements	Environment	215,130	
66.810	CEPP Technical Assistance Grants Program	Defense	2,269	
66.817	State and Tribal Response Program Grants	Environment	1,145,723	

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
Office of Water				
66.999	Water Pollution Control: State and Local Manpower Development	Environment	291	
Total U.S. Environmental Protection Agency Federal Programs			**12,986,957**	
Nuclear Regulatory Commission				
77.001	Radiation Control: Training Assistance and Advisory Counseling	Human Services	230,347	
Total Nuclear Regulatory Commission Federal Programs			**230,347**	
U.S. Department of Energy				
Office of Energy Efficiency & Renewable Energy				
81.041	State Energy Program	Public Utilities	402,746	
81.117	Energy Efficiency & Renew. Energy Info , Dissem., Outreach, Train & Tech. .	Public Utilities	33,602	
81.119	State Energy Program Special Projects	Public Utilities	235,195	
81.999	State Housing Oil and Propane Program	State Planning	7,346	
Total U.S. Department of Energy Federal Programs			**678,889**	
Federal Emergency Management Agency				
Mitigation Directorate				
83.105	Community Assistance Program: State Support Services Element	State Planning	29,463	
Response & Recovery Directorate				
83.544	Public Assistance Grants	State Planning	188,240	
Total Federal Emergency Management Agency Federal Programs			**217,703**	
U.S. Department of Education				
Office of Vocational & Adult Education				
84.002	Adult Education_State Grant Program	Education	2,015,598	
84.002	Adult Education_State Grant Program	Corrections	31,053	
Office of Elementary & Secondary Education				
84.010	Title I Grants to Local Educational Agencies	Education	44,289,551	**
84.011	Migrant Education: State Grant Program	Education	463,201	
84.013	Title I Program for Neglected and Delinquent Children	Corrections	232,842	
Office of Assistant Secretary for Vocational & Adult Education				
84.048	Vocational Education_Basic Grants to States	Education	5,644,322	
84.048	Vocational Education_Basic Grants to States	Corrections	47,880	
Office of Special Education & Rehabilitative Services				
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	Labor	14,982,972	**
84.161	Rehabilitation Services: Client Assistance Program	Labor	91,844	
84.169	Independent Living: State Grants	Labor	70,933	
84.177	Independent Living Services for Older Individuals Who are Blind	Labor	89,034	
84.181	Special Education: Grants for Infants and Families with Disabilities	Education	2,125,559	
Office of Safe and Drug-Free Schools				
84.184	Safe and Drug-Free Schools and Community: National Programs	Education	223,950	
84.184	Safe and Drug-Free Schools and Community: National Programs	Human Services	157,634	
Office of the Assistant Secretary for Postsecondary Education				
84.185	Byrd Honors Scholarships	Education	156,270	
Office of Elementary & Secondary Education				
84.186	Safe and Drug-Free Schools and Community: State Grants	Education	39,916	
84.186	Safe and Drug-Free Schools and Community: State Grants	Human Services	2,090,670	
84.186	Safe and Drug-Free Schools and Community: State Grants	Corrections	4,792	
Office of Special Education & Rehabilitative Services				
84.187	Supported Employment Services for Individuals with Severe Disabilities	Labor	165,431	
Office of Elementary & Secondary Education				
84.196	Education for Homeless Children and Youth	Education	219,574	
84.213	Even Start: State Educational Agencies	Education	1,349,527	
84.215	Fund for the Improvement of Education	Education	103,562	
Office of Special Education & Rehabilitative Services				
84.224	Assistive Technology	Education	409,406	
Office of Vocational & Adult Education				
84.243	Tech-Prep Education	Education	533,325	
Office of Safe and Drug-Free Schools				
84.255	Literacy Program for Prisoners	Corrections	155,884	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
Office of Special Education & Rehabilitative Services				
84.265	State Vocational Rehabilitation Unit In-Service Training	Labor	50,055	
Office of Elementary & Secondary Education				
84.287	Twenty First Century Community Learning Centers	Education	4,541,455	**
84.298	State Grants for Innovative Programs	Education	1,550,965	
84.318	Education Technology State Grants	Education	4,135,988	
84.318	Education Technology State Grants	Corrections	34,859	
84.323	Special Ed: State Personnel Development	Education	633,820	
84.326	Tech. Asst. to Improve Services. & Results for Children w/ Disabilities	Education	264,968	
84.330	Advanced Placement Program	Education	748,531	
Office of Vocational & Adult Education				
84.331	Grants to States for Incarcerated Youth Offenders	Corrections	31,297	
Office of Elementary & Secondary Education				
84.332	Comprehensive School Reform Demonstration	Education	660,446	
Office of the Asst Sec for Postsecondary Education, Higher Education Programs				
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	Education	4,481,814	
84.336	Teacher Quality Enhancement Grants	Education	295,541	
Office of Vocational & Adult Education				
84.346	Voc Ed: Occupational and Employment Information State Grants	Labor	133,030	
Office of Elementary & Secondary Education				
84.352	School Renovations Grants	Education	299,960	
84.357	Reading First State Grants	Education	1,974,037	
84.358	Rural Education	Education	2,146,448	
84.358	Rural Education	Corrections	10,757	
84.365	English Language Acquisition Grants	Education	480,040	
84.366	Mathematics & Science Partnerships	Education	4,937	
84.367	Improving Teacher Quality State Grants	Education	13,235,512	**
84.367	Improving Teacher Quality State Grants	Corrections	29,277	**
84.369	Grants for State Assessments and Related Activities	Education	5,057,901	
84.999	Eisenhower Professional Development State Grants	Education	150	
Special Education Cluster				
Office of Special Education & Rehabilitative Services				
84.027	Special Education: Grants to States	Education	47,027,050	**
84.027	Special Education: Grants to States	Corrections	50,624	**
84.173	Special Education: Preschool Grants	Education	3,455,142	**
Total U.S. Department of Education Federal Programs			**167,029,334**	
National Archives & Records Administration				
89.003	National Historical Publications and Records Grants	State	84,809	
Total National Archives & Records Administration			**84,809**	
U.S. Department of Health & Human Services				
Administration on Aging				
93.003	Public Health and Social Services Emergency Fund	Public Safety	15,679	
93.003	Public Health and Social Services Emergency Fund	Defense	97,978	
93.041	Title VII, Programs for Prevention of Elder Abuse, Neglect and Exploitation	Human Services	17,011	
93.042	Title VII, Long Term Care Ombudsman Services for Older Individuals	Human Services	70,575	
93.043	Title III, Part D -Disease Prevention and Health Promotion Services	Human Services	108,290	
93.048	Special Programs for the Aging-Title IV and Title II-Discretionary Projects	Human Services	370,952	
93.051	Alzheimer's Disease Demonstration Grants to States	Human Services	310,658	
93.052	National Family Caregiver Support	Human Services	684,652	
Health Resources & Services Administration				
93.110	Maternal and Child Health Federal Consolidated Programs	Human Services	442,443	
93.110	Maternal and Child Health Federal Consolidated Programs	Health Data	15,094	
Centers for Disease Control & Prevention				
93.116	Project Grants and Coop. Ag. for Tuberculosis Control Programs	Human Services	131,726	
Administration for Children & Families				
93.127	Emergency Medical Services for Children	Public Safety	92,850	
Health Resources & Services Administration				
93.130	Primary Care Services: Resource Coord & Development	Human Services	171,543	
Substance Abuse & Mental Health Service Administration				
93.150	Projects for Assistance in Transition from Homelessness	Human Services	269,500	
Health Resources & Services Administration				
93.165	Grants for State for Loan Repayment Program	Human Services	179,780	
Centers for Disease Control & Prevention				
93.197	Childhood Lead Poisoning Prevention Project (CLPPP)	Human Services	293,847	
Substance Abuse & Mental Health Service Administration				
93.230	Consolidated Knowledge Development and Application Program	Corrections	565	
93.230	Consolidated Knowledge Development and Application Program	Human Services	3,585,659	
Health Resources & Services Administration				
93.235	Abstinence Education Program	Human Services	204,373	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

Federal Department / Major Sub-Division / Federal Catalog Number	Program Title	State Agency	Expenditures	
Substance Abuse & Mental Health Service Administration				
93.238	Coop. Agreements for State Treatment Outcomes & Perf. Pilot Studies	Human Services	307,618	
Health Resources & Services Administration				
93.241	State Rural Hospital Flexibility Program	Human Services	351,936	
National Institutes of Health				
93.242	Mental Health Research Grants	Human Services	63,530	
Substance Abuse & Mental Health Service Administration				
93.243	Projects of Regional & National Significance	Judicial	323,721	
93.243	Projects of Regional & National Significance	Human Services	331,006	
Health Resources & Services Administration				
93.259	Rural Access to Emergency Devices Grant	Public Safety	215,540	
Centers for Disease Control & Prevention				
93.268	Immunization Grants	Human Services	2,190,948	**
93.268	Immunization Grants	Human Services	7,628,052	**
93.283	Centers for Disease Control and Prevention: Investigations and Tech	Human Services	4,875,805	
93.283	Centers for Disease Control and Prevention: Investigations and Tech	Conservation	4,363	
Administration for Children & Families				
93.556	Promoting Safe and Stable Families	Human Services	949,794	
93.556	Promoting Safe and Stable Families	Corrections	145,000	
93.558	Temporary Assistance for Needy Families	Human Services	75,960,121	**
93.563	Child Support Enforcement	Human Services	16,723,623	**
93.566	Refugee and Entrant Assistance: State Administered Programs	Human Services	430,984	
93.569	Community Services Block Grant	Human Services	3,336,563	
93.576	Refugee and Entrant Assistance: Discretionary Grants	Education	109,797	
93.586	State Court Improvement Program	Judicial	69,366	
93.597	Grants to States for Access and Visitation Programs	Judicial	125,708	
93.600	Head Start	Human Services	124,813	
93.603	Adoption Incentive Payments	Human Services	15,565	
93.617	Voting Access for Individuals with Disabilities_Grants to States	State	50,768	
93.630	Development Disabilities Basic Support and Advocacy Grants	Human Services	472,080	
93.643	Children's Justice Grants to States	Human Services	159,891	
93.645	Child Welfare Services: State Grants	Human Services	128,539	
93.645	Child Welfare Services: State Grants	Attorney General	906,136	
93.658	Foster Care: Title IV-E	Human Services	12,224,484	**
93.659	Adoption Assistance	Human Services	13,793,286	**
93.667	Social Services Block Grant	Human Services	14,486,485	**
93.669	Child Abuse and Neglect State Grants	Human Services	284,398	
93.669	Child Abuse and Neglect State Grants	Judicial	47,753	
93.671	Family Violence Prev & Service: Grants for Battered Women's Shelters	Human Services	292,658	
93.674	Chafee Foster Care Independence Program	Human Services	975,519	
Centers for Medicare and Medicaid Services				
93.767	State Children's Insurance Program	Human Services	21,812,950	
93.767	State Children's Insurance Program	Governor	66,087	
93.768	Grants To Support the Competitive Employment of People with Disabilities	Human Services	276,541	
93.779	CMS Research, Demonstrations and Evaluations	Human Services	562,564	
93.779	CMS Research, Demonstrations and Evaluations	Governor	243,091	
Health Resources & Services Administration				
93.913	Grants to States for Operation of Offices of Rural Health	Human Services	83,640	
93.913	Grants to States for Operation of Offices of Rural Health	Public Safety	23,334	
93.917	HIV Care Formula Grants	Human Services	1,336,064	
Centers for Disease Control & Prevention				
93.919	State Based Comp. Breast & Cervical Cancer Early Detection Programs	Human Services	1,444,895	
93.938	Comprehensive School Health Programs	Education	575,643	
93.940	HIV Prevention Activities: Health Department Based	Human Services	1,566,947	
93.944	HIV/AIDS Surveillance	Human Services	133,090	
93.945	Assistance Programs for Chronic Disease Prevention and Control	Human Services	1,142,829	
Health Resources & Services Administration				
93.952	Trauma Care Systems Planning & Development	Public Safety	16,979	
Substance Abuse & Mental Health Service Administration				
93.958	Block Grants for Community Mental Health Services	Human Services	1,764,005	
93.959	Block Grants for Prevention and Treatment of Substance Abuse	Human Services	6,537,278	
Centers for Disease Control & Prevention				
93.977	Prevention Health Svcs: Sexually Transmitted Diseases Control Grants	Human Services	402,016	
93.988	Diabetes Control Programs & Evaluation of Surveillance Systems	Human Services	327,712	
93.991	Preventive Health and Health Services Block Grant	Human Services	1,020,794	
Health Resources & Services Administration				
93.994	Maternal and Child Health Services Block Grant to the States	Human Services	3,081,467	
Health & Human Services				
93.999	Implementation of Uniform Alcohol & Drug Abuse Data Collection System	Human Services	56,346	
93.999	Federal Block Grant Fund - Office of Substance Abuse	Human Services	25,965	
93.999	Statistics Project	Human Services	393,486	
Aging Cluster				
Administration on Aging				
93.044	Title III, Part B Grants for Supportive Services & Senior Centers	Human Services	2,006,521	
93.045	Special Programs for the Aging: Title III, Part C: Nutrition Service	Human Services	2,760,604	

STATE OF MAINE
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

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	17,130,221	**
93.596	Child Care Mandatory & Match. Funds of Child Care & Development Fund	Human Services	8,511,159	**
Medicaid Cluster				
Office of the Secretary				
93.775	State Medicaid Fraud Control Units	Attorney General	386,242	**
Centers for Medicare and Medicaid Services				
93.777	State Survey and Certification of Health Care Providers and Suppliers	Human Services	586,109	**
93.778	Medical Assistance Program	Attorney General	231,460	**
93.778	Medical Assistance Program	Human Services	1,511,002,155	**
Total U.S. Department of Health & Human Services Federal Programs			**1,750,677,219**	
Corporation for National & Community Service				
94.003	State Commissions	State Planning	169,296	
94.004	Learn and Serve America: School and Community Based Programs	Education	446,770	
94.006	AmeriCorps	State Planning	615,903	
94.006	AmeriCorps	Labor	148,823	
94.007	Planning and Program Development Grants	State Planning	32,571	
94.009	Training and Technical Assistance	State Planning	97,400	
94.013	Volunteers in Service to America	Human Services	63,025	
94.013	Volunteers in Service to America	State Planning	305,143	
Total Corporation for National & Community Service Federal Programs			**1,878,931**	
Social Security Administration				
Disability Insurance/SSI Cluster				
Social Security				
96.001	Social Security: Disability Insurance	Human Services	7,874,204	
Total Social Security Administration Federal Programs			**7,874,204**	
Department of Homeland Security				
97.004	Homeland Security Grant Program	Defense	14,232,251	**
97.004	Homeland Security Grant Program	Public Safety	1,174,654	**
97.004	Homeland Security Grant Program	Inland Fisheries	153,731	**
97.004	Homeland Security Grant Program	Transportation	58,356	**
97.004	Homeland Security Grant Program	Financial Serv	316,467	**
97.004	Homeland Security Grant Program	Marine Resource	389,878	**
97.004	Homeland Security Grant Program	Labor	18,000	**
97.012	Boating Safety Financial Assistance	Inland Fisheries	512,932	
97.021	Hazardous Materials Assistance Program	Defense	10,263	
97.023	Community Assistance Program - State Support Services Element	State Planning	181,973	
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Defense	5,148,539	
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Corrections	9,734	
97.036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Inland Fisheries	69,375	
97.039	Hazard Mitigation Grant	Defense	359,556	
97.041	National Dam Safety Program	Defense	20,411	
97.042	Emergency Management Performance Grants	Defense	1,891,441	
97.047	Pre-Disaster Mitigation	Defense	75,429	
97.051	State and Local All Hazards Emergency Operations Planning	Defense	245,545	
97.052	Emergency Operations Centers	Defense	150,698	
97.053	Citizen Corps	Defense	110,430	
97.070	MAP Modernization Management Support (MMMS)	State Planning	34,716	
Total Department of Homeland Security Federal Programs			**25,164,379**	
Total State Expenditures of Federal Awards			**$ 2,676,456,799**	

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2005

Legend of State Agency Abbreviations

Abbreviation	**State Agency Name**
Agriculture	Department of Agriculture
Arts	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 Serv	Department of Administrative and Financial Services
Governor	Governor's Office
Health Data	Maine 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
Library	Maine State Library
Marine Resource	Department of Marine Resources
Museum	Maine State Museum
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
Planning	State Planning Office
Transportation	Department of Transportation
Treasurer	Office of the State Treasurer

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2005

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 aggregated by federal agency; direct and pass-through amounts are reported by primary recipient to prevent overstatement of expenditures of federal awards. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations requires the Schedule.

2. Significant Accounting Policies

A. *Reporting Entity* - The reporting entity is defined in Note 1 to the BFS. The accompanying Schedule includes all federal financial assistance programs of the State of Maine reporting entity for the fiscal year ended June 30, 2005, 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 $8.03 million in expenditures, distributions, or issuances for the year ended June 30, 2005. 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 $3,412,924 value of food commodities distributed to various schools, institutions, and other qualifying entities. Inventory on hand at June 30, 2005 was $2,479.

B. Department of Corrections - Food Donation Program (CFDA 10.550): The reported total of federal financial assistance represents the $35,352 value of food commodities distributed to various correctional facilities. Inventory on hand at June 30, 2005 was $1,152.

C. 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). The reported total federal financial assistance of $156,567,780 consists of actual disbursements for client purchases of authorized food products via the EBT card program.

D. Department of Agriculture - Emergency Food Assistance Cluster - The reported total of federal financial assistance includes administrative costs of $216,221 (CFDA 10.568) and commodities of $2,268,619 (CFDA 10.569). The value of inventory at June 30, 2005 was $364,546.

E. Department of Health and Human Services - Nutrition Services Incentive (CFDA 10.570): Of the amount reported, $609,210 represents cash in lieu of commodities expended in the program.

F. Department of Defense, Veterans and Emergency Management - National Guard Military Operations & Maintenance Projects (CFDA 12.401), and Readiness Sustainment Maintenance Center Projects (CFDA 12.999): Amounts recorded as expenditures includes $1,427,447, and $8,059,880 of in-kind expenditures, respectively.

G. General Service Administration – Donation of Federal Surplus Property (CFDA 39.003): During fiscal year 2005, the state received $1,585,598 worth of federal property and disbursed $1,715,516. The value of inventory at June 30, 2005 was $440,662.

H. Department of Health and Human Services –Immunization Grants (CFDA 93.268): The reported total of federal financial assistance represents $2,190,948 for administrative costs and $7,628,052 for the value of vaccines disbursed. The value of inventory as of June 30, 2005 was $771,428.

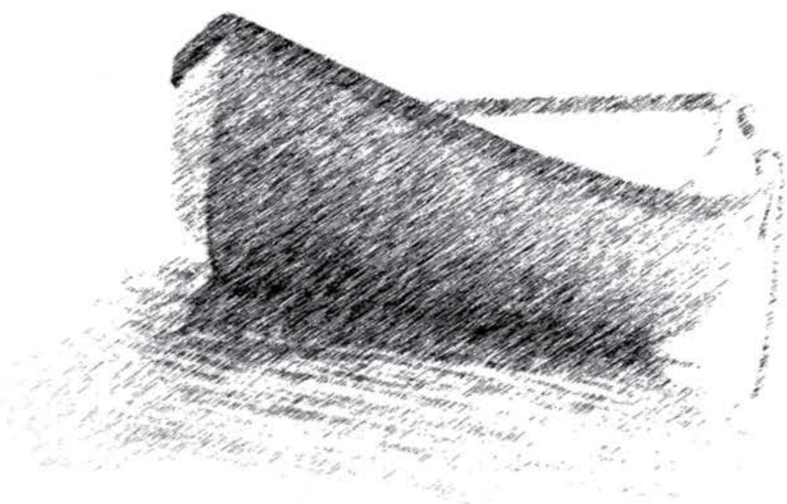
I. Department of Health and Human Services –Temporary Assistance for Needy Families (CFDA 93.558): The amount reported as expenditures includes $4,209,000 of prior grant award balances included as FY05 expenditures on the fund-level (modified accrual basis) financial statements.

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

4. Unemployment Insurance Program

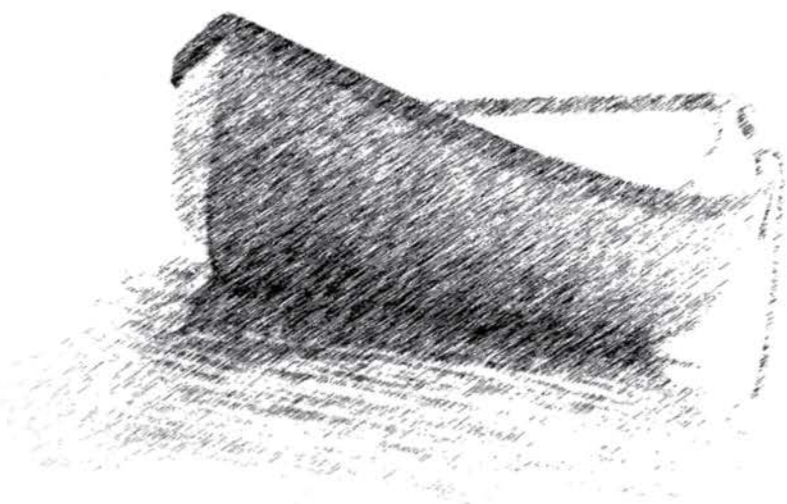
The expenditures reported on the Schedule for Unemployment Insurance (CFDA 17.225) include:

State Funds	$113,641,691
Federal Funds	16,938,000
Total	$130,579,691



STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

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
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

Identification of Major Programs (continued)

Special Education Cluster

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

Child Care Cluster

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

Medicaid Cluster

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

Other Programs

10.557	Special Supplemental Nutrition Program for Women Infants and Children
10.558	Child and Adult Care Food Program
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
66.605	Performance Partnership Grants
84.010	Title I Grants to Local Educational Agencies
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.287	Twenty-First Century Community Learning Centers
84.367	Improving Teacher Quality State Grants
93.268	Immunization Grants
93.558	Temporary Assistance for Needy Families
93.563	Child Support Enforcement
93.658	Foster Care – Title IV-E
93.659	Adoption Assistance
93.667	Social Services Block Grant
97.004	Homeland Security Grant Program

Dollar threshold used to distinguish between type A and type B programs: $8,029,370

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

Section I – Summary of Auditor's Results

Summary of Questioned Costs:

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Agriculture				
• Department of Administrative and Financial Services, Health and Human Services Service Center	10.561	State Administrative Matching Grants for the Food Stamp Program	$1,277,640	05-04
U.S. Department of Education				
• Department of Administrative and Financial Services, General Government Service Center A	84.027	Special Education: Grants to States	$66,838	05-10
U.S. Department of Health and Human Services				
• Department of Administrative and Financial Services, Health and Human Services Service Center	93.268	Immunization Grants	$80,887	05-15
• Department of Health and Human Services, Maine Center for Disease Control and Prevention	93.268	Immunization Grants	$427,504	05-47
U.S. Department of Health and Human Services				
Department of Administrative and Financial Services, Health and Human Services Service Center	93.558	Temporary Assistance for Needy Families	$274,487	05-35

Section I – Summary of Auditor's Results

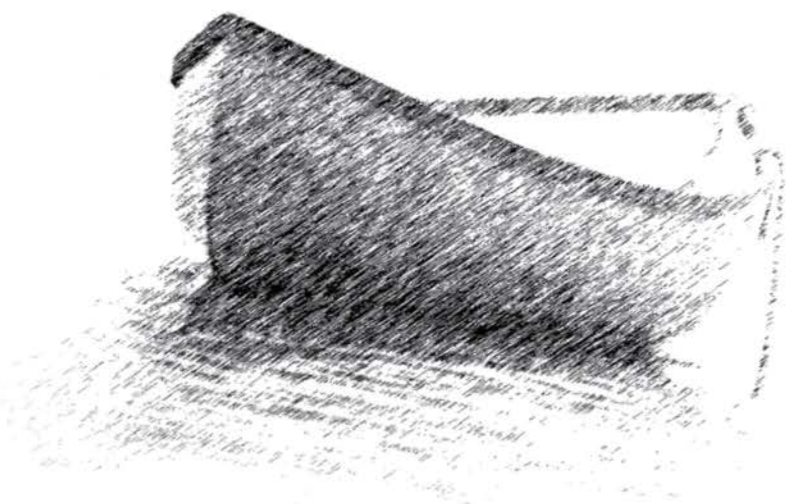
Summary of Questioned Costs (continued):

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Health and Human Services • Department of Administrative and Financial Services, Health and Human Services Service Center	93.563	Child Support Enforcement	$569,102 $49,431 $47,924	05-20 05-22 05-24
U.S. Department of Health and Human Services • Department of Administrative and Financial Services, Health and Human Services Service Center	93.568	Foster Care	$186,313	05-27
U.S. Department of Health and Human Services • Department of Administrative and Financial Services, Health and Human Services Service Center	93.659	Adoption Assistance	$121,069	05-27
• Department of Health and Human Services, Office of Child and Family Services	93.659	Adoption Assistance	$13,944	05-53

Section I – Summary of Auditor's Results

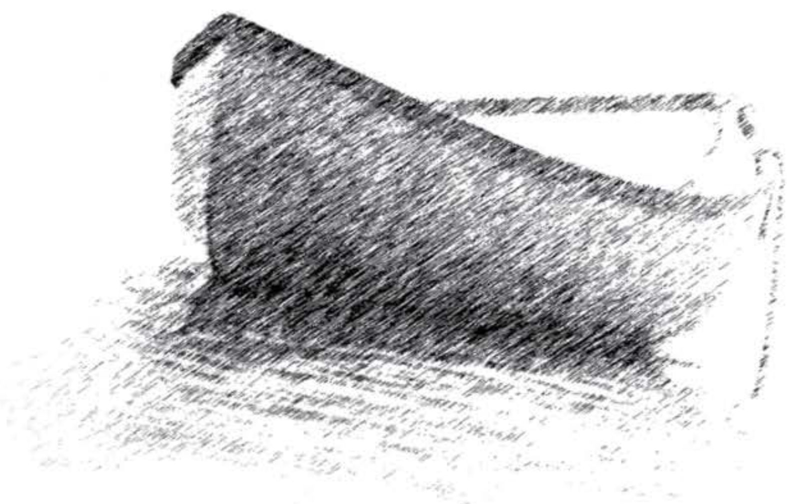
Summary of Questioned Costs (continued):

Federal Grantor/ State Agency	CFDA No.	Federal Program	Questioned Costs	Finding No.
U.S. Department of Health and Human Services				
• Department of Administrative and Financial Services, Health and Human Services Service Center	93.667	Social Services Block Grant	$791,095	05-35
• Department of Health and Human Services, Office of Child and Family Services	93.667	Social Services Block Grant	$3,100,000	05-54
U.S. Department of Health and Human Services				
• Department of Health and Human Services, Office of Child and Family Services	93.778	Medical Assistance Program	$6,258	05-55
U.S. Department of Health and Human Services				
• Department of Administrative and Services, Office of Information Technology	Various	Various	$1,170,000	05-34
		Total Questioned Costs	**$8,182,492**	



STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Section II – Financial Statement Findings



State of Maine
Department of Administrative and Financial Services

Finding: (05-01)

Prior Year Finding: 04-01
Bureau: Office of the State Controller (OSC)

Finding Type: Internal control

Criteria: State's fixed assets internal control policies and financial reporting standards (GASB 34)

Condition: Controls were not in place to ensure that capital assets were properly reported. For example:

- The OSC did not sufficiently monitor agencies for compliance with the State's fixed assets internal control policies in the areas of valuation of assets, performing physical inventories and the timely recording of additions and deletions of capital assets.
- Controls were not in place to ensure accurate listings of capital assets for construction in progress and buildings. Adjusting entries of $7.2 million and $16.2 million, respectively, were needed to correct these account balances.
- Controls were not in place to ensure that the notes to the financial statements did not contain significant errors. The drafts of the notes to the financial statements relating to the additions and deletions of capital assets contained significant errors. Construction in progress additions were understated by $15 million and overstated by $8 million. Buildings deletions were overstated by $23 million. Accumulated depreciation additions were overstated by $17 million and deletions were overstated by $23 million.

Context: This is a systemic problem.

Cause:

- Lack of training
- Lack of sufficient monitoring
- Insufficient procedures

Effect: The State's financial statements and related notes regarding capital assets would have been misstated without auditor adjustment.

Recommendation: We recommend that:

- OSC monitor and provide clear and specific guidance to agencies on implementing fixed asset internal control policies.
- Each agency follow established internal control policies included in the fixed asset manual.
- An analysis of recorded amounts in the financial records of the State and the related amounts in the financial statements be analyzed for reasonableness prior to the completion of the financial statement draft. The current procedures used to complete the related financial statement note should be re-evaluated.

Management's Response: *The Department disagrees with this finding.*

Summarized response:
The Controller's Office disagrees with the manner in which the finding is presented. The adjustments in relation to the total of $3 billion are less than one percent of the total value. The OSC does not believe the detailed adjustments mentioned represent a significant risk to the overall financial statement presentation.

Auditor's Conclusion:
It is our opinion that users of the State's financial statements would consider errors in excess of $23 million to be significant. Furthermore, this finding reports a weakness in the process used to record capital assets that has continued for the past three years. Without corrective action, larger errors could occur in the future. Previously, the Independent Auditor's Report was "qualified" because the State did not maintain adequate systems to classify and report capital assets. The current response has not addressed the condition of this finding: the finding remains as stated.

Finding: (05-02)

Prior Year Finding: 04-42
Bureau: General Government Service Center A

Condition: DAFS did not adequately reconcile the State's accounts receivable detail to reports of the on-line and instant lottery games service-provider.

Context: A $1.58 million accounts receivable variance exists between the State and the service-provider at fiscal year end.

Cause: Unknown

Effect:
- A possibility that the State's financial statements are misstated.
- A possibility that the State does not have an accurate account of the actual receivable from the lottery agents.

Recommendation: We recommend that DAFS work with the lottery service-provider to identify the cause for the receivable variance.

Management's Response: *The Department disagrees with this finding.*

Summarized Response:
The service provider, Scientific Games, is unable to produce an outstanding accounts receivable report as of a given date. These are real-time reports with balances that are subject to constant changes during every day. They are not appropriate reports for establishing a fixed balance on a financial statement. Therefore, compensating controls have been established in the areas of sales, prizes paid and cash receipts.

Auditors Conclusion:
Management's response indicates that compensating controls have been established. However, the response does not address the condition of the audit finding which resulted in an un-reconciled accounts receivable balance of $1.58 million at the end of the fiscal year. Based on management's response the finding remains as stated.

<u>Finding: (05-03)</u>

Prior Year Finding: No
Bureau: Office of Information Technology (OIT)
Office of MaineCare Services

Criteria: 45 CFR §92.20
5 MRSA §1541 sub-§10-A

Condition: DHHS did not have internal controls in place to adequately manage and accurately report Medicaid financial activity. DHHS experienced a significant disruption in its ability to process Medicaid claims payments following its activation of a new computer system that did not work as expected. DAFS, OIT is charged with providing oversight to the State's information technology systems. DHHS' inability to process all Medicaid claims caused cash flow problems to providers. DHHS implemented a contingency plan whereby it made estimated payments approximating $300 million to providers. For external financial reporting purposes, the State engaged an actuary to estimate Medicaid expenditures and payables for the year ended June 30, 2005. Please see finding number (05-56) for additional information.

Context: Refer to finding (05-56).

Cause: Refer to finding (05-56).

Effect: Refer to finding (05-56).

Recommendation: We recommend that the Offices consider the areas adversely affected by the flawed implementation, focus on claims payments, and prioritize corrective action plans for other affected areas.

Management's Response: *The Department of Administrative and Financial Services and the Department of Health and Human Services disagree with this finding.*

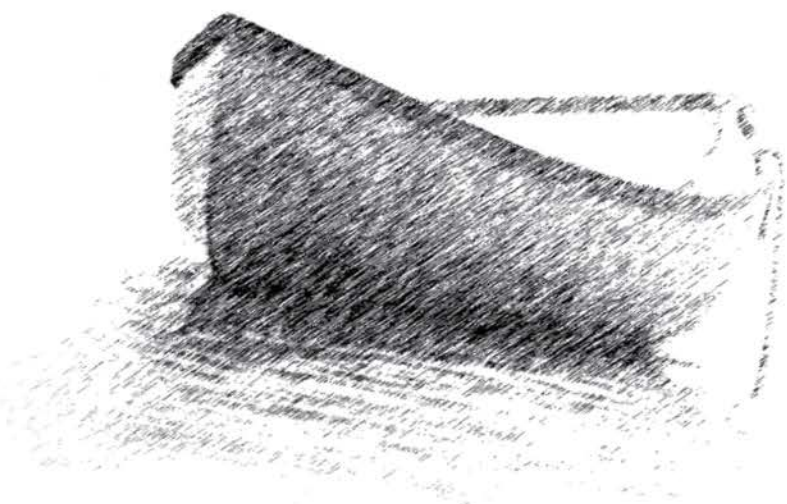
Summarized Response:
DHHS implemented a contingency plan after MECMS was unable to process claims payments and worked with the federal government to accurately report the financial situation after interim payments were made.

Using an actuary to determine year-end medical liabilities that flow into the next fiscal year is the best method. An actuary will be hired each year to address this issue, which is also used by insurance companies, and by the Maine Workers' Compensation Commission, Retiree Health Insurance and Risk Management programs.

Auditor's Conclusion:
Medicaid expenditures approximate $2 billion; claims payments are a significant portion and are material to the State's financial statements. MECMS data was unavailable, incomplete or unreliable after system activation in the third quarter of the fiscal year. DHHS and DAFS were forced to develop contingency plans upon system failure. Internal controls over financial reporting were adversely affected: accurate expenditure information was not available through normal accounting processes. The breakdown in internal controls resulted in an otherwise unplanned sole source contract for an actuarial evaluation of fiscal year expenditures and the associated year-end liabilities. The finding remains as stated.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005

Section III – Federal Award Findings and Questioned Costs



<u>Finding: (05-04)</u>

Prior Year Finding: 04-24
CFDA: 10.561/10.551
CFDA Title: Food Stamp Cluster
Federal Award: 2005IS251444
Federal Agency: U.S. Department of Agriculture
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: $1,277,640
Food Stamp reporting inaccuracies included expenditures of $101,512 that were incorrectly excluded from the report and additional costs of $1,379,152 that were incorrectly included in the report. We are reporting the net difference of $1,277,640 of unallowable expenditures as questioned costs.

Likely Questioned Cost: None

Criteria: 7 CFR §3016.20(1)

Condition: Adequate controls are not in place to prevent or detect errors in reporting Food Stamp expenditures on the Financial Status Report (SF-269). We noted eight financial reporting inaccuracies on the quarterly reports for fiscal year 2005.

Context: This is a systemic problem.

Cause:

- Lack of written procedures
- Reconciliations not being performed
- Staff turnover

Effect: Reporting inaccuracies prevent users from making sound decisions. Future questioned costs may be incurred by the State if this problem is not addressed.

Recommendation: We recommend that the Service Center establish written procedures, reconcile amounts owed to or from the State, and research the reasons for identified errors.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Department of Administrative and Financial Services

Finding: (05-05)

Prior Year Finding: 04-22
CFDA: 10.558
CFDA Title: Child and Adult Care Food Program
Federal Award: 4ME300302
Federal Agency: U.S. Department of Agriculture
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Cash management

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 CFR §205 Subpart B

Condition: The Department of Health and Human Services (DHHS) did not have adequate internal controls in place to ensure appropriate and consistent cash management for the program. As such, DHHS did not comply with federal cash management requirements.

Context: This is a systemic problem.

Cause: There was a residual cash balance for the program in the amount of $200,000 for the first half of the fiscal year. DHHS was aware of this balance and decided to draw additional federal funds until the cause was identified.

Effect: Noncompliance with federal cash management requirements. Also, the possibility exists that the program may be subject to stricter cash management requirements by the federal government.

Recommendation: We recommend that the Service Center perform routine cash balance examinations to ensure that State and federal resources are being used efficiently and that no excess cash is on hand.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Department of Administrative and Financial Services

<u>Finding: (05-06)</u>

Prior Year Finding: 04-10
CFDA: 12.401
CFDA Title: National Guard Operations and Maintenance Projects
Federal Award: W912JD-05-2-1000
Federal Agency: U.S. Department of Defense
State Department: Administrative and Financial Services
Bureau: General Government Service Center B

Finding Type: Internal control and compliance

Compliance Area: Cash management

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 CFR §205 Subpart B

Condition: Internal control procedures were not adequate to ensure compliance with cash management requirements. As a result average cash on hand exceeded immediate needs for nine of twelve months tested during fiscal year 2005.

Context: This is a systemic problem.

Cause: Control procedures have not been fully implemented to ensure timely cash draws.

Effect: Department of Defense, Veterans, and Emergency Management is not in compliance with federal cash management requirements.

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

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Department of Administrative and Financial Services

Finding: (05-07)

Prior Year Finding: 04-68
CFDA: 17.225; 17.245; 17.207
CFDA Title: Unemployment Insurance; Trade Adjustment Assistance; and Employment Service
Federal Award: UI 14438-05-55; ES 14000-04-55; TA 14383-05-55
Federal Agency: U.S. Department of Labor
State Department: Administrative and Financial Services
Bureau: General Government Service Center B

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: OMB Circular A-133 §___.310(b)

Condition: Department of Labor (DOL) did not have adequate internal controls in place to ensure that it correctly reported expenditures to the Office of the State Controller (OSC) for the Schedule of Expenditures of Federal Awards (SEFA) for three federal grants. Expenditures were understated for the Unemployment Insurance and the Employment Service grants by $1.6 million and $100 thousand respectively. The expenditures for the Trade Adjustment Assistance grant were overstated by $1.7 million.

After these errors were detected by the auditor, DOL made the necessary corrections and reported them to the OSC.

Context: This is a recurring problem.

Cause: DOL incorrectly classified federal expenditures on the SEFA.

Effect: Decisions based on SEFA information may be incorrect.

Recommendation: We recommend that the Service Center ensure that expenditures are correctly reported on the SEFA by federal program.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Department of Administrative and Financial Services

Finding: (05-08)

Prior Year Finding: No
CFDA: 17.245
CFDA Title: Trade Adjustment Assistance Workers
Federal Award: TA-13498-04-55(FFY04), TA-14383-05-55 (FFY05)
Federal Agency: U.S. Department of Labor
State Department: Administrative and Financial Services
Bureau: General Government Service Center B

Finding Type: Internal control and compliance

Compliance Area: Cash management

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 CFR §205 Subpart B

Condition: Internal control procedures are not adequately designed to ensure that federal cash drawn is based on immediate needs.

Context: This program's federal cash balance was excessive on three separate occasions.

Cause: Procedures used to draw down funds did not take into consideration the significant monthly variations in program expenditures.

Effect: Noncompliance with federal cash management requirements.

Recommendation: We recommend that the Service Center implement procedures to ensure that cash is drawn based on immediate needs.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Department of Administrative and Financial Services

Finding: (05-09)

Prior Year Finding: 04-17
CFDA: 84.010, 84.027, 84.287
CFDA Title: Title 1 Grants to Local Educational Agencies
Special Education: Grants to States
21st Century Community Learning Centers
Federal Award: Various
Federal Agency: U.S. Department of Education
State Department: Administrative and Financial Services (DAFS)
Bureau: General Government Service Center A

Finding Type: Internal control and compliance

Compliance Area: Cash management

Questioned Cost: None

Likely Questioned Cost: None

Criteria: 34 CFR §80.37

Condition: Internal control procedures were not adequate to ensure that subrecipients complied with cash management requirements. DAFS is responsible for making cash draws for Department of Education (DOE) programs and monitoring subrecipients' cash balances. If subrecipients have excess cash balances or fail to submit their cash reports, then DAFS withholds additional funding. The process of withholding additional funding was not followed in seven of twenty instances:

- Four subrecipients having excess cash on hand were not identified and, therefore, additional payments were made to subrecipients
- One subrecipient that was identified as having excess cash on hand received additional cash
- One subrecipient that did not submit their cash report in a timely manner received additional cash

Additionally, DAFS did not recognize that a federal program had been omitted from a subrecipient cash management report.

Context: This is a systemic problem.

Cause: Lack of supervision

Effect: Noncompliance with federal cash management requirements

Recommendation: We recommend that DAFS improve monitoring procedures to provide reasonable assurance that subrecipients comply with cash management requirements.

Management's Response: *The Department of Administrative and Financial Services disagrees with this finding.*

Summarized Response:
Due to the high number of transactions that are processed (350 school districts, 15 federal programs, with quarterly or monthly payments), some errors may occur. However, the extensive internal controls already in place provide reasonable assurance that subrecipients comply with cash management requirements.

Auditor's Conclusion:
In seven of twenty instances we found noncompliance with subrecipient cash management requirements. These test results indicate that there is a need for improved internal control procedures. The finding remains as stated.

Finding: (05-10)

Prior Year Finding: No
CFDA: 84.027
CFDA Title: Special Education Cluster
Federal Award: H027A020109
Federal Agency: U.S. Department of Education
State Department: Administrative and Financial Services (DAFS)
Bureau: General Government Service Center A

Finding Type: Internal control and compliance

Compliance Area: Period of availability

Known Questioned Cost: $66,838

Likely Questioned Cost: None

Criteria: 34 CFR §80.23(b)

Condition: Internal controls were not adequate to ensure compliance with federal requirements. There was one payment for $66,838 that was made beyond the period of availability.

Context: One of six payments relating to the 2003 grant year was made beyond the period of availability.

Cause: Misunderstanding as to the period of availability requirement

Effect: Current and potential future questioned costs

Department of Administrative and Financial Services

Recommendation: We recommend that DAFS monitor period of availability to ensure compliance with federal regulations.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-11)

Prior Year Finding: No
CFDA: 84.027
CFDA Title: Special Education – Grants to States
Federal Award: H027A040109A
Federal Agency: U.S. Department of Education
State Department: Administrative and Financial Services (DAFS)
Bureau: General Government Service Center A

Finding Type: Internal control and compliance

Compliance Area: Suspension and debarment

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 34 CFR §80.35, §85.300

Condition: DAFS did not have adequate internal controls in place to ensure that vendors were not suspended or debarred. This resulted in DAFS not complying with federal suspension and debarment requirements.

Context: This is a systemic problem. We tested 15 of 35 vendors. DAFS did not ascertain that these vendors were not suspended or debarred.

Cause: Lack of procedures

Effect: Non-compliance with federal suspension and debarment requirements, and the possibility that DAFS could contract with a suspended or debarred party.

Recommendation: We recommend that the DAFS implement control procedures to ensure that they are not contracting with vendors that are suspended or debarred.

Management's Response: *The Department of Administrative and Financial Services disagrees with this finding.*

Summarized Response:
Vendors contracting with the Department of Education (DOE) on contracts exceeding $25,000 must sign a document that states that they are not currently debarred or suspended by the federal government. DOE has not been including the debarment and suspension form with the contract package that is submitted to the Division of Purchases. Thus, although there is a system in place to check for suspension and debarment, the forms were not on file with the tested contracts. For contracts dated September, 2005 we have ensured that documentation showing compliance with the suspension and debarment requirements are included in the contract package.

Auditor's Conclusion:
An adequate system of internal control relating to suspension and debarment requirements would ensure that key documents indicating compliance were retained. Suspension and debarment certifications were missing for all fifteen of the vendor contract files that we reviewed. The finding remains as stated.

Finding: (05-12)

Prior Year Finding: 04-78
CFDA: # 84.126
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
Federal Award: # H126A040085E; H126A040026E; H126A050085E; H126A050026E
Federal Agency: U.S. Department of Education
State Department: Administrative and Financial Services
Bureau: General Government Service Center B

Finding Type: Internal control and compliance

Compliance Area: Cash management

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 CFR §205, Subpart A; 34 CFR §74.22; 34 CFR §74.21;
34 CFR §80.20; 34 CFR §361.27; 34 CFR §74.53

Condition: Internal control procedures are not adequate to ensure that federal cash balances are kept to a minimum. Methods used to compute the amount of the federal drawdown are inaccurate and include expenditures from other grants, as well as a portion of the State matching expenditures for payroll. Furthermore, new methods to draw cash, based on prior costs are not sufficiently comprehensive. In addition, post-award record retention requirements were not in compliance. Documentation to support cash draws for July 2004 through March 2005 could not be located for review.

Context: This is a systemic problem.

Cause:
- Overly complex accounting structure used to track grant transactions
- Incomplete written policies, procedures and documentation
- Inadequate review and reconciliation procedures
- Staff turnover and incomplete training of replacement personnel

Effect:
- Noncompliance with cash management and record retention requirements
- Possible future questioned costs

Recommendation: We recommend the following:
- That a simplified method of accounting be implemented
- That written procedures be modified to enable the user to accurately determine the amount to draw
- That computation of cash draws are subject to adequate supervisory review and reconciled to reported expenditures

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

<u>Finding: (05-13)</u>

Prior Year Finding: 04-75
CFDA: # 84.126
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
Federal Award: # H126A040085E; H126A040026E; H126A050085E; H126A050026E
Federal Agency: U.S. Department of Education
State Department: Administrative and Financial Services
Bureau: General Government Service Center B

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 34 CFR §74.52; 34 CFR §80.41; 34 CFR §74.21(b)(1); 34 CFR §80.20(b)(1)

Condition: The Department of Labor (DOL) does not have adequate internal controls in place to ensure reporting disbursement of program income in the quarter that the funds are expended. In addition, reports include expenditures of non-major grants.

Context: This is a systemic problem. The amounts reported for September 30, 2004 and 2005 differed from accounting records by approximately $540 thousand and $1.5 million, respectively.

Cause:
- Overly complex accounting structure
- Inadequate written policies and procedures
- Staff turnover

Effect: Potential non-compliance with federal financial reporting requirements

Recommendation: We recommend that the Service Center timely and accurately report expenditures related to program income.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-14)

Prior Year Finding: 04-27
CFDA: 93.268
CFDA Title: Immunization Grants
Federal Award: H23/CCH122558
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Cash management

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 CFR §205 Subpart B

Condition: The Department of Health and Human Services (DHHS) Immunization Program did not have adequate controls in place to ensure compliance with federal cash management requirements.

Context: This is systemic problem. In four of the 12 months tested, federal cash held by the State for this program ranged from 11 days to 91 days.

Cause: The Immunization Program provides services to another federal program. The other program only reimburses each quarter so the Immunization Program needs to use their federal cash to pay the expenditures. When the Immunization Program is reimbursed, it does not reimburse the federal government, but rather uses this cash for subsequent draws.

Effect: Noncompliance with federal cash management requirements. Also, the possibility exists that the program may be subject to stricter cash management requirements by the federal government.

Recommendation: We recommend that the Service Center:
- Ensure that federal cash is drawn for immediate cash needs
- Bill the other federal program at least monthly
- Return excess cash to the federal government

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-15)

Prior Year Finding: 04-30
CFDA: 93.268
CFDA Title: Immunization Grants
Federal Award: H23/CCH122558
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Period of availability

Known Questioned Cost: $80,887

Likely Questioned Cost: None

Criteria: 45 CFR §92

Condition: The Department of Health and Human Services (DHHS) Immunization Program did not have controls in place to ensure that federal funds were spent within the period of availability. We question $80,887 of the $347,626 that is currently reported by DHHS as an unliquidated obligation on the financial status report ending December 31, 2004 since these obligations were not liquidated within the allowable 90 days.

Context: This is a systemic problem.

Cause: No established procedures for ensuring compliance with period of availability requirements.

Effect: May result in future questioned costs.

Recommendation: We recommend that the Service Center develop procedures to ensure obligations are liquidated within the required period of availability.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-16)

Prior Year Finding: 04-30
CFDA: 93.268
CFDA Title: Immunization Grants
Federal Award: H23/CCH122558
Federal Agency: U.S. Department of Health & Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20

Condition: The Department of Health and Human Services (DHHS) does not have adequate controls in place to ensure accurate and complete federal expenditure reports (SF-269). As a result, reports submitted by DHHS included several incorrect amounts resulting in an understatement of program expenditures by a net amount of $503,602 for the year ended December 31, 2004.

Context: This is a systemic problem.

Cause:
- Inadequate controls over proper reporting of program expenditures
- Staff turnover

Effect: Program expenditures for the 2004 grant year were understated, resulting in the unobligated balance at the end of the grant year to be overstated. Any unobligated balance at the end of the grant year reduces the amount of the subsequent grant award.

Recommendation: We recommend that the Service Center implement internal control procedures to ensure the accuracy of the financial report.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-17)

Prior Year Finding: No
CFDA: 93.558
CFDA Title: Temporary Assistance for Needy Families
Federal Award: 0401METANF, 0501METANF
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Maintenance of effort

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §263

Condition: The Department of Health and Human Services (DHHS) did not have sufficient internal controls over maintenance of effort that resulted in misstated maintenance of effort on the ACF-196 financial reports. In State fiscal year 2005, $1.8 million in state TANF expenditures was counted twice in calculating the reported total.

Context: This is a systemic problem.

Cause: Quarterly reported maintenance of effort was not reconciled to accounting records.

Effect: Possible noncompliance with federal maintenance of effort requirements. This could result in federal sanctions.

Recommendation: We recommend that the Service Center reconcile aggregate maintenance of effort to the State's accounting records to ensure appropriate calculation and reporting.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-18)

Prior Year Finding: No
CFDA: 93.558
CFDA Title: Temporary Assistance for Needy Families (TANF)
Federal Award: 0401METANF, 0501 METANF
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20, 45 CFR §265

Condition: Internal controls over financial reporting were not sufficient. As a result, financial reports were not accurate as filed.

Context: This is a systemic problem.

Cause: TANF financial reports were not appropriately monitored for errors made in report preparation. The Department of Health and Human Services (DHHS) lacked procedures to compare prepared financial reports to accounting records prior to submittal. Such a procedure was included in DHHS' corrective action plan for findings resulting from the State fiscal year 2003 audit, but has not been implemented.

Effect: Federal expenditures were initially over-reported by an estimated $11 million. DHHS is revising the reports to present federal expenditures accurately. The errors indicated affected financial reporting only; the State's accounting records were properly maintained.

Recommendation: We recommend that the Service Center implement its State fiscal year 2003 corrective action plan by reconciling expenditures, cash drawn as indicated by the federal Payment Management System, and revenues for all federal programs for which it is responsible. We recommend that the reconciliations be performed at least quarterly.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-19)

Prior Year Finding: No
CFDA: 93.558
CFDA Title: Temporary Assistance for Needy Families
Federal Award: 0401METANF, 0501METANF
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20, 42 USC §604(d)

Condition: Controls were not sufficient to ensure accurate reporting of the amount of grant funds transferred to other grants. Of the twenty-six journal entries prepared to transfer TANF funds to the Social Services Block Grant (SSBG) in the first three quarters of federal fiscal year 2005, eight were not included in the reported total.

Context: This is a systemic problem.

Cause: The Department of Health and Human Services (DHHS) did not monitor the aggregate transfers to ensure that all entries were included in the total reported amount.

Effect: The amount of grant funds transferred from TANF to the SSBG has been misreported. This could result in DHHS transferring excessive TANF funds and could result in questioned costs.

Recommendation: We recommend that the Service Center improve procedures to monitor TANF transfers to ensure the accuracy of the reported total.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-20)

Prior Year Finding: No
CFDA: 93.563
CFDA Title: Child Support Enforcement
Federal Award: 0504ME4004
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Allowable costs/cost principles

Known Questioned Cost: $569,102

Likely Questioned Cost: None

Criteria: OMB Circular A-87

Condition: Department of Health and Human Services (DHHS) did not have sufficient procedures in place to ensure that the State retained the proper amount of the federal share of Child Support collections. This resulted in DHHS receiving funds in excess of supportable amounts. We question these funds because DHHS' accounting structure is such that we cannot determine if or where these excess funds were spent.

Context: This is a recurring problem.

Cause: Spreadsheet input errors.

Effect: Incurrence of current and future questioned costs

Recommendation: We recommend that the Service Center implement additional procedures to ensure that accurate information is used in the reconciliation between the federal share of collections and the federal share of expenditures.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Department of Administrative and Financial Services

Finding: (05-21)

Prior Year Finding: 04-33
CFDA: 93.563
CFDA Title: Child Support Enforcement
Federal Award: 0504ME4004
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Allowable costs/cost principles

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20

Condition: The Department of Health and Human Services (DHHS) did not have adequate procedures in place to ensure proper accounting of the Child Support Enforcement Program within the State's accounting system. The process in place is overly complex and prone to errors. As a result, DHHS had multiple accounting errors including: inaccurate journal entries, erroneous correcting journal entries, duplications, and journal entries that were omitted. Administrative funds for Child Support are commingled in one appropriation account that includes multiple programs. DHHS' accounting process makes it difficult for them to ensure that the Child Support Enforcement program pays for its fair share of various allocated costs.

Context: This is a systemic problem.

Cause:
- Inadequate accounting structure
- Inadequate procedures
- Overly complex process

Effect:
- Time intensive process
- Errors in accounting
- Lack of sufficient audit trail
- Difficulty determining sources and uses of program funds

Recommendation: We recommend that the Service Center change the account structure to ensure that the State and federal shares of child support collections are transferred to cover the appropriate State and federal shares of program expenditures. We further recommend that the

Service Center review their process of transferring funds to the various accounts to ensure that the appropriate programs pay for the approved share of allocable costs.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-22)

Prior Year Finding: 04-35
CFDA: 93.563
CFDA Title: Child Support Enforcement
Federal Award: 0504ME4004
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Allowable cost/cost principles

Known Questioned Cost: $49,431

Likely Questioned Cost: None

Criteria: OMB Circular A-87

Condition: The Department of Health and Human Services (DHHS) did not have adequate controls in place to ensure that only program-related payroll costs were reported on the quarterly OCSE-396A expenditure report. The Department properly allocated $49,431 in payroll costs for one employee who performs administrative duties for other federal programs but did not remove these costs from the OCSE-396A report.

Context: This is a systemic problem.

Cause: Inadequate procedures to ensure that only program-related payroll costs are included on the OCSE-396A report. Since DHHS uses the OCSE-396A report as the basis for the amount retained of the federal share of collections, the inclusion of non-program-related costs on the OCSE-396A report resulted in the program keeping excess federal funds.

Effect:
- Noncompliance with allowable costs requirements
- Current and future questioned costs

Recommendation: We recommend that the Service Center improve reporting procedures to ensure that only program-related payroll costs are reported on the OCSE-396A report.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-23)

Prior Year Finding: 04-36
CFDA: 93.563
CFDA Title: Child Support Enforcement
Federal Award: 0504ME4004
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Allowable costs/cost principles

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: OMB Circular A-87

Condition: The Department of Health and Human Services (DHHS) did not have adequate procedures in place to ensure that the Child Support Enforcement Program paid for its share of legal costs. Although DHHS correctly reported these costs on the OCSE-396A expenditure report, the program paid for $160,181 in excessive legal costs. Since DHHS uses the OCSE-396A report as the basis for the amount retained of the federal share of collections, the program did not retain excessive federal funds, consequently we do not question costs.

Context: This is a procedural problem.

Cause: Inadequate accounting procedures.

Effect: A disproportionate share of legal costs is charged to the Child Support Enforcement Program.

Recommendation: We recommend that the Service Center implement adequate accounting procedures to properly transfer program funds to the Office of the Attorney General for allocable legal services.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-24)

Prior Year Finding: 04-37
CFDA: 93.563
CFDA Title: Child Support Enforcement
Federal Award: 0504ME4004
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: $47,924 (net of over/under reported expenditures)

Likely Questioned Cost: None

Criteria: 45 CFR §92.20

Condition: The Department of Health and Human Services (DHHS) did not have adequate procedures in place to ensure that the OCSE-396A expenditure report was accurate. As a result, DHHS reported incorrect and incomplete expenditure information to the federal government. Additionally, expenditures were not reported on the OCSE-396A report in accordance with report instructions.

Context: This is a systemic problem.

Cause:
- Complex reporting process
- Formula errors in supporting schedules
- Misinterpretation of reporting instructions

Effect: Since DHHS uses the OCSE-396A report as the basis for the amount retained of the federal share of collections, overstating expenditures on the OCSE-396A report results in the program keeping excess federal funds. This results in questioned costs.

Recommendation: We recommend that the Service Center review the reporting process for the OCSE-396A report and make modifications to ensure that the report contains complete and accurate information.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-25)

Prior Year Finding: 04-40
CFDA: 93.575, 93.596
CFDA Title: Child Care Cluster
Federal Award: G-0401MECCDF, G-0501MECCDF
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20

Condition: The Department of Health and Human Services (DHHS) does not have internal controls in place to ensure accurate preparation of federal financial reports and the Schedule of Expenditures of Federal Awards (SEFA).

- Payroll charges were recorded twice, though excessive federal cash was not drawn
- The return of funds from subrecipient grant settlements is not properly reflected on the required reports
- DHHS could not support amounts reported on the draft SEFA resulting in a $1 million overstatement
- Reports for federal fiscal years 2000, 2001, 2002, and 2003 had not been amended to properly reflect additional qualify expenditures resulting from the correction of the TANF overdraw. In addition, DHHS did not revise AFC-696 reports as required.

Context: This is a systemic problem.

Cause:

- DHHS has not implemented a grants management system that ties grant activity to a specific grant award.
- Complex accounting and reporting procedures
- The accounting system and the manner in which transactions must be coded, e.g., the allocation of payroll costs, do not directly provide accountants with all the necessary information.
- Complex spreadsheets must be maintained that track expenditures, encumbrances, offsets to revenue, etc.
- Lack of communication between program and accounting staff
- Incomplete written policies and procedures

Effect: The filing of inaccurate ACF-696 reports will not allow users of the reports to determine an accurate accounting of funds expended and the balance of grants funds available.

Recommendation: We recommend that the Service Center implement a grants management system and structure account coding in order to facilitate the compilation of complete and accurate information for reporting purposes.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

<u>Finding: (05-26)</u>

Prior Year Finding: No
CFDA: 93.575, 93.596
CFDA Title: Child Care Cluster
Federal Award: G-0301MECCDF, G-0401MECCDF
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Subrecipient monitoring

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 CFR §205 (Cash Management)
45 CFR §92.20 (Reporting)
45 CFR §92.40
45 CFR §98.60 (Period of Availability)
5 MRSA §131

Department of Administrative and Financial Services

Condition: The Department of Health and Human Services (DHHS) did not have adequate internal controls in place to ensure prompt deposit of cash receipts resulting from grant award cost settlements from subrecipients. The Department's mishandling of cash affects several program compliance requirements.

> ***Cash Management* -** DHHS did not deposit all subrecipient grant settlements in a timely manner violating 5 MRSA §131, which requires all funds to be deposited immediately. Approximately $1 million of state and federal funds from subrecipient contract settlements received before the end of fiscal year 2004 were not deposited until fiscal year 2005 and deposit was delayed by at least four months. Of the $1 million received, $430,000 was not deposited for almost 9 months. Additionally, grant funds deposited were redistributed or, in one instance, returned to the federal government without regard to the specific grant award to which the funds applied.
>
> ***Period of Availability* -** DHHS does not consider the period of availability applicable to the grant award when funds are returned from subrecipients. The return of grant funds to the State of Maine are deposited and either redistributed or returned to the federal government without regard to the period of availability or the applicable grant award.
>
> ***Reporting* -** DHHS did not report returned funds on the ACF-696 reports.

Context: This is a systemic problem.

Cause: DHHS did not have adequate policies and procedures to address the return of unspent subrecipient grant funds.

Effect: Failure to deposit funds in a timely manner violates the Cash Management Improvement Act; State statute; and impacts financial reporting requirements.

Recommendation: We recommend that the Service Center make timely deposits and develop policies and procedures that will allow accounting staff to centrally monitor all cash receipts.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Department of Administrative and Financial Services

Finding: (05-27)

Prior Year Finding: 04-46
CFDA: # 93.658, 93.659
CFDA Title: Foster Care - Title IV-E and Adoption Assistance
Federal Award: # 0501ME1401 and 0501ME1407
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: $186,313 (Foster Care) and $121,069 (Adoption Assistance)

Likely Questioned Cost: $745,252 (Foster Care) and $484,276 (Adoption Assistance)
Calculated by multiplying known questioned costs by four as the known questioned costs apply to just one quarter.

Criteria: 45 CFR §92-20

Condition: The Department of Health and Human Services (DHHS) did not have adequate internal control procedures in place to ensure accurate final reports. The Foster Care and Adoption Assistance programs quarterly financial reports for the quarter ended June 30, 2005 contain inaccurate data. This resulted from:

- Incorrect formulas used
- Incorrect percentages used
- Unallowable costs claimed
- Allowable costs not claimed

Context: This is a systemic problem.

Cause:

- Incomplete written policies and procedures
- Reconciliations are not being performed
- Staff turnover
- Complex reporting template used
- Data needed for report not entered into the State's accounting system
- Disallowance of expenditures

Effect:

- Loss of revenue
- Current and future questioned costs

Recommendation: We recommend that the Service Center:

- Modify the written procedures to state the logic needed to prepare accurate financial reports
- Reconcile the reports to the State's accounting system
- Simplify the report template
- Enter all relevant financial data into the accounting system to help facilitate the reporting process

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-28)

Prior Year Finding: 04-49
CFDA: 93.667
CFDA Title: Social Services Block Grant
Federal Award: G0401MESOSR, G0501MESOSR
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Cash management

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 CFR §205 Subpart A

Condition: Internal controls are not adequate to ensure compliance with cash management requirements. Cash was distributed on a predetermined quarterly basis, rather than based on their immediate cash needs.

Context: This is a systemic problem.

Cause: Lack of procedures

Effect: Noncompliance with federal cash management requirements. Also, the possibility exists that the program may be subject to stricter cash management requirements by the federal government.

Recommendation: We recommend that the Service Center advance funds to all subgrantees based on their immediate cash needs.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-29)

Prior Year Finding: No
CFDA: 93.667
CFDA Title: Social Services Block Grant
Federal Award: G0401MESOSR, G0501MESOSR
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §96.30

Condition: Controls are not in place to ensure accurate and consistent reporting of program expenditures. As a result, the SF-269 Financial Status Report and the Schedule of Expenditures of Federal Awards may include expenditures that are not applicable to the grant.

Context: This is a systemic problem.

Cause: No written chart of accounts.

Effect: Possible noncompliance with federal financial management requirements.

Recommendation: We recommend that DHHS prepare a written chart of accounts for the Social Services Block Grant.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Department of Administrative and Financial Services

Finding: (05-30)

Prior Year Finding: 04-58
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting/Matching

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20
State Medicaid Manual §2500

Condition: The Department of Health and Human Services (DHHS) did not have adequate internal controls to ensure that required federal reports were accurate. For the quarter tested, DHHS reported the following:

- State match amounts totaling $54.7 million were based on calculations of actual federal expenditures rather than actual amounts
- Waiver expenditures in aggregate as current quarter expenditures rather than by waiver year
- Distribution statistics not updated were carried forward from a previous quarter
- Estimated “interim payments” based on trend analyses and not actual expenditures

Context: This is a systemic problem.

Cause:

- The auditee believes that reporting calculated match amounts is acceptable in the view of the federal oversight agency
- The current claims processing system cannot generate reports that break out waiver expenditures by fiscal year
- The current claims processing system cannot generate the hospital claims data used to calculate the payment ratios needed to distribute inpatient and outpatient hospital services for reporting purposes
- System failure required estimated payments for provider cash flow

Effect: Unreliable federal financial reports

Recommendation: We recommend that the Service Center:

- Report actual State match expenditures
- Segregate and separately report Medicaid waiver program expenditures
- Determine the appropriate distribution percentages to prospective hospital payments and adjust the report accordingly
- Reconcile actual claims to interim payments and report adjustments according to the agreement negotiated with Centers for Medicare and Medicaid Services

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-31)

Prior Year Finding: No
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
Bureau: Office of Information Technology (OIT)
Office of MaineCare Services (OMS)

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20, 5 MRSA §1541 sub-§10-A
42 CFR §433.110-.131, Title XIX §1903(r)

Condition: DHHS did not have adequate internal controls to ensure that a functional claims management system was in place. DAFS, OIT is charged with providing oversight to the State's information technology systems. During FY 2005, a new system (MECMS) was implemented which did not function as expected. This failure of the newly implemented system significantly affected the programs claims processing capabilities. It caused OMS to make approximately $300 million in estimated payments to service providers in lieu of payments for actual claims. The key internal control for ensuring that claims are for only allowable services is the effective and consistent application of built-in computer validation edits. Due to the initial instability of the MMIS, some pre-established computer edits were not consistently applied. As a result, some providers were overpaid and others were underpaid; these amounts were not determinable.

Numerous system change controls had to be initiated to stabilize the system's processing capabilities. Additionally, several MMIS core subsystems are still not functioning. They include:

- Third Party Liability (TPL)
- Maine Medicaid Decision Support System (MMDSS) for information retrieval purposes
- Surveillance and Utilization Review System (SURS)

Other identified problems were as follows:

- Mental Retardation waiver claims were rejected due to incompatible information systems
- Incorrect application of the appropriate cost sharing ratios to paid claims
- Claims were paid from the incorrect fund for incorrect amounts
- Inability to generate system reports critical to the planning, managing, monitoring and financial reconciliation functions
- Inability to generate reports of actual payments by fund

Context: Refer to finding (05-56).

Cause: Refer to finding (05-56).

Effect: Refer to finding (05-56).

Recommendation: We recommend that the Offices consider the areas adversely affected by the flawed implementation, focus on claims payments, and prioritize corrective action plans for other affected areas.

Management's Response: *The Department of Administrative and Financial Services and the Department of Health and Human Services agree with this finding.*

Finding: (05-32)

Prior Year Finding: 04-66
CFDA: Various
CFDA Title: Various
Federal Award: Various Federal Award Numbers
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Reporting (PSC-272)

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20

Condition: The Department of Health and Human Services (DHHS) did not have adequate internal controls to ensure that the PSC-272 reports were properly supported. As a result, DHHS could not provide support for reported expenditures for 15 of 24 programs drawn against letter of credit Y180P.

Context: We reviewed reports for quarters ending September 30, 2004 and June 30, 2005. All noted issues were found in quarter ending September 30, 2004.

Cause: DHHS did not retain supporting schedules.

Effect: The amount reported is not properly supported.

Recommendation: We recommend that the Service Center maintain and provide adequate support for the PSC-272 report.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

Finding: (05-33)

Prior Year Finding: No
CFDA: Various
CFDA Title: Various
Federal Award: Various
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Subrecipient monitoring

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.40, 5 MSRA §131

Department of Administrative and Financial Services

Condition: The Department of Health and Human Services (DHHS) does not have adequate internal control procedures in place over provider grant close-out and audit settlement process. The following weaknesses were noted:

- Checks received from providers are not deposited in a timely manner
- Neither accounts receivable nor accounts payable were established on the State's accounting system for amounts due the State from the provider as a result of either the grant close-out process or an audit
- There is no periodic billing of, or payment to, providers for amounts due to or from the State

Context: This is a systemic problem.

Cause: Significant staff turnover and operational restructuring

Effect: Noncompliance with State and federal regulations

Recommendation: We recommend that the Service Center:

- Implement procedures to properly account for amounts due to or from providers resulting from grant closeout and audit settlement process
- Establish an accounts payable on the State's accounting records for amounts due providers
- Implement procedures to ensure that amounts due providers from the State are promptly paid

Furthermore, we recommend that checks received from providers be deposited in accordance with State regulations.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

<u>Finding: (05-34)</u>

Prior Year Finding: 04-09
CFDA: Various
CFDA Title: Various
Federal Award: Various
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services (DAFS)
Bureau: Office of Information Technology (OIT)

Finding Type: Internal control and compliance

Compliance Area: Allowable cost/cost principles

Known Questioned Cost: $1.17 million

Department of Administrative and Financial Services

Likely Questioned Cost: None

Criteria: OMB Circular A-87, Attachment C §G(2)

Condition:

- OIT did not have adequate internal control procedures in place to ensure compliance with working capital reserve requirements.
- OIT had "excess working capital reserves" of $4,505,505 for fiscal year 2005. This amount was included in DAFS cost allocation plan submitted to the U.S. Department of Health and Human Services in December of 2005. The amount exceeds the 60 days excess working capital reserve allowed by Circular A-87. We are questioning the cost of the federal share of the excess working capital reserves.

Context: The amount of excess working capital reserves is determined annually by DAFS. Although rates are periodically adjusted, rates charged were higher than needed to offset expenditures.

Cause: Excess charges for services to agencies

Effect:

- Current and potential future questioned costs
- Non-compliance with federal requirements

Recommendation: We recommend that DAFS monitor working capital reserves to ensure compliance with federal regulations.

Management's Response: *The Department of Administrative and Financial Services disagrees in part, with this finding.*

Summarized Response:
The Department disagrees that during fiscal year 2005 OIT did not have adequate internal control procedures over working capital reserves. We agree that $1.17 million is a reasonable estimate of the federal share of OIT's excess retained earnings as of June 30, 2005.

Auditor's Conclusion:
This is a prior year finding. This year's excess retained earnings of OIT was less than last year's. Although the amount has been reduced, excess retained earnings in any amount indicates that internal controls are not adequate to ensure compliance with federal regulations. The finding remains as stated.

Department of Administrative and Financial Services

Finding: (05-35)

Prior Year Finding: 04-62
CFDA: 93.558, 93.563, 10.551, 10.561, 93.658,
93.659, 93.667, 93.778, 93.775, 93.777
CFDA Title: Various
Federal Award: METANF04, METANF05, 0504ME4004, 2005IS251444,
G0401MESOSR, G0501MESOSR, 0501ME1401, 0501ME1407
Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Allowable cost/cost principles

Known Questioned Cost: $1,065,582 (SSBG $791,095; TANF $274,487)

Likely Questioned Cost: None

Criteria: 45 CFR §95.507, §95.519

Condition: The Department of Health and Human Services (DHHS) did not have adequate controls to ensure accurate financial reporting and compliance with the prescribed methods to allocate costs. DHHS has an approved cost allocation plan that no longer reflects the operation of the Department. The errors include:

- Expenditures were included twice
- Inconsistent methodologies were used to calculate costs over the course of the fiscal year
- State-funded expenditures were incorrectly claimed as federal expenditures
- Reported allocation costs were not based on final allocated costs

Context: This is a systemic problem.

Cause: Internal control weaknesses include the following:

- No central authority has assumed responsibility for managing and reviewing the cost allocation plan
- Appropriate reviews for error identification are not performed
- Errors impacting multiple schedules remain undetected
- Errors identified through audits are not corrected
- The methodology for accumulating and allocating costs is not adequately documented
- Changes to cost allocation schedules are not communicated adequately to allow for accurate reporting of allocated costs

Effect:

- Inaccurate financial reports
- Unallowable costs claimed
- Current and potential future questioned costs

Recommendation: We recommend that the Service Center continue in its efforts to develop and implement a revised cost allocation plan.

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

<u>Finding: (05-36)</u>

Prior Year Finding: 04-64
CFDA: 93.575, 93.658, 93.659, 93.667, 93.778
CFDA Title: Child Care Development Block Grant; Foster Care;
Title IV-E; Adoption Assistance; Social Services Block Grant; and
Medicaid Cluster
Federal Award: G-0501MECCDF; G-0501ME1401; G-0501ME1407;
G-0401MESOSR; G-0501MESOSR; 05-0405ME5028; 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services
Bureau: Health and Human Services Service Center

Finding Type: Internal control and compliance

Compliance Area: Cash management

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 CFR §205 Subpart A; 45 CFR §92.20

Condition: The Department of Health and Human Services (DHHS) did not have adequate internal controls in place to ensure compliance with the CMIA agreement. This resulted in draws of federal cash both earlier and later than allowed by the CMIA agreement. Additionally, DHHS could not provide adequate supporting documentation for certain draws because of the implementation of the State's new Medicaid claims payment management system.

Context: This is a systemic problem.

Department of Administrative and Financial Services

Cause:

- Timing of draws is not based on disbursement dates
- Lack of adequate documentation to support amounts drawn
- Amounts drawn include adjustments for overall cash position which do not relate to specific expenditures

Effect:

- Excess federal cash on hand could result in an interest liability to the federal government
- Insufficient cash could result in one federal program funding the expenditure of another

Recommendation: We recommend that the Service Center:

- 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

Management's Response: *The Department of Administrative and Financial Services agrees with this finding.*

State of Maine
Department of Defense, Veterans and Emergency Management

Finding: (05-37)

Prior Year Finding: No
CFDA: 97.004
CFDA Title: Homeland Security Grant Program
Federal Award: 2003-TE-TX-0158; 2003-MU-T3-0016; 2004-GE-T4-0041
Federal Agency: U.S. Department of Homeland Security
State Department: Defense, Veterans, and Emergency Management (DVEM)
Bureau: Maine Emergency Management Agency

Finding Type: Internal control and compliance

Compliance Area: Allowable costs

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: OMB Circular A-87, Attachment B, §11.h (3)

Condition: DVEM did not have adequate internal controls in place to ensure compliance with OMB Circular A-87 requirements. The department did not provide the required semi-annual certifications for employees who worked solely on the Homeland Security Grant program.

Context: This is a systemic problem.

Cause: There are no established procedures to ensure compliance with OMB Circular A-87 payroll certification requirements.

Effect: Potential unallowable payroll costs charged to the program

Recommendation: We recommend that DVEM implement procedures to ensure compliance with OMB Circular A-87 payroll certification requirements.

Management's Response: *The Department of Defense, Veterans and Emergency Management agrees with this finding.*

Department of Defense, Veterans and Emergency Management

Finding: (05-38)

Prior Year Finding: No
CFDA: 97.004
CFDA Title: Homeland Security Grant Program
Federal Award: 2003-TE-TX-0158; 2003-MU-T3-0016; 2004-GE-T4-0041
Federal Agency: U.S. Department of Homeland Security
State Department: Defense, Veterans, and Emergency Management (DVEM)
Bureau: Maine Emergency Management Agency (MEMA)

Finding Type: Internal control and compliance

Compliance Area: Suspension and debarment

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 28 CFR Part 67

Condition: MEMA did not have internal control procedures in place to ensure compliance with suspension and debarment requirements.

Context: This is a systemic problem.

Cause: Program personnel were unaware of suspension and debarment requirements for subrecipients.

Effect: DVEM could contract with a suspended or debarred party.

Recommendation: We recommend that DVEM establish procedures to ensure that subawards are not made to suspended or debarred parties.

Management's Response: *The Department of Defense, Veterans and Emergency Management agrees with this finding.*

Department of Defense, Veterans and Emergency Management

Finding: (05-39)

Prior Year Finding: No
CFDA: 97.004
CFDA Title: Homeland Security Grant Program
Federal Award: 2003-TE-TX-0158; 2003-MU-T3-0016; 2004-GE-T4-0041
Federal Agency: U.S. Department of Homeland Security
State Department: Defense, Veterans, and Emergency Management (DVEM)
Bureau: Maine Emergency Management Agency (MEMA)

Finding Type: Internal control and compliance

Compliance Area: Subrecipient monitoring

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: OMB Circular A-133 §___.400(d)

Condition: MEMA did not have adequate controls to ensure compliance with subrecipient monitoring requirements. The standard letter used to communicate the grant award did not contain the CFDA title, the CFDA number, and the federal grant award number.

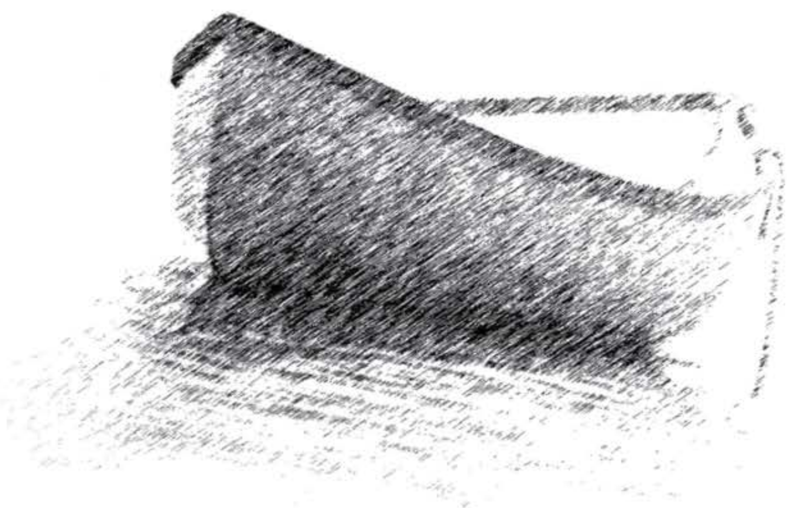
Context: This is a systemic problem.

Cause: Agency personnel were not aware of all information required to be included in grant awards to subrecipients.

Effect: Subrecipients potentially may not be aware of the applicable federal program requirements or that they are receiving federal dollars.

Recommendation: We recommend MEMA ensure that all subrecipients are provided with the required grant award information.

Management's Response: *The Department of Defense, Veterans and Emergency Management agrees with this finding.*



State of Maine
Department of Education

Finding: (05-40)

Prior Year Finding: No
CFDA: 84.287
CFDA Title: 21st Century Community Learning Centers
Federal Award: S287C040019
Federal Agency: U.S. Department of Education
State Department: Education (MDOE)
Bureau: Special Services Team

Finding Type: Internal control and compliance

Compliance Area: Suspension and debarment

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 34 CFR §80.35, §85.300

Condition: MDOE did not have internal control procedures in place to ensure compliance with suspension and debarment requirements.

Context: This is a systemic problem.

Cause: No written policies and procedures were in place to ensure that program personnel verify that subrecipients are not suspended or debarred.

Effect: Suspended or debarred parties could be allowed to participate in the program.

Recommendation: We recommend that MDOE implement procedures to ensure that the suspension and debarment requirements are met.

Management's Response: *The Department of Education agrees with this finding.*

Department of Education

<u>Finding: (05-41)</u>

Prior Year Finding: No
CFDA: 84.287
CFDA Title: 21st Century Community Learning Centers
Federal Award: S287C040019
Federal Agency: U.S. Department of Education
State Department: Education (MDOE)
Bureau: Special Services Team

Finding Type: Internal control and compliance

Compliance Area: Subrecipient monitoring

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 USC 7502(f)(2)(B)

Condition: Controls were not in place to ensure that consultants performed and documented annual site visits, the primary method used for monitoring subrecipients.

Context: This is a systemic problem

Cause: No contractual provisions requiring documentation

Effect:
- Possible non-compliance with subrecipient monitoring requirements
- Potential unallowable costs / activities paid for with grant funds

Recommendation: We recommend that program personnel implement policies and procedures to ensure that the annual site visits are performed and documented.

Management's Response: *The Department of Education agrees with this finding.*

State of Maine
Department of Health and Human Services

Finding: (05-42)

Prior Year Finding: 04-19
CFDA: 10.551/10.561
CFDA Title: Food Stamp Cluster
Federal Award: 2005IS251444
Federal Agency: U.S. Department of Agriculture
State Department: Health and Human Services (DHHS)
Bureau: Office of Integrated Access and Support

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 7 CFR §3016.20(1)

Condition: Internal control procedures were not adequate to ensure compliance with reporting requirements. As a result complete, accurate and timely Status of Claims Against Households Reports (FNS-209) are not currently being provided to the federal agencies responsible for monitoring the program. As a result we note the following:

- The Automated Client Eligibility System (ACES) does not provide support for the beginning and ending balances on the FNS-209 report.
- DHHS is unable to verify the accuracy of the collections of various types of overpayments or provide data that supports claims included on the report because supporting case records are not currently being kept.

Context: This is a systemic problem.

Cause:

- Computer system does not provide required information
- Supporting documentation is not being maintained

Effect: Without accurate information DHHS cannot report or monitor overpayments. The U.S. Food and Nutrition Services gave DHHS a limited amount of time to take corrective action to address this problem. The federal government may impose sanctions.

Recommendation: We recommend that:

- Immediate action be taken to implement programming changes to ACES so that the required reports can be generated from the system
- DHHS maintain supporting case records in accordance with record retention requirements

Management's Response: *The Department of Health and Human Services agrees with this finding.*

<u>Finding: (05-43)</u>

Prior Year Finding: No
CFDA: 10.557
CFDA Title: Special Supplemental Nutrition Program for Women Infants and Children (WIC)
Federal Award: 4ME700701
Federal Agency: U.S. Department of Agriculture
State Department: Health and Human Services (DHHS)
Bureau: Maine Center for Disease Control and Prevention

Finding Type: Internal control and compliance

Compliance Area: Cash management

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 31 CFR §205 Subpart B

Condition: Control procedures were not adequate to ensure compliance with cash management requirements. Fifteen of nineteen cash draws for nutrition services and administration expenditures were not made in accordance with cash management requirements.

Context: This is a systemic problem.

Cause: Lack of procedures

Effect: Potential future questioned costs

Recommendation: We recommend that control procedures be put in place to ensure that cash is not being held by WIC for more than seven days.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Department of Health and Human Services

<u>Finding: (05-44)</u>

Prior Year Finding: No
CFDA: 10.557
CFDA Title: Special Supplemental Nutrition Program for Women Infants and Children (WIC)
Federal Award: 4ME700701
Federal Agency: U.S. Department of Agriculture
State Department: Health and Human Services (DHHS)
Bureau: Maine Center for Disease Control and Prevention

Finding Type: Internal control and compliance

Compliance Area: Subrecipient monitoring

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: OMB Circular A-133, Subpart D, §___.400 and 7 CFR §246.19(b)(4)

Condition: Internal controls are not adequate to ensure compliance with subrecipient monitoring requirements. We noted the following:

- Of nine WIC subrecipient contracts reviewed, none referenced the CFDA title, award name, and name of the federal agency.
- WIC did not receive a corrective action plan from two subrecipients within the 60 days of receipt of WIC's management evaluation review. One plan was received thirteen months late and the other was one month late.
- There were multiple instances where subrecipients did not submit their audit reports to WIC within the required time period of nine months after their fiscal year end.
- WIC personnel did not issue management decisions on audit findings within the required nine months after subrecipients' fiscal year ends, except for findings that involved questioned costs.

Context: This is a systemic problem.

Cause: Lack of sufficient supervisory review

Effect: Noncompliance with program requirements

Recommendation: We recommend that DHHS implement additional procedures to ensure that all subrecipient monitoring requirements are met.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Department of Health and Human Services

<u>Finding: (05-45)</u>

Prior Year Finding: No
CFDA: 10.558
CFDA Title: Child and Adult Care Food Program
Federal Award: 4ME300302
Federal Agency: U.S Department of Agriculture
State Department: Health and Human Services (DHHS)
Bureau: Office of Child and Family Services

Finding Type: Internal control and compliance

Compliance Area: Reporting

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 7 CFR §226.7(d)

Condition: DHHS did not have adequate internal controls in place to ensure accurate reporting of the FNS-44, *Report of the Child and Adult Care Food Program*. This resulted in incorrect amounts reported for total meals claimed.

Context: This is a systemic problem.

Cause: DHHS' computer system generated inaccurate reports used to compile the FNS-44 report.

Effect: Incorrect data was provided to the federal government.

Recommendation: We recommend that DHHS
- Research and correct the causes for the computer system problems
- Implement compensating controls to ensure that computer generated reports are accurate

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Department of Health and Human Services

<u>Finding: (05-46)</u>

Prior Year Finding: 04-21
CFDA: 10.558
CFDA Title: Child and Adult Care Food Program
Federal Award: 4ME300302
Federal Agency: U.S. Department of Agriculture
State Department: Health and Human Services (DHHS)
Bureau: Office of Child and Family Services

Finding Type: Internal control and compliance

Compliance Area: Subrecipient monitoring

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 7 CFR §226.6, 7 CFR §226.16(g) and (h)

Condition: DHHS did not comply with the requirement to annually review one third of all organizations participating in the Child and Adult Care Food Program. While DHHS' internal control procedures are designed to ensure that an adequate number of annual reviews are performed each year, a management decision was made to not complete these reviews.

Context: Reviews for 25 participating organizations should have been completed during federal fiscal year 2005. As of the end of August, DHHS indicated that they had completed three of the 25 reviews. Documentation for those three could not be provided.

Cause: Federal fiscal year (FFY) 2004 reviews were not completed until June 2005. Therefore, DHHS did not begin the FFY 2005 until the FFY 2004 reviews were completed.

Effect: Lack of proper State oversight could result in participating organizations not complying with program regulations including spending federal and state funds on unallowable expenditures.

Recommendation: We recommend that DHHS commit the resources necessary in order to perform the required number of reviews each year.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Department of Health and Human Services

<u>Finding: (05-47)</u>

Prior Year Finding: 04-29
CFDA: 93.268
CFDA Title: Immunization Grants
Federal Award: H23/CCH122558
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Maine Center for Disease Control & Prevention

Finding Type: Internal control and compliance

Compliance Area: Allowable costs/cost principles

Known Questioned Cost: $427,504 (net over/under payments)

Likely Questioned Cost: None

Criteria: OMB Circular A-87

Condition: The Immunization Program did not have adequate controls in place to ensure that federal requirements regarding salary and wages were met. As a result, three employees did not charge their time to the Immunization program when performing work for the Immunization program. Alternatively, three employees did charge their time to Immunization program, but did not perform work for the program. In addition, time records were not sufficient to accurately support payroll costs for seven employees.

Context: This is a systemic problem. Six of the twenty-two employees posted their time to the wrong program based on the work performed and an additional seven did not have sufficient supporting documentation.

Cause: The hours supporting the payroll charged in accordance with a Memorandum of Understanding with another federal program were never reconciled to actual time worked.

Effect: Current and potential future questioned costs.

Recommendation: We recommend that the Immunization Program staff record the actual hours worked. The Memorandum should be revised to be in accordance with federal requirements.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Department of Health and Human Services

<u>Finding: (05-48)</u>

Prior Year Finding: 04-26
CFDA: 93.268
CFDA Title: Immunization Grants
Federal Award: H23/CCH122558
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Maine Center for Disease Control and Prevention

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20(b)(3)

Condition: The Immunization Program did not have adequate controls to monitor the third party vendor holding the vaccine inventory in order to safeguard against theft, expiration, or improper temperature. The contract agreement requires an annual certification from the third party's independent certified public accountant. The Immunization Program did not obtain and review the required annual certification from its contractor.

Context: This is a systemic problem.

Cause: Program staff were unaware of the need to monitor third party vendors as indicated by obtaining the independent CPA's annual certifications.

Effect: Potential loss of vaccines due to theft, expiration or improper temperature.

Recommendation: We recommend that the Immunization Program obtain the contractor's annual certification from the third party's independent certified public accountant.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Department of Health and Human Services

Finding: (05-49)

Prior Year Finding: 04-25
CFDA: 93.268
CFDA Title: Immunization Grants
Federal Award: H23/CCH122558
Federal Agency: U.S. Department of Health & Human Services
State Department: Health and Human Services (DHHS)
Bureau: Maine Center for Disease Control and Prevention (MCDC)

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.40(a)

Condition:

- The Immunization Program did not have established internal control procedures and therefore did not monitor non-pediatric providers' compliance with grant requirements.
- Although MCDC has monitoring procedures in place for the review of pediatric providers, documentation could not be provided to demonstrate that these procedures were completed.

Context:

- Non-pediatric providers - This is a systemic problem.
- Pediatric providers – We tested two samples of 40. In the first sample the monitoring procedures for five providers was not adequately documented while three were not documented in the second sample.

Cause:

- lack of sufficient training
- lack of written procedures

Effect: This may impede the efficient management and administration of vaccines.

Recommendation: 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
- Establish procedures to monitor non-pediatric providers' compliance with recordkeeping and vaccine management requirements

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-50)

Prior Year Finding: 04-32
CFDA: 93.558
CFDA Title: Temporary Assistance for Needy Families
Federal Award: 0401METANF, 0501METANF
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of Integrated Access and Support

Finding Type: Internal control and compliance

Compliance Area: Reporting (Performance)

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §265.7

Condition: Controls were not sufficient to ensure accurate data reporting on ACF-199 and ACF-209 quarterly performance reports, resulting in submittal of inaccurate data.

Context: This is a systemic problem.

Cause: Problems with system codes and classification of data in the DHHS Office of Integrated Access and Support's Automated Client Eligibility System (ACES) affected performance reporting. The problems apparently resulted from a combination of input and processing errors. A series of reports provided to us by the US Department of Health and Human Services indicated significant discrepancies in required performance data. Discrepancies we encountered in a review of the performance report submitted for the quarter ending June 30, 2005 included:

- Client employment hours with no indication of earned income
- Clients reported as employed with no recorded work hours
- Unreasonably high work hours for some clients

- Client sanctions with no reported justification
- Grant recipients with no reported benefits paid
- Clients reported as being both married and single

Effect: The discrepancies call into question the validity of performance data generated by ACES. Performance reports are used to track significant program attributes including the work participation rate, resulting in possible inaccurate conclusions.

Possible imposition of 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 Office of Integrated Access and Support ensure the accuracy of performance reports prior to submission.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-51)

Prior Year Finding: No
CFDA: 93.563
CFDA Title: Child Support Enforcement
Federal Award: 0504ME4004
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of Integrated Access and Support

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §303.2(b)

Condition: DHHS did not ensure that case records were established within 20 calendar days of receipt of referral or application.

Context: DHHS did not meet the 20-day time frame in 22 of the 47 cases reviewed.

Cause: Lack of staff

Effect: Time frame requirements not met

Recommendation: We recommend that DHHS provide adequate resources to ensure that all case records are established within the required time frame.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-52)

Prior Year Finding: No
CFDA: 93.658
CFDA Title: Foster Care - Title IV-E
Federal Award: # 0501ME1401
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of Child and Family Services

Finding Type: Internal control and compliance

Compliance Area: Subrecipient monitoring

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: OMB Circular A-133 §___.400(d)

Condition: DHHS has no procedures in place to determine whether intermediary organizations are subrecipients or vendors and does not adequately monitor subrecipients in accordance with federal requirements. As the result of a nationwide audit (issued December 2004) by the Office of Inspector General (OIG), Foster Care program personnel learned that certain providers should be classified as subrecipients. Significant (72% of federal direct care expenditures) federal funds flow to intermediary organizations for therapeutic and placing activities.

Context: This is a systemic problem.

Cause: Until the issuance of the OIG report, these organizations were not considered to be subrecipients.

Effect: Non-compliance with subrecipient monitoring requirements.

Recommendation: We recommend that DHHS:

- Establish a process for determining subrecipient status
- Establish and implement procedures for adequate fiscal and program monitoring of those organizations recently categorized as subrecipients

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-53)

Prior Year Finding: 04-47
CFDA: 93.659
CFDA Title: Adoption Assistance
Federal Award: G-0501ME1407
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of Child and Family Services

Finding Type: Internal control and compliance

Compliance Area: Eligibility

Known Questioned Cost: $13,944

Likely Questioned Cost: $925,106
Likely questioned costs were developed by determining the sample error rate (17%) and applying that rate to the total federal share of fiscal year 2005 subsidies payments ($9,371,228). This calculated amount was then reduced by post-period corrections of errors identified by an Office of Inspector General (OIG) audit. Ineligible clients identified by OIG but not yet resolved were not subtracted from our projected likely questioned costs.

Criteria: 42 USC §673

Condition: DHHS does not have adequate internal controls in place to ensure Title IV-E funds are spent on eligible clients, resulting in payments made on behalf of ineligible clients.

Context: This is a systemic problem.

Cause: Case files continue to be lacking key documents pertaining to eligibility.

Context:
- The automated child welfare information system incorrectly reflected client's status as Title IV-E eligible for 10 of 60 cases tested from a population of 2,039
- Of the ten cases, eight are included in a population of 403 cases previously determined ineligible as part of an audit by OIG

Effect: Current and potential future questioned costs

Recommendation: We recommend that DHHS:
- Undertake a review of eligibility files for all active adoption cases and obtain any missing documentation
- That procedures be developed to ensure this information is retained

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-54)

Prior Year Finding: 04-50
CFDA: 93.667
CFDA Title: Social Services Block Grant (SSBG)
Federal Award: ME-SOSR04 / ME-SOSR05
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of Child and Family Services

Finding Type: Internal control and compliance

Compliance Area: Earmarking

Known Questioned Cost: $3.1 million

Likely Questioned Cost: None

Criteria: 42 USC §604(d)(3)(b)

Condition: DHHS 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. DHHS did not identify the applicable earmarking requirements in the contracts with all subgrantees. Because site visits for non-Child Care Service subrecipients were suspended during FY05, no procedures were performed to ensure that earmarking requirements were met.

Context: This is a systemic problem.

Cause: Inadequate documentation and contract language

Effect: Current and potential future questioned costs

Recommendation: We recommend that DHHS:

- Implement control procedures to ensure that funds transferred to SSBG from TANF are spent in accordance with the applicable earmarking requirements, by including the appropriate language in the contract between the State and the subgrantees
- Monitor subrecipient contract compliance and maintain supporting documentation to substantiate that earmarking requirements are met

Management's Response: *The Department of Health and Human Services agrees with this finding.*

<u>Finding: (05-55)</u>

Prior Year Finding: 04-55
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of Child and Family Services (OCFS)

Finding Type: Internal control and compliance

Compliance Area: Allowable cost/cost principles

Known Questioned Cost: $6,528

Likely Questioned Cost: $8,100,231 (58% OCFS clients x $13,965,916 *federal portion of* TCM)

Criteria: OMB Circular A-87

Condition: DHHS does not have adequate procedures in place to identify allowable targeted case management services provided to foster care clients. Additionally, DHHS is unable to support the reasonableness for the monthly negotiated targeted case management (TCM) rate of $899.

Context: This is a systemic problem. Of the 19 claims examined 11 (58%) were for OCFS clients. The OCFS case files for these 11 clients indicated that various services had been provided. However, in most instances, appropriate detail was not provided in these narratives to identify whether these services were for allowable targeted services or direct services.

Cause:
- DHHS has not sufficiently defined or made a distinction between targeted case management services and direct foster care case management services
- Lack of written documentation to support reasonableness for a federally approved negotiated rate for targeted case management services

Effect: Medicaid funds may be expended for unallowable costs resulting in current and future questioned costs

Recommendation: We recommend that:
- DHHS establish a process to properly define and document services that are allocable to Medicaid
- DHHS review and assess the reasonableness of the targeted case management rate

Management's Response: *The Department of Health and Human Services disagrees with this finding.*

Summarized Response:
The Office of Child and Family Services performs case management services. It is considered targeted because it is provided to a target population, not because it is something other than "direct case management". OCFS allocates its costs to one of eleven possible entry service types based on narrative log entries completed by caseworkers; it does not claim for the same service to both Title IV-E and Medicaid.

The targeted case management rate was determined by dividing all of the minutes spent on case management services to Medicaid eligible clients by the total amount of minutes logged by caseworkers. The current rate was negotiated with the Department of Health and Human Services. OCFS is currently undertaking the process of developing a random time study of OCFS caseworker's actual activities. As of January 2006, OCFS will no longer make TCM claims for Title IV-E eligible children because of recent changes in federal law.

Auditor's Conclusion:
The Centers for Medicare and Medicaid Services (CMS) administrative letter #01-013, issued on January 19, 2001, states that, "Medicaid case management services do not include payment for the provision of direct services (medical, educational, or social) to which the Medicaid eligible individual has been referred. For example, if a child has been referred to a state foster care program, any activities performed by the foster care case worker that relate directly to the provision of foster care services cannot be covered as case management."

DHHS did not properly define what constituted case management and relied on case worker choice to determine billing to Medicaid or to Title IV-E. The majority of case worker narrative logs reviewed did not adequately identify whether the service being provided was allowable. Further, time logged by case workers did not appear reasonable to support the monthly negotiated rate of $899.02 per client. The finding remains as stated.

Department of Health and Human Services

Finding: (05-56)

Prior Year Finding: No
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Administrative and Financial Services (DAFS)
Health and Human Services (DHHS)
Bureau: Office of Information Technology (OIT)
Office of MaineCare Services (OMS)

Finding Type: Internal control and compliance

Compliance Area: Special test and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §92.20, 5 MRSA §1541 sub-§10-A
42 CFR §433.110-.131, Title XIX §1903(r)

Condition: DHHS did not have adequate internal controls to ensure that a functional claims management system was in place. DAFS, OIT is charged with providing oversight to the State's information technology systems. During fiscal year 2005, a new system was implemented which did not function as expected. This failure of the newly implemented system significantly affected the programs claims processing capabilities. It caused OMS to make approximately $300 million in estimated payments to service providers in lieu of payments for actual claims. The key internal control for ensuring that claims are for only allowable services is the effective and consistent application of built-in computer validation edits. Due to the initial instability of the MECMS, some pre-established computer edits were not consistently applied. As a result, some providers were over paid and others were underpaid; these amounts were not determinable. Numerous system change controls had to be initiated to stabilize the system's processing capabilities. Additionally, several MMIS core subsystems are still not functioning. They include:

- Third Party Liability (TPL)
- Maine Medicaid Decision Support System (MMDSS) for information retrieval purposes
- Surveillance and Utilization Review System (SURS)

Other identified problems were as follows:

- Mental Retardation waiver claims were rejected due to incompatible information systems
- Incorrect application of the appropriate cost sharing ratios to paid claims
- Claims were paid from the incorrect fund for incorrect amounts
- Inability to generate system reports critical to the planning, managing, monitoring and financial reconciliation functions
- Inability to generate reports of actual payments by fund

Context: The claims processing breakdown is a systemic problem that also adversely affects many of the program's ancillary functions. From January 27, 2005 through June 30, 2005, OMS staff submitted to the system developer 23 change control forms (CCFs) to fix claim pricing errors, 15 CCFs to correct permission matrix problems, and 27 CCFs to restore the system edits that were either in question or simply bypassed.

Cause: The initial system breakdown can be attributed to the following:

- An inadequate system development process
- Lack of a formal risk management process
- Lack of effective testing before implementation
- Procuring the services of a software vendor with limited medical claims experience
- Not conducting parallel testing as prescribed in the advanced planning document

Effect:

- The need for actuarial calculation to compute the unpaid claims liability at year-end
- Suspended claims increase significantly
- Significant interim payments were made in lieu of actual claims
- Over and under claims payments made to providers
- Ineffective claims edit capabilities
- Inability to generate system reports critical to the ongoing planning, management and monitoring of program activity
- Inability to generate reports of actual payments by fund with sufficient detail to estimate their immediate cash needs
- A severely impaired information retrieval function
- Noncompliance with the current Health Insurance Portability and Accountability Act (HIPAA) claims format
- State resources were redirected to support system stabilization efforts
- Decline in Third Party liability recoveries

Recommendation: We recommend that the Offices consider the areas adversely affected by the flawed implementation, focus on claims payments, and prioritize corrective action plans for other affected areas.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Department of Health and Human Services

Finding: (05-57)

Prior Year Finding: No
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of MaineCare Services

Finding Type: Internal control and compliance

Compliance Area: Allowable activities, Allowable costs/cost principles, Procurement

Known Questioned Cost: Undeterminable

Likely Questioned Cost: Undeterminable

Criteria: Title XIX § 1902(a) 30(A), §1915 (c)
42 CFR §431.10; 42 CFR §440.167
42 CFR §440.180(b)(9)
42 CFR §441.301(b) (4)
42 CFR §441.310(a)(2)
42 CFR §447.10
42 CFR §447.200-205; 45 CFR §74.53; OMB Circular A-87
U.S. Department of Health and Human Services publication, _Understanding Medicaid Home and Community Services: A Primer_, October 2000

Condition: DHHS did not have adequate internal controls in place to ensure that the funds of the Home and Community-based Services Waiver Program (MR Waiver) were expended in accordance with federal regulations. In addition, DHHS did not have adequate procedures to ensure that services were procured in accordance with federal requirements. Certain MR Waiver funds may be spent on residential training and personal support services to enable mentally retarded clients to live in a community setting. DHHS did not establish uniform rates to reimburse providers for these services provided to MR Waiver clients. Some rates were established based on individual providers' budgeted costs, while other rates were set without any documented support.

DHHS had no method to ensure that rates paid for residential training and personal support services were reasonable and necessary. Rather than the rates being established on comparable support services, as the MR Waiver requires, they were based on provider costs of operation. Also, DHHS did not request, assess, or consider providers' actual costs, but based the rates on estimated costs. Although provider budgets included potentially allowable costs for personal services, they also included unallowable costs, such as indirect costs, building maintenance, utilities, and vehicle payments.

Furthermore, DHHS did not comply with federal regulations that require States to procure services by following the same policies and procedures it uses for procurements from its non-federal funds. DHHS did not submit all provider agreements to the Division of Purchases for its approval. Others that were submitted did not receive approval for all rates mentioned. Also, DHHS did not obtain provider Agreements specified in the MR Waiver application. The State asserted that it would obtain *Medicaid Service Agreements* from Residential Habilitation providers, and *Service Agreements for Independent Providers* from providers of Personal Care Services. The use of either standard agreement would have established some internal controls, allowable uses of funds provided and accountability measures for funds provided.

Context: In fiscal year 2005, DHHS expended approximately $193 million from State and Federal funds for MR Waiver purposes. Of this amount approximately $168 million was expended for Residential Training and Personal Support Services to MR Waiver participants.

We selected a sample of 60 providers to assess the reasonableness of rates paid for the clients they served.

- For those homes with budgets (15 of 60), sixteen percent of budgeted costs were unallowable. This percentage represents approximately $23 million.
- For 45 of the sample of 60 providers, DHHS had no documented support for rates.

Residential training rates ranged from $18.02 to $568.54 per day; personal support services from $3.45 to $38.76 per hour; annual payments depend on the number of units of service authorized.

Cause: DHHS used MR Waiver resources to enable placement of formerly institutionalized individuals in community settings. DHHS has focused on complying with both the Americans with Disabilities Act (ADA), as defined by the U.S. Supreme Court in the Olmstead decision and with the Pineland Consent Decree.

Effect: State and federal funds have been expended for services that, to some unknown extent, were not allowable. Additionally, DHHS' rate structure resulted in potentially misleading amounts being reported as Residential and Personal Support Services on its "372 report" to the federal government. Noncompliance with federal regulations may result in disallowed costs.

Recommendation: We recommend that DHHS develop a uniform rate setting and approval process.

Management's Response: *The Department of Health and Human Services disagrees with this finding and many assertions in it.*

Summarized Response:
The department does agree with the recommendation that a uniform rate setting and approval process be established and implemented. The department will implement per PL 2005, chapter 12, part CCCC-1 and PL 2005, chapter 519, part CCC-1.

The federal agency has already audited the year in question and stated no audit findings. It is true that there were no uniform rates in place in the audit year and that the department relied on negotiations to establish rates of reimbursement. Because the providers ranged from sophisticated corporate businesses serving many consumers to "mom-and-pop" providers who served very few consumers, negotiations varied from complex to very simple. Some corporate providers offered specific itemized budgets for the department's consideration in negotiating the rate of reimbursement; in contrast, some sole proprietors simply accepted what was offered by the department as adequate in light of limited funds.

It is true that some errors were made. However, the department corrected its errors as soon as it was clear that its policies were not in accordance with federal law. For example, the department stopped reimbursement for utility costs upon discovering in federal guidance issued in 2005 that utilities were expected to be included in "room and board," a cost not reimbursable by the waiver program.

The department did not violate federal regulations by not having the Division of Purchases approve all provider agreements or by not using a standard service agreement template. All agreements with waiver providers were monitored continually by case managers who monitored the provision of services, the efficacy of services, and the needs of consumers. These were sufficient internal controls to measure not only the actual delivery but also the quality of the services purchased with waiver funding.

Auditor's Conclusion:
The Centers for Medicare and Medicaid Services (CMS) did not audit Maine's Waiver program. CMS assessed Maine's Waiver program in order to determine that certain State assurances were met and to assist in its consideration of the State's request to renew the Waiver. Although CMS concluded that the State substantially met each assurance, its conclusion on financial accountability requirements resulted from summary information; CMS did not audit program expenditures. The draft report was issued in August 2004 and the final report in October 2004, partway through the year of our audit.

The Department's case managers did not examine provider costs for the services delivered.
The finding remains as stated.

Department of Health and Human Services

<u>Finding: (05-58)</u>

Prior Year Finding: 04-52
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of MaineCare Services

Finding Type: Internal control and compliance

Compliance Area: Eligibility

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 42 CFR §431.10
MaineCare Eligibility Manual:

- §1500 [Eligibility Periods/Reviews]
- §1150 [Record Retention]
- §4120 [Transfer of Assets]
- MaineCare Benefits Manual §46.04 [Duration of Care]

Condition: Internal controls are not adequate to ensure compliance with eligibility and record retention requirements. An eligibility test of 40 program beneficiaries revealed the following:

- A required annual medical assessment was not conducted on behalf of a child deemed eligible under the Katie Beckett Program
- Case records did not include required documentation disproving the presumption that property transfers had not taken place on behalf of two long-term care program recipients

Context: This is a systemic problem.

Cause: Unknown

Effect: Potential for ineligible program recipients receiving program benefits resulting in potential future questioned costs

Recommendation: We recommend that:

- All medical assessments be timely conducted for all Katie Beckett Program beneficiaries
- Documentation be retained to support asset transfer inquiries on behalf of long-term care applicants/beneficiaries

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Department of Health and Human Services

<u>Finding: (05-59)</u>

Prior Year Finding: No
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of MaineCare Services

Finding Type: Internal control and compliance

Compliance Area: Eligibility

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 42 CFR §431.800-.865

Condition: DHHS did not have adequate internal control procedures in place to ensure that the Medicaid eligibility error rate reported to the federal government was correct. In the period tested, the error rate was reported as 2.66% when the actual error rate was 1.12%. Also, the lower statistical limit was reported as .60% when the actual lower limit was a negative .06%. Errors in the Excel formulas could have caused these statistics to have been either under-reported or over-reported.

Context: Pervasive formula errors

Cause:
- Inadequate supervisory review
- Excel worksheet formula errors

Effect: DHHS does not have a true determination of the Medicaid error rate.

Recommendation: We recommend that DHHS implement procedures that ensure the correct formula errors are used.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Department of Health and Human Services

Finding: (05-60)

Prior Year Finding: 04-60
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of MaineCare Services (OMS)

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §95.621

Condition: DHHS did not have adequate internal controls in place to ensure compliance with federal and State automated data processing (ADP) review requirements. Specifically, OMS has not:

- Established a comprehensive risk analysis program to ensure that appropriate, cost effective safeguards are incorporated in its claims processing system
- Developed a written security plan and related policies and procedures to address Medicaid management information system security requirements
- Made a determination of compliance with the State's ADP security requirements
- Developed a description of the State's ADP security program
- Filed the required certification with the federal government

In addition, OMS has not fully complied with the assurance that they perform biennial security reviews as indicated in the August 2000 Advanced Planning Document.

Context: This is a systemic problem.

Cause:

- Lack of understanding of federal requirements
- Lack of staff

Effect:

- Unauthorized access to confidential claims data and operating systems
- Potential equipment loss / equipment damage due to theft, sabotage, natural disasters
- Federal sanctions

Recommendation: We recommend that OMS obtain a better understanding of ADP system review requirements, obtain resources, and take the steps necessary to address the conditions noted above to ensure that the level of security over the State's claims processing system is adequate.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

<u>Finding: (05-61)</u>

Prior Year Finding: 04-56
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0305ME5028, 05-0405ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of MaineCare Services

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions (provider eligibility)

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 42 CFR §431.107, §455.104, §455.106

Condition: DHHS did not have adequate internal controls in place to ensure that files contain sufficient records to determine whether providers were appropriately licensed or had provided required disclosures.

Of the forty-five providers' files selected for review:

- One file could not be located
- Seven licenses could not be found
- Twelve files were missing provider agreements
- Seven files were missing provider applications
- Four of the available applications were missing the required ownership disclosures
- Nineteen of the provider applications were missing the required criminal offense disclosures

Context: This is a systemic problem.

Cause: Provider files were destroyed due to mold contamination in 2002. Although DHHS attempted to re-obtain the documentation maintained in these files from the providers, sufficient follow-up was not performed, resulting in incomplete provider files.

Effect: Noncompliance with required provider documentation requirements and potentially ineligible providers being allowed to participate in the program.

Recommendation: We recommend that DHHS ensure documentation required for determining provider eligibility is retained in the provider's file.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-62)

Prior Year Finding: No
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of MaineCare Services

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §95.611
Advance Planning Document (APD) dated September 22, 2000

Condition: DHHS did not have adequate internal controls in place to ensure compliance with the APD. The APD requires an Independent Validation and Verification be in place throughout all phases of development for the new Medicaid Management Information System (MECMS). Independent Validation and Verification is an independent assessment to ensure system functionality. Also, the State did not obtain written federal approval of the Request for Proposal and contract for Independent Validation and Verification services prior to their execution.

The duties of the Independent Validation and Verification contractor began at the onset of the project as required by the APD, but continued only through December 2004. On January 20, 2005, DHHS notified the State Controller that MECMS was prepared to go live and that DHHS had thoroughly analyzed test results and seen sufficient evidence that the system was operating as designed. DHHS began using the system on January 27, 2005, but was unable to adequately process claims.

Context: This is a systemic problem.

Cause: Inadequate testing and validation of the MECMS system prior to implementation in January 2005

Effect:

- Possible disallowance of federal financial participation because of failure to comply with APD criteria (45 CFR §95.612)
- Implementation of an inadequate Medicaid management information system

Recommendation: We recommend that DHHS:

- Fully comply with the requirements of APD
- Obtain all required federal approvals

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-63)

Prior Year Finding: 04-53
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of MaineCare Services

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 42 CFR §455-456
MaineCare Benefits Manual, Chapter I §1.15-1.16

Condition: DHHS does not have adequate internal controls in place to ensure the ongoing evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services. Additionally, DHHS does not have a post payment review process that allows State personnel to develop and review recipient and provider service profiles, and identify exceptions so that misutilization practices can be corrected.

Context: This is a systemic problem.

Cause:
- The SURS subsystem of the State's new claims processing system is currently not functional
- Lack of specialized software

Effect:
- Noncompliance with utilization control requirements
- Inability to identify and recoup additional funds

Recommendation: We recommend that DHHS:
- Fully implement the SURS subsystem as a core MMIS subsystem
- Develop a post-payment review process that reviews recipient utilization and provider service profiles and identify exceptions to correct misutilization practices
- Procure specialized software to allow the SURS unit to download and convert data from the claims processing system for subsequent analytical purposes

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-64)

Prior Year Finding: No
CFDA: 93.775, 93.777, 93.778
CFDA Title: Medicaid Cluster
Federal Award: 05-0405ME5028, 05-0505ME5028
Federal Agency: U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of MaineCare Services

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 42 CFR Parts 455, 456 and 1002

Department of Health and Human Services

Condition: DHHS did not have adequate internal controls in place to ensure that it took appropriate action to resolve issues identified by its Program Integrity Unit. In September 2004, the Unit reported to the Office of MaineCare Services the results of its review of 150 School Based Rehabilitation Medicaid clients. The review noted the following:

- Non compliance with Medicaid regulations
- Incomplete case files
- Payments for clients not in school for applicable billing periods

There are no indications that DHHS resolved the issues identified in the report

Context: This finding relates to the September 2004 School Based Rehabilitation report.

Cause: DHHS has experienced significant staff and management turnover, operational restructuring and systems and accounting problems. The number of issues that managers had to deal with may have affected their ability to address the review report.

Effect: Potential future questioned costs

Recommendation: We recommend that DHHS assign responsibility to specific individuals to address identified issues and that a separate individual provide supervisory review. All actions taken should be documented; issues should be addressed in a timely manner; and the Program Integrity Unit be apprised as to the actions taken.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-65)

Prior Year Finding: 04-61
CFDA: 10.558
93.558, 93.575, 93.596, 93.667
CFDA Title: Child and Adult Food Care Program
TANF
Child Care & Development Block Grants
Child Care Mandatory & Matching Funds of the Child Care and Dev. Fund
Social Services Block Grant
Federal Award: 4ME300302
0401METANF
0501METANF
G0401MECCDF/G0501MECCDF
G0501MESOSR/G0501MESOSR
Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)

Department of Health and Human Services

Bureau: Office of Purchased Services

Finding Type: Internal control and compliance

Compliance Area: Subrecipient monitoring

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: OMB Circular A-133 §___.405

Condition: DHHS did not have adequate controls in place to ensure that the Department issued management decisions in accordance with federal regulations for subrecipient audit findings. Management decisions were not issued on any of the audit reports that required such action.

Context: This is a systemic problem.

Cause: There is no system in place to act on the issuance of management decisions.

Effect: Untimely follow-up on subrecipient audit findings

Recommendation: We recommend that the DHHS establish procedures to ensure that management decisions are issued in compliance with OMB Circular A-133.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-66)

Prior Year Finding: No
CFDA: 93.775, 93.777, 93.778, 10.551, 10.561, 93.558, 93.767
CFDA Title: Medicaid Cluster
Food Stamps Cluster
TANF
State Children's Insurance Program
Federal Award: Various
Federal Agency: U.S. Department of Agriculture
U.S. Department of Health and Human Services
State Department: Health and Human Services (DHHS)
Bureau: Office of Integrated Services
Office of Technology Management Services (OTMS)

Finding Type: Internal control and compliance

Department of Health and Human Services

Compliance Area: Eligibility

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: Internal control policies and procedures

Condition: There are weaknesses in internal control policies and procedures relating to the Automated Client Eligibility System (ACES) that are used for determining eligibility for the federal programs noted above. In addition, ACES does not provide information necessary to comply with federal debt collection procedures required by Food Stamp Program regulations.

We noted –

- The Office of Integrated Services does not assign privileges nor does it maintain user access controls in accordance with State of Maine Information Technology (IT) Security Policy and best practices.
- There is no disaster recovery plan in place, which is in violation of Handbook 901 §8039 published by the Food and Nutrition Service (FNS) of the U.S. Department of Agriculture. In addition, Section 11 of the State of Maine's Information Technology Security policy requires that agencies develop, maintain, and annually test recovery and business continuity plans.
- There are no monitoring procedures in place to measure system performance and availability as required by State information architecture principles and standards for best practices.
- The Data Dictionary is neither reliable nor up-to-date. It is not readily accessible "on-line" as contractually required with the ACES software developer.
- The Entity Relationship Diagram is not organized in a manner that facilitates database analysis and performance tuning.
- ACES does not provide the information necessary to enable DHHS to participate in the U.S. Treasury debt collection system as required by Food Stamp Program regulations.

Context: This is a systemic problem.

Cause: Lack of policies and procedures

Effect:

- Improper system access
- Loss of use of system
- Less than adequate system performance
- Increased systems maintenance costs
- Possible sanctions by the U.S.D.A. for failure to participate in the Treasury Offset Program (TOP)
- Delayed recovery of the State's share of debts collected through TOP.

Recommendation: We recommend that DHHS strengthen internal control policies and procedures to ensure proper access, continuity of operations, adequate system performance, and adequate documentation of the ACES system. In addition, programming changes should be made to ACES to allow for participation in TOP.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

Finding: (05-67)

Prior Year Finding: 04-31
CFDA: 93.775, 93.777, 93.778, 10.551, 10.561, 93.558, 93.767
CFDA Title: Medicaid Cluster
Food Stamp Cluster
Temporary Assistance for Needy Families
State Children's Insurance Program
Federal Award: Various
Federal Agency: U.S. Department of Health and Human Services
U.S. Department of Agriculture
State Department: Health and Human Services (DHHS)
Bureau: Office of Integrated Access and Support
Office of Technology and Management Services

Finding Type: Internal control and compliance

Compliance Area: Special tests and provisions

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 45 CFR §205.55
42 USC §1320b-7

Condition: DHHS does not have controls in place to ensure appropriate exchange and analysis of data for income and eligibility verifications for Medicaid, TANF, Title IV-D, General Assistance, Food Stamp programs, and State Children's Insurance Program. As a result of the inadequate control procedures, DHHS is not complying with federal requirements.

Department of Health and Human Services

Context: We reviewed information exchanged on May 16, 2005 and noted the following problems:

- 551 of the 4,019 Beneficiary Data Exchange (BENDEX) Beneficiary Earnings Change Records (BEER) were not in accordance with the required Social Security Administration (SSA) guidelines for State Verification and Exchange System (SVES) transmissions.
- In a sample of 30 of 539 potential income amount discrepancies identified in the BENDEX Income Discrepancy Report resulting from the BENDEX, we found three potential income errors that remained uncorrected in the Automated Client Eligibility System (ACES).
- In a sample of 30 of 303 potential Social Security Number (SSN) mismatches identified in the BENDEX Error Report resulting from the BENDEX, we found 14 potential SSN errors that remained uncorrected in ACES.
- ACES does not generate a discrepancy report specifically identifying potential errors or data mismatches resulting from the Supplemental Security Income (SSI) State Data Exchanges.
- There is no statewide control requiring caseworker review of wage match reports comparing ACES and Maine Department of Labor data.

Cause:

- Incorrect programming of ACES
- Lack of follow-up on discrepancies noted in the error reports

Effect:

- Incorrect eligibility determinations
- Incorrect benefit amounts calculated if corrective actions are not fully implemented
- Possible financial sanctions

Recommendation: We recommend the following:

- Programming changes should be made to ensure that the information submitted to SSA is in the correct format and contains all the necessary information.
- Procedures should be established to ensure workers review errors flagged in the error reports.
- The ACES report generated from the SSA information should be modified to reduce incorrectly flagged errors.

Management's Response: *The Department of Health and Human Services agrees with this finding.*

State of Maine
Department of Labor

Finding: (05-68)

Prior Year Finding: 04-72
CFDA: 17.258, 17.259, 17.260
CFDA Title: WIA Cluster
Federal Award: AA12929, AA13802, EM11650
Federal Agency: U.S. Department of Labor
State Department: Labor (DOL)
Bureau: Office of Information Processing

Finding Type: Internal control

Compliance Area: Eligibility

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 20 CFR § 662.230

Condition: DOL does not have adequate internal controls in place for the One Stop Operating System. Control weaknesses identified in the eligibility computer system include:

- Unauthorized personnel able to make changes to master files, production programs and live data files
- Passwords are not confidential, unique, changed at regular intervals and canceled upon employee termination
- Procedures not in place to prohibit test versions of programs from being run on production data
- Disaster contingency plans have not been tested

Context: This is a systemic problem.

Cause: Lack of polices and procedures

Effect:

- Data integrity could be compromised
- Potential ineligible recipients
- Possible future disallowed costs

Recommendation: We recommend that DOL continue to implement appropriate controls for the One Stop Operating System.

Management's Response: *The Department of Labor agrees with this finding.*

Department of Labor

<u>Finding: (05-69)</u>

Prior Year Finding: 04-76
CFDA: 84.126
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
Federal Award: # H126A040085E; H126A040026E; H126A050085E; H126A050026E
Federal Agency: U.S. Department of Education
State Department: Labor (DOL)
Bureau: Bureau of Rehabilitation Services

Finding Type: Internal control

Compliance Area: Allowable costs/Cost principles

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: OMB Cir. A-87; 34 CFR §76.702; 34 CFR §74.21 (b)(3); 34 CFR §361.47

Condition: DOL does not have adequate internal controls in place to ensure compliance with the allowability requirements. Rehabilitation counselors interview applicants, determine and verify applicant eligibility, establish individualized plans for employment, authorize, initiate and approve payments, document consideration of comparable services, and determine when applicant participation should terminate without substantive review or approval.

Context: This is a systemic problem. There was no indication that any of the 19 case services expenditures tested were subject to supervisory review or approval.

Cause: Lack of segregation of duties

Effect:
- Inadequate supervisory review
- Potential for inappropriate payments

Recommendation: We recommend that DOL:
- Establish internal control procedures to ensure independent approvals of case services expenditures and implement computer controls that would limit the ability of a system user to initiate, authorize and approve the payment process
- Periodically review the work done by the rehabilitation counselors to ensure compliance with program requirements

Management's Response: *The Department of Labor agrees with this finding.*

Department of Labor

<u>Finding: (05-70)</u>

Prior Year Finding: No
CFDA: 84.126
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
Federal Award: H126A040085E; H126A040026E; H126A050085E; H126A050026E
Federal Agency: U.S. Department of Education
State Department: Labor (DOL)
Bureau: Bureau of Rehabilitation Services

Finding Type: Internal control and compliance

Compliance Area: Allowable costs and cost principles

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: OMB Circular A-87 payroll certification, attachment B; 34 CFR §74.23

Condition: DOL did not have internal controls in place to ensure compliance with federal requirements regarding charges for personal services. Certifications for employees working solely on a single federal grant were not obtained. In addition, documents to support charges for employees working on multiple activities did not meet federal standards.

Context: This is a systemic problem.

Cause: Internal control weaknesses in inadequate policies and procedures

Effect: Inaccurate employee certification may cause potential future questioned costs.

Recommendation: We recommend that DOL:
- Establish procedures that would allow employees to adequately certify upon which federal or State grant their time was spent during each period
- Adequately document procedures implemented for employee certification

Management's Response: *The Department of Labor disagrees with this finding.*

Summarized Response:
DOL disagrees with the finding. Employees enter and certify their time in the State Time and Management System (TAMS) with an electronic signature, which is reviewed by a supervisor who then signs electronically. Each employee posts time to the respective programs(s) they work on. Most work solely in the VR program and do not need multiple postings.

Auditor's Conclusion:
The Department of Labor entries to TAMS are generically labeled using account codes, without specifying which grant the employee is working on as required by federal regulations. The finding remains as stated.

Finding: (05-71)

Prior Year Finding: 04-73
CFDA: 84.126
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
Federal Award: H126A040085E; H126A040026E; H126A050085E; H126A050026E
Federal Agency: U.S. Department of Education
State Department: Labor (DOL)
Bureau: Bureau of Rehabilitation Services

Finding Type: Internal control and compliance

Compliance Area: Eligibility

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 29 USC §722; 34 CFR §361; 34 CFR §361.42(a)(3); 34 CFR §361.47

Condition: Controls are not adequate to ensure that DOL completes eligibility determinations within the required time limits. In addition, documentation supporting the verification of qualifying disabilities is not always maintained. Furthermore, there is only limited supervisory review of client eligibility determinations.

Context: This is a systemic problem.
- Testing of forty randomly selected client cases indicated that sixty day timeframes for eligibility determination were not adhered to in eight (20%) of the forty cases tested.
- No evidence was provided to support that the client's qualifying disability was independently verified for two of 40 cases tested and for one of 10 other cases tested.

Cause: Inadequate review procedures

Effect:
- Noncompliance with federal requirements
- Possible future questioned costs

Department of Labor

Recommendation: We recommend that DOL:

- Implement procedures to ensure timely eligibility determinations
- Establish procedures to ensure that documentation to support client eligibility is consistently maintained for all clients
- Establish procedures to ensure that client eligibility determinations are subject to adequate supervisory review

Management's Response: *The Department of Labor agrees with this finding.*

<u>Finding: (05-72)</u>

Prior Year Finding: 04-77
CFDA: 84.126
CFDA Title: Rehabilitation Services – Vocational Rehabilitation Grants to States
Federal Award: H126A040085E; H126A040026E; H126A050085E; H126A050026E
Federal Agency: U.S. Department of Education
State Department: Labor (DOL)
Bureau: Bureau of Rehabilitation Services

Finding Type: Internal control and compliance

Compliance Area: Program income

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 29 USC §728; 34 CFR §361.63; 34 CFR §80.42(c)(3);
34 CFR §74.21(b)(2); 34 CFR §76.702

Condition: DOL did not have adequate internal controls over the computation of program income, obligation of the related funds within the period of availability and the reporting of its expenditure. In addition, client cost information used to claim program income from the Social Security Administration was not always retained.

Context: This is a systemic problem.

Cause:

- Inadequate review and reconciliations
- Misunderstanding of record retention requirements
- Inadequate accounting procedures

Department of Labor

Effect:
- Inaccurate financial reporting
- Loss of revenue

Recommendation: We recommend that DOL:
- Document and retain program income information in compliance with federal regulations
- Implement accounting procedures that ensure proper disbursement of and accounting for, federal funds
- Implement procedures to ensure that obligated funds are expended within the period of availability

Management's Response: *The Department of Labor agrees with this finding.*

State of Maine
Department of Public Safety

<u>Finding: (05-73)</u>

Prior Year Finding: No
CFDA: 97.004
CFDA Title: U.S. Homeland Security Grant Program
Federal Award: 2003-TE-TX-0158; 2003-MU-T3-0016; 2004-GE-T4-0041
Federal Agency: U.S. Department of Homeland Security
State Department: Department of Public Safety (DPS)
Bureau: Maine State Police

Finding Type: Internal control and compliance

Compliance Area: Procurement, suspension and debarment

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 28 CFR Part 67

Condition: DPS did not have adequate internal controls in place to ensure compliance with suspension and debarment requirements. Three of six contracts tested did not contain the standard suspension and debarment certification.

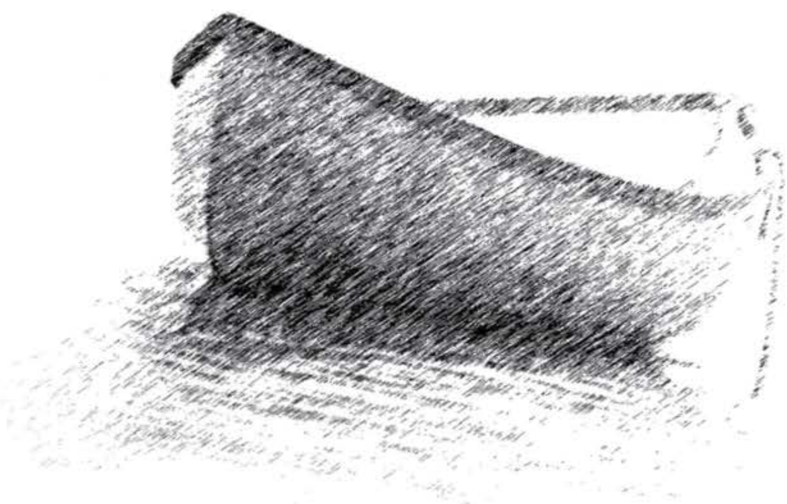
Context: This is a systemic problem.

Cause: Agency personnel were not aware that the Division of Purchases standard contract language does not include a suspension and debarment clause.

Effect: The State may enter into a contract with a suspended or debarred party.

Recommendation: We recommend that Public Safety implement procedures to ensure that the suspension and debarment requirements are met.

Management's Response: *The Department of Public Safety agrees with this finding.*



<u>Finding: (05-74)</u>

Prior Year Finding: 04-81
CFDA: 20.205
CFDA Title: Highway Planning & Construction
Federal Award: Various
Federal Agency: U.S. Federal Highway Administration
State Department: Department of Transportation (MDOT)
Bureau: Agreement Coordination Office

Finding Type: Internal control and compliance

Compliance Area: Procurement, suspension and debarment

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 49 CFR §18; 5 MRSA §1742; Public Law 92-582

Condition: Internal controls were not adequate to ensure that suspension and debarment requirements were met. In addition, we were unable to determine that State procurement procedures were followed.

Context: A test of sixty construction and consultant contracts revealed that:

- Eighteen consultant contracts did not reference the Consultant General Conditions, which contains the suspension and debarment certification
- One construction contract did not have a certification for suspension and debarment
- For thirty-two consultant contracts, we were unable to determine if procurement of consultants was based on a Quality Based selection process
- For nineteen consultant contracts, the Independent Government Estimates could not be obtained
- Two Independent Government Estimates were not complete

Cause: Lack of training

Effect:

- Potential contracting with suspended or debarred vendors
- Possible disallowance of expenditures

Recommendation: We recommend that:

- Controls be implemented to retain procurement documentation
- Include the suspension and debarment language in consultant contracts

Management's Response: *The Department of Transportation agrees with this finding.*

Department of Transportation

Finding: (05-75)

Prior Year Finding: 04-79
CFDA: 20.205
CFDA Title: Highway Planning & Construction
Federal Award: Various
Federal Agency: U.S. Federal Highway Administration
State Department: Department of Transportation (MDOT)
Bureau: Project Development

Finding Type: Internal control and compliance

Compliance Area: Davis-Bacon Act

Known Questioned Cost: None

Likely Questioned Cost: None

Criteria: 29 CFR §5

Condition: MDOT did not follow established internal control procedures. As a result, incorrect wage rates were paid and certified payrolls were not submitted.

Context: This is a systemic problem. Of 60 projects tested:

- Payroll interviews were not complete for 43 projects
- Some certified payrolls were missing for 12 projects
- Some of the certified payrolls had not been stamped or signed by the Resident Engineer for 17 projects
- The wage rate sheets, used to determine prevailing wage rates, were not complete for six projects
- Of 110 employees tested, seven had incorrect wages paid, correct wages for six could not be determined due to incomplete wage rate sheets, and wages for one could not be determined since the job classifications were not included on the certified payroll.
- Certified payrolls could not be obtained for one locally administered project

Cause: Lack of enforcement

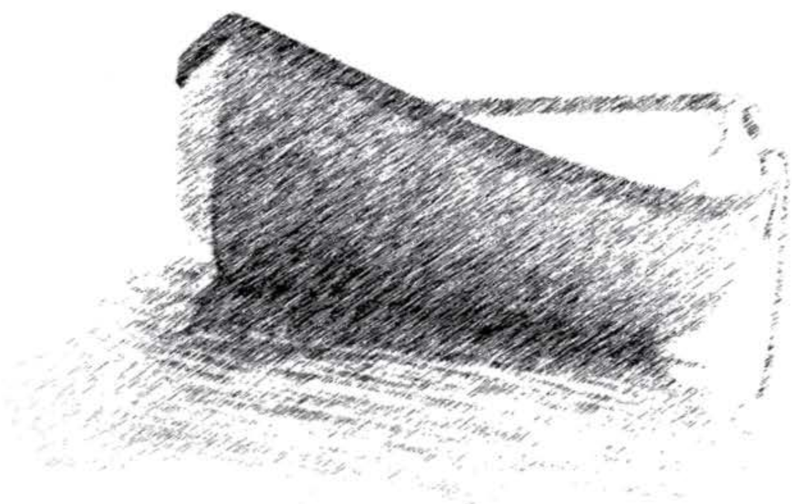
Effect:

- Possible federal sanctions
- Inadequate oversight by resident engineers
- Contractor liable for liquidated damages

Recommendation: We recommend that MDOT follow internal control procedures to ensure compliance with the Davis-Bacon Act.

Management's Response: *The Department of Transportation agrees with this finding.*

STATE OF MAINE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005



State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2005

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
02-25	12.401	Defense, Veterans and Emergency Management	Inadequate internal control over cash management (Prior Year Finding)	None	Corrective action taken in FY06.	05-06
02-27	12.999	Defense, Veterans and Emergency Management	Inadequate internal control over cash management (Prior Year Finding)	None	Corrective action taken in FY06.	Finding was not repeated.
02-31	84.010 84.027 10.555	Education	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
02-32	84.027	Education	Controls do not ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Corrective action completed in FY06.	Verbal comment
02-40	93.658	Health and Human Services	Payments made to ineligible recipients (Prior Year Finding)	$106,252	Corrective action taken.	No further action warranted per OMB A-133 315.b4.
02-41	93.659	Health and Human Services	Payments to ineligible recipients (Prior Year Finding)	$260,866	Corrective action continues in FY06.	See 05-53 . No further action warranted per OMB A-133 315.b4.
02-43	10.561	Health and Human Services	Inadequate controls over financial reporting	None	Corrective action continues in FY06.	See 05-04 . No further action warranted per OMB A-133 315.b4.
02-44	93.268	Health and Human Services	Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)	None	Corrective action continues in FY06.	See 05-47 . No further action warranted per OMB A-133 315.b4.
02-45	93.268	Health and Human Services	Inadequate cash management procedures	None	Corrective action continues in FY06.	See 05-14. No further action warranted per OMB A-133 315.b4.
02-47	93.563	Health and Human Services	Inadequate controls over accounting for child support (Prior Year Finding)	None	Corrective action continues in FY06.	See 05-21 . No further action warranted per OMB A-133 315.b4.
02-51	93.575 93.596	Health and Human Services	Failure to comply with subrecipient monitoring requirements	None	Corrective action taken in FY05.	No further action warranted per OMB A-133 315.b4.
02-53	93.575 93.596	Health and Human Services	Inaccurate federal financial reporting (Prior Year Finding)	None	Corrective action continues in FY06.	See 05-25. No further action warranted per OMB A-133 315.b4.
02-56	93.658	Health and Human Services	Costs claimed more than once and ineligible participants included (Prior Year Finding)	$48,047	Corrective action taken in FY05.	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 2005

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
02-57	93.658	Health and Human Services	Foster Care grant overdrawn (Prior Year Finding)	$8,286,840	Corrective action taken.	No further action warranted per OMB A-133 315.b4.
02-58	93.658	Health and Human Services	Control deficiencies over eligibility data (Prior Year Finding)	None	Corrective action taken.	No further action warranted per OMB A-133 315.b4.
02-59	93.658, 93.659	Health and Human Services	Inadequate controls over accounting for and reporting the Title IV-E Shared Costs (Prior Year Finding)	$36,164	Corrective action continues in FY06.	See 05-27. No further action warranted per OMB A-133 315.b4.
02-60	93.658 93.659	Health and Human Services	Inadequate controls over accounting for the Title IV-E programs (Prior Year Finding)	None	Corrective action taken.	No further action warranted per OMB A-133 315.b4.
02-72	93.778	Health and Human Services	Unexplained negative cash balance	None	Final corrective action taken in FY06.	Finding was not repeated.
02-73	93.767 93.777 93.778	Health and Human Services	Estimated grant disbursement amounts reported to the federal government	None	Corrective action continues in FY06.	See 05-32 . No further action warranted per OMB A-133 315.b4.
02-74	93.778	Health and Human Services	No financial reconciliation and a lack of controls to ensure accurate federal financial reporting	None	Final corrective action taken in FY06.	Management Letter
02-75	Various	Health and Human Services	Controls are inadequate to ensure accurate financial reporting (Prior Year Finding)	$691,657	Corrective action continues in FY06.	See 05-35 . No further action warranted per OMB A-133 315.b4.
02-76	Various	Health and Human Services	Cash management and accounting records inadequate (Prior Year Finding)	None	Corrective action continues in FY06.	See 05-36. No further action warranted per OMB A-133 315.b4.
02-77	84.126	Labor	Lack of segregation of duties; inadequate oversight (Prior Year Finding)	None	Corrective action continues in FY06.	See 05-69. No further action warranted per OMB A-133 315.b4.
02-81	17.258 17.259 17.260	Labor	Lack of adequate computer controls	None	Corrective action continues in FY06.	See 05-68. No further action warranted per OMB A-133 315.b4.
02-84	84.126	Labor	Incorrect financial reporting	None	Corrective action continues in FY06.	See 05-13. No further action warranted per OMB A-133 315.b4.
02-90	20.205	Transportation	Internal controls regarding Davis Bacon Act not followed (Prior Year Finding)	None	Corrective action continues in FY06.	See 05-75 . 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 2005

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
03-10	84.027	Administrative and Financial Services	Controls insufficient to ensure compliance with federal cash management requirements (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
03-11	Various	Administrative and Financial Services	Excess working capital reserve balance	$613,212	Corrective action continues in FY06.	05-34
03-12 03-72	93.667	Health and Human Services	Inadequate cash management procedures	None	Corrective action continues in FY06.	O5-28, 05-36
03-17	12.401	Defense, Veterans and Emergency Management	Inadequate controls over program requirements (Prior Year Finding)	None	Corrective action continues in FY06.	05-06
03-18	12.999	Defense, Veterans and Emergency Management	Inadequate controls over grant accountability, cash management and suspension and debarment certification (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
03-20	14.228	Economic and Community Development	Inadequate controls over suspension and debarment requirements	None	Corrective action taken in FY05.	Finding was not repeated.
03-23	84.027	Education	Inadequate controls to ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Corrective action completed in FY06.	Verbal comment.
03-30	Various	Health and Human Services	Administration of federal funds inadequate (Prior Year Finding)	None	Corrective action continues in FY06.	Finding cited for each HHS program.
03-31	10.558	Health and Human Services	Inadequate control over, and non-compliance with, cash management requirements	None	Corrective action taken in FY05.	05-05
03-34	10.561	Health and Human Services	Inadequate controls over federal draws, cash management and program accounting	$4,954,830	Corrective action continues in FY06.	Finding was not repeated.
03-36	10.561	Health and Human Services	Inadequate controls over federal reporting requirements	None	Corrective action continues in FY06.	05-42
03-37	10.561	Health and Human Services	Inadequate controls over financial reporting and program data (Prior Year Finding)	None	Corrective action continues in FY06.	05-04
03-39	93.268	Health and Human Services	Controls insufficient to ensure compliance with standards for support of salaries (Prior Year Finding)	None	Corrective action continues in FY06.	05-47
03-40	93.268	Health and Human Services	Untimely reimbursement	None	Corrective action continues in FY06.	05-14
03-41	93.558	Health and Human Services	Non-compliance with requirements for income and verification system	None	Corrective action continues in FY06.	05-67
03-42	93.558	Health and Human Services	Inaccurate data reported on ACF-199 and ACF-209 quarterly performance reports	None	Corrective action continues in FY06.	05-50
03-45	93.558 93.658 93.778	Health and Human Services	Cash management and accounting records inadequate (Prior Year Finding)	None	Corrective action continues in FY06.	05-18
03-46	93.563	Health and Human Services	Inadequate controls over accounting for child support (Prior Year Finding)	None	Corrective action continues in FY06.	05-21

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2005

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
03-47	93.563	Health and Human Services	Funds transferred in excess of program use (Prior Year Finding)	None	Corrective action continues in FY06.	05-23
03-49	93.563	Health and Human Services	Federal financial reporting errors	None	Corrective action continues in FY06.	05-24
03-53	93.575 93.596	Health and Human Services	Insufficient monitoring of subrecipients (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
03-54	93.575 93.596	Health and Human Services	Federal financial reports not properly prepared (Prior Year Finding)	None	Corrective action continues in FY06.	05-25
03-55	93.575 93.596	Health and Human Services	Inadequate cash management procedures	None	Corrective action continues in FY06.	05-36, 05-26
03-56	93.658	Health and Human Services	Payments made to ineligible recipients (Prior Year Finding)	$1,169,034	Corrective action continues in FY06.	Finding was not repeated.
03-57	93.658	Health and Human Services	Lack of controls over federal financial reporting (Prior Year Finding)	$612,543	Corrective action continues in FY06.	05-27
03-58	93.658	Health and Human Services	Unallowable costs claimed (Prior Year Finding)	$25,981	Corrective action taken in FY05.	Finding was not repeated.
03-59	93.658	Health and Human Services	Foster Care grant overdrawn (Prior Year Finding)	None	Corrective action continues in FY06.	Finding was not repeated.
03-60	93.658	Health and Human Services	Information system costs not charged in proportion with benefits received	$730,057	Corrective action taken in FY05.	Finding was not repeated.
03-61	93.658 93.659	Health and 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 FY06.	05-27
03-64	93.659	Health and Human Services	Inadequate controls over accounting and reporting (Prior Year Finding)	None	Corrective action continues in FY06.	05-27
03-68	93.667	Health and Human Services	Federal funds not spent in accordance with earmarking requirements	$4,900,000	Corrective action continues in FY06.	05-54
03-71	Various	Health and Human Services	Inadequate controls over accounting for and reporting of allocated costs (Prior Year Finding)	$683,974 $339,510	Corrective action continues in FY06.	05-35
03-74	Various	Health and Human Services	Estimated grant disbursement amounts reported (Prior Year Finding)	None	Corrective action continues in FY06.	05-32
03-81	93.778	Health and Human Services	$121 million negative cash balance (Prior Year Finding)	None	Corrective action continues in FY06.	Management Letter
03-82	93.778	Health and Human Services	Inadequate controls over provider eligibility	None	Corrective action continues in FY06.	05-61
03-85	93.778	Health and Human Services	Prescribed sampling methodology for utilization reviews not used (Prior Year Finding)	None	Corrective action continues in FY06.	05-63
03-86	93.778	Health and Human Services	Medicaid financial reports not accurate and not reconciled (Prior Year Finding)	$46,643	Corrective action continues in FY06.	05-30
03-89	93.778	Health and Human Services	Financial reporting errors	None	Corrective action taken in FY05.	Finding was not repeated.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2005

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
03-90	93.778	Health and Human Services	No process to ensure annual EDP risk analysis and system security reviews are completed (Prior Year Finding)	None	Corrective action continues in FY06.	05-60
03-96	17.225	Labor	Inaccurate reporting of late payments to the IRS (Prior Year Finding)	None	Substantial action taken in FY05. Additional corrective action continues in FY06.	Finding was not repeated.
03-99	17.258 17.259 17.260	Labor	Inadequate computer controls (Prior Year Finding)	None	Corrective action continues in FY06.	05-68
03-100	84.126	Labor	Incorrect financial reporting (Prior Year Finding)	None	Corrective action continues in FY06.	05-13
03-101	84.126	Labor	Inadequate controls over program payments (Prior Year Finding)	None	Corrective action continues in FY06.	05-69
03-102	20.205	Transportation	Inspections and testing not at proper frequency (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
03-103	20.205	Transportation	Prevailing wage rates not paid (Prior Year Finding)	None	Corrective action continues in FY06.	05-75
04-05	84.027	Administrative and Financial Services	Noncompliance with federal cash management requirements (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
04-06	84.027 84.010	Administrative and Financial Services	Internal control procedures over subrecipients' cash balances not followed.	None	Corrective action continues in FY06.	05-09
04-07	93.775 93.777 93.778	Administrative and Financial Services	Medicaid Plan Amendment obtained by submitting incomplete and misleading information; implementation of plan results in inequities	None	Resolution occurred in FY06.	Finding was not repeated.
04-08	Various	Administrative and Financial Services	Inaccurate financial information provided for Schedule of Expenditures of Federal Awards reporting	None	Corrective action taken for the FY05 schedule.	Finding was not repeated.
04-09	Various	Administrative and Financial Services	Excess working capital reserve balance (Prior Year Finding)	$788,965	Corrective action taken going forward. Awaiting final federal resolution of past amounts.	05-34
04-10	12.401	Defense, Veterans and Emergency Management	Inadequate internal control over cash management/noncompliance with cash management requirements (Prior Year Finding)	None	Corrective action continues in FY06.	05-06
04-11	12.999	Defense, Veterans and Emergency Management	Inadequate internal control over cash management (Prior Year Finding)	None	Corrective action taken in FY06.	Finding was not repeated.
04-12	14.228	Economic and Community Development	Noncompliance with suspension and debarment requirements (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
04-13	14.228	Economic and Community Development	Noncompliance with federal financial reporting requirements	None	Corrective action taken in FY05.	Finding was not repeated.
04-14	14.228	Economic and Community Development	Internal controls over earmarking requirements not operating efficiently	None	Corrective action taken in FY05.	Finding was not repeated.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2005

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
04-15	84.010	Education	Comparability requirements not met	None	Corrective action taken in FY05.	Finding was not repeated.
04-16	84.027	Education	Controls not adequate to ensure compliance with maintenance of effort requirements (Prior Year Finding)	None	Corrective action continues in FY06.	Verbal comment.
04-17	84.027 84.010	Education	Internal control procedures over subrecipients' cash balances not followed	None	Corrective action continues in FY06.	05-09
04-18	84.352	Education	Failure to comply with reporting requirements	None	Federal program no longer exists.	Finding was not repeated.
04-19	10.551	Health and Human Services	Inadequate controls over federal reporting requirements (Prior Year Finding)	None	Corrective action continues in FY06.	05-42
04-20	10.551	Health and Human Services	Automated Client Eligibility System (ACES) does not ensure automatic benefit cutoff	None	Corrective action taken in FY05.	Finding was not repeated.
04-21	10.558	Health and Human Services	Noncompliance with subrecipient monitoring requirements	None	Corrective action continues in FY06.	05-46
04-22	10.558	Health and Human Services	Inadequate internal control over, and noncompliance with, cash management requirements (Prior Year Finding)	None	Corrective action taken in FY05.	05-05
04-23	10.561	Health and Human Services	Inadequate internal controls over federal draws, cash management and program accounting (Prior Year Finding)	None	Corrective action continues in FY06.	Finding was not repeated.
04-24	10.561	Health and Human Services	Inadequate controls over financial reporting (Prior Year Finding)	None	Corrective action continues in FY06.	05-42
04-25	93.268	Health and Human Services	Inconsistent monitoring of pediatric providers hand no established procedures for the monitoring of non-pediatric providers	None	Corrective action continues in FY06.	05-49
04-26	93.268	Health and Human Services	No established procedures for monitoring the safeguarding of vaccine inventory	None	Corrective action continues in FY06.	05-48
04-27	93.268	Health and Human Services	Inadequate controls over cash management and timely reimbursement (Prior Year Finding)	None	Corrective action continues in FY06.	05-14
04-28	93.268	Health and Human Services	Override of controls to ensure compliance with allowable cost principles	None	Corrective action taken in FY05.	Finding was not repeated.
04-29	93.268	Health and Human Services	Controls insufficient to ensure compliance with standards for support of salaries and wages (Prior Year Finding)	None	Corrective action continues in FY06.	05-47
04-30	93.268	Health and Human Services	Inadequate controls procedures over reporting/period of availability	$390,085	Corrective action continues in FY06.	05-15, 05-16
04-31	93.558	Health and Human Services	Noncompliance with income eligibility and verification system requirements (Prior Year Finding)	None	Corrective action continues in FY06.	05-67

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2005

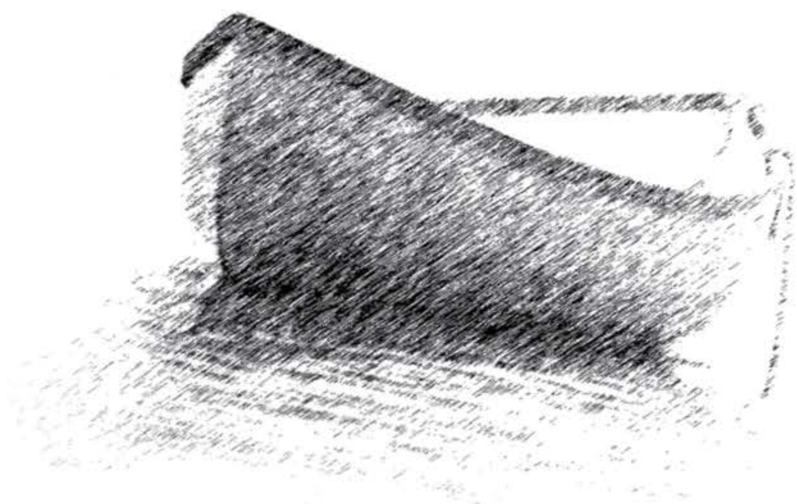
Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
04-32	93.558	Health and Human Services	Insufficient controls to ensure accurate data reporting on quarterly performance reports (Prior Year Finding)	None	Corrective action continues in FY06.	05-50
04-33	93.563	Health and Human Services	Inadequate system of internal controls over accounting for child support (Prior Year Finding)	None	Corrective action continues in FY06.	05-21
04-34	93.563	Health and Human Services	Grievance settlement payment charged to federal funds	None	Corrective action taken in FY05.	Finding was not repeated.
04-35	93.563	Health and Human Services	Inadequate controls to ensure that only program related payroll costs are charged to the program	None	Corrective action continues in FY06.	05-22
04-36	93.563	Health and Human Services	Transfers for program services in excess of costs claimed (Prior Year Finding)	$101,331	Corrective action continues in FY06.	05-23
04-37	93.563	Health and Human Services	Financial reporting inconsistencies and errors (Prior Year Finding)	None	Corrective action continues in FY06.	05-24
04-38	93.575 93.596	Health and Human Services	Ineffective monitoring of providers on eligibility issues (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
04-39	93.575 93.596	Health and Human Services	Inadequate cash management procedures (Prior Year Finding)	None	Corrective action continues in FY06.	05-36, 05-26
04-40	93.575 93.596	Health and Human Services	Federal financial reports not accurate (Prior Year Finding)	None	Corrective action continues in FY06.	05-25
04-41	93.658	Health and Human Services	Duplicate costs paid	$18,999	Corrective action and settlement made in FY05.	Finding was not repeated.
04-42	93.658	Health and Human Services	Override of controls to ensure that costs are claimed correctly (Prior Year Finding)	$19,196	Corrective action taken in FY05.	Finding was not repeated.
04-43	93.658	Health and Human Services	Payments made on behalf of ineligible recipients (Prior Year Finding)	$38,267	Corrective action continues in FY06.	Finding was not repeated.
04-44	93.658	Health and Human Services	Information system costs not charged in proportion with benefits received (Prior Year Finding)	$530,340	Corrective action taken in FY05.	Finding was not repeated.
04-45	93.658	Health and Human Services	Federal draws in excess of reported expenditures (Prior Year Finding)	$12,400,000	Corrective action continues in FY06.	Condition still exists; overdraw did not increase in FY05
04-46	93.658	Health and Human Services	Insufficient internal controls to ensure accurate reporting (Prior Year Finding)	$420,224	Corrective action continues in FY06.	05-27
04-47	93.659	Health and Human Services	Payments made to ineligible clients	$34,831	Corrective action continues in FY06.	05-53
04-48	93.659	Health and Human Services	Inadequate accounting and reporting controls (Prior Year Finding)	None	Corrective action continues in FY06.	05-27
04-49	93.667	Health and Human Services	Inadequate cash management procedures (Prior Year Finding)	None	Corrective action continues in FY06.	05-28
04-50	93.667	Health and Human Services	Funds not spent in accordance with earmarking requirements (Prior Year Finding)	$1,900,000	Corrective action continues in FY06.	05-54

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2005

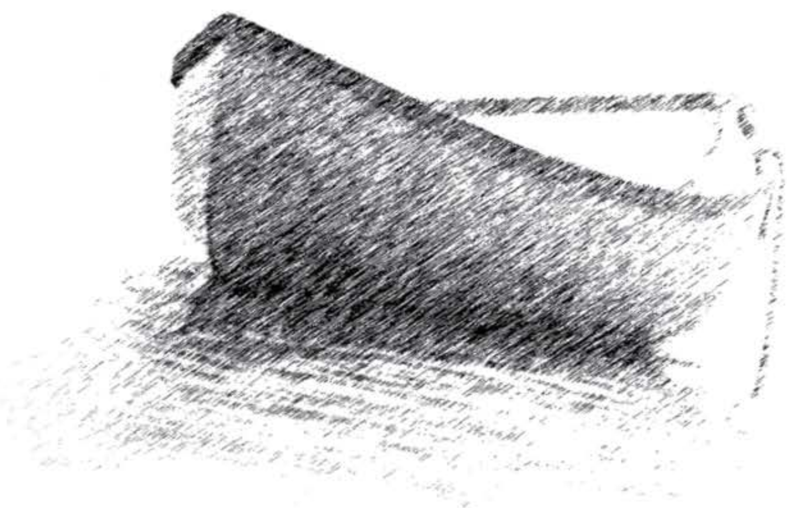
Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
04-51	93.667	Health and Human Services	Inadequate subrecipient monitoring procedures (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
04-52	93.778	Health and Human Services	Medicaid claims paid on behalf of ineligible recipients (Controls insufficient to ensure compliance with eligibility determinations)	$40,266	Corrective action taken in FY05.	Finding was not repeated.
04-53	93.778	Health and Human Services	Surveillance and utilization reviews not performed on a sampling basis (Prior Year Finding)	None	Corrective action continues in FY06.	05-63
04-54	93.775 93.777 93.778	Health and Human Services	Medicaid Plan Amendment obtained by submitting incomplete and misleading information; implementation of plan results in inequities	None	Resolution occurred in FY06.	Finding was not repeated.
04-55	93.778	Health and Human Services	Unallowable case management claim payments	$7,462	Corrective action continues in FY06.	05-55
04-56	93.778	Health and Human Services	Provider eligibility records inadequate (Prior Year Finding)	None	Corrective action continues in FY06.	05-61
04-57	93.778	Health and Human Services	Review of hospital cost settlements not timely and inadequately staffed	None	Corrective action taken in FY06.	Finding was not repeated.
04-58	93.778	Health and Human Services	Medicaid financial reports not accurate and not reconciled; Matching controls insufficient (Prior Year Finding)	None	Corrective action continues in FY06.	05-30
04-59	93.778	Health and Human Services	Negative cash balances continue (Prior Year Finding)	None	Corrective action continues in FY06.	Management Letter
04-60	93.775 93.777 93.778	Health and Human Services	No internal control system established for ADP risk analyses and system security reviews (Prior Year Finding)	None	Corrective action continues in FY06.	05-60
04-61	Various	Health and Human Services	Lack of control over issuing management decisions (Prior Year Finding)	None	Corrective action continues in FY06.	05-65
04-62	Various	Health and Human Services	Costs charged twice, cost allocation plan errors not detected (Prior Year Finding)	$1,979,288	Corrective action continues in FY06.	05-35
04-63	Various	Health and Human Services	Inaccurate financial information provided for Schedule of Expenditures of Federal Awards reporting	None	Corrective action taken for the FY05 schedule.	Finding was not repeated.
04-64	93.558 93.575 93.658 93.778	Health and Human Services	Cash management and accounting records inadequate (Prior Year Finding)	None	Corrective action continues in FY06.	05-36
04-65	93.558 93.658 93.778	Health and Human Services	Insufficient internal controls over cash management (Prior Year Finding)	None	Corrective action continues in FY06.	Finding was not repeated.
04-66	Various	Health and Human Services	Estimated/incorrect grant disbursement amounts reported (Prior Year Finding)	None	Corrective action continues in FY06.	05-32
04-67	n/a	Health and Human Services	Administration of federal funds inadequate (Prior Year Finding)	None	Corrective action continues in FY06.	Finding cited for each HHS program.

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2005

Finding #	CFDA #	Department	Description	Questioned Costs	Status	Repeat Finding
04-68	17.245	Labor	Internal controls not adequate to ensure proper reporting of program expenditures on the Schedule of Federal Awards	None	Corrective action continues in FY06.	05-07
04-69	17.245	Labor	Internal Controls not effective for allowable costs	None	Corrective action taken in FY05.	Finding was not repeated.
04-70	17.225	Labor	Employer records are not properly reviewed and reported to the federal government (Prior Year Finding)	None	Substantial action taken in FY05. Additional corrective action continues in FY06.	Finding was not repeated.
04-71	17.225	Labor	Inadequate internal control resulted in noncompliance with federal reporting requirements	None	Corrective action taken in FY05.	Finding was not repeated.
04-72	17.258 17.259 17.260	Labor	Lack of adequate computer controls (Prior Year Finding)	None	Corrective action continues in FY06.	05-68
04-73	84.126	Labor	Non-compliance with eligibility time frames	None	Corrective action continues in FY06.	05-71
04-74	84.126	Labor	Inadequate controls in place to ensure that period of availability requirements are met	$13,025	Corrective action taken in FY05.	Finding was not repeated.
04-75	84.126	Labor	Supervisory review practices over financial reporting are not adequate (Prior Year Finding)	None	Corrective action continues in FY06.	05-13
04-76	84.126	Labor	Lack of controls over client service payments (Prior Year Finding)	None	Corrective action continues in FY06.	05-69
04-77	84.126	Labor	Controls inadequate to ensure proper reporting of program income	None	Corrective action continues in FY06.	05-72
04-78	84.126	Labor	Inadequate controls over cash management	None	Corrective action continues in FY06.	05-12
04-79	20.205	Transportation	Internal control procedures not followed/Noncompliance with Davis Bacon requirements (Prior Year Finding)	None	Corrective action continues in FY06.	05-75
04-80	20.205	Transportation	Acceptance testing not performed at the established frequency (Prior Year Finding)	None	Corrective action taken in FY05.	Finding was not repeated.
04-81	20.205	Transportation	Inadequate internal controls over procurement for construction and consultant contracts. Noncompliance with procurement requirements	None	Corrective action continues in FY06.	05-74



STATE OF MAINE
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2005



STATE OF MAINE
SINGLE AUDIT CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2005

Financial Statement Findings
Department of Administrative and Financial Services

Finding 05-01

Contact: Douglas Cotnoir, Manager, Financial Reporting, 626-8428
The State of Maine reports more than $3 billion of fixed assets, which are comprised of tens of thousands of individual asset records. The Office of the State Controller has been working closely with agencies to provide guidance and monitoring to facilitate proper recording of assets. We are currently developing a new statewide accounting system, which will provide significantly more functionality for recording, tracking and reporting fixed assets and fixed asset-related information. The OSC plans to implement this new accounting system for fiscal year 2007, thereby improving our ability to produce accurate financial statements and notes upon the close of that fiscal year. Until that time, OSC staff will continue to work with agencies and will re-evaluate and refine existing procedures for compiling information for the financial statements and related note disclosures.

The Controller's Office disagrees with the manner in which the finding is presented. The adjustments, some of which were brought to the auditor's attention by staff within the Controller's Office, in relation to the total of $3 billion are less than one percent of the total value. We do not believe the detailed adjustments mentioned represent a significant risk to the overall financial statement presentation.

Finding 05-02

Contact: Heather L'Hommedieu Perreault, CPA, Deputy Director of Finance, General Government Service Center, 624-7420
We disagree with this finding. The Division of Financial and Personnel Services (DFPS) reconciled the State's accounts receivable activity to multiple reports of the on-line and instant lottery games service-provider.

There is no variance between the activity recorded by DFPS and that of the service-provider. The report to which the Department of Audit attempted to reconcile is not reliable for establishing a fixed amount for a balance sheet account.

DFPS has well-established internal controls to provide reasonable assurance that the reported accounts receivable balance for Lottery Operations is free from material misstatement. The Department of Audit has not tested these compensating controls, instead continuing to request a subsidiary ledger that the service provider has not been able to provide. Compensating controls have been established in the areas of sales, prizes paid, and cash receipts.

Based on these compensating controls, we believe the Lottery accounts receivable balance to be correct as of June 30, 2005, with no material misstatement.

CORRECTIVE ACTION PLAN

Finding 05-03

Contact: Kirsten Figueroa, Deputy Commissioner of Finance, 287-1921; Elizabeth Hanley, Director, DHHS Service Center, 287-1861
The Department of Administrative and Financial Services and the Department of Health and Human Services disagree with this finding.

DHHS managed the significant disruption caused by the inability of MECMS to process claims payments by putting into place a contingency plan. On financial reports, the department worked with the Federal Government to accurately report what was happening as a result of interim payments.

The Departments are unclear as to why an actuarial evaluation is equated to a lack of internal control. Hiring an actuary is the best method for determining year end medical liabilities that will flow into the next fiscal year. It is the Controller's intent that an actuary be hired each year for this estimate. This process is similar to that which occurs in insurance companies, as well as the State's Workers' Compensation, Retiree Health Insurance and Risk Management programs.

CORRECTIVE ACTION PLAN

Federal Award Findings
Department of Administrative and Financial Services

Finding 05-04

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851
The Department of Health and Human Services Service Center agrees with this finding.

All questioned costs have been researched and errors have been verified. SF-269 reports for FFY 2004 and FFY 2005 were revised and submitted November 28, 2005 and January 9, 2006, respectively, correcting the errors identified. Written procedures for Food Stamps Reporting was completed in November 2005 and is now being used when preparing the quarterly reports.

Monthly and quarterly reconciliations have been established to compare program expenditures per the SF-269 report, revenue, and total draws per the federal Automated Standard Application for Payment (ASAP) draw down system.

Finding 05-05

Contact: Lisa Thibodeau, Senior Staff Accountant, 287-3160
The Department of Health and Human Services Service Center agrees with this finding.

It was discovered through the FFY 2004 Federal Audit that we had overdrawn grant funds, which resulted in excess funds showing in SFY 2005. These excess grant funds were paid back to the grant through the federal Automated Standard Application for Payment (ASAP) draw down system on March 3 and March 4, 2005.

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. Invoices sent by program personnel are reconciled to the summary sheets prior to funds being drawn. Invoices are entered into MFASIS and the draw is requested on ASAP, the federal draw down system, the same day. Funds are received in MFASIS usually 1 to 2 days after the ASAP request is made. Invoices are accepted into MFASIS within a day after entering and checks are usually mailed within 2 days from the accept date. In order for invoices to be accepted by MFASIS and a check processed, the funds must be in the account.

A monthly reconciliation has been ongoing since October 2004. This reconciliation ensures that funds drawn equal expenses. This reconciliation compares program expenditures, revenues, and draws per the ASAP draw down system.

CORRECTIVE ACTION PLAN

Finding 05-06

Contact: Karen Roderick, Assist. Director, Service Center B, 626-4296
This finding was originally presented to the department as a result of the FY04 audit which was completed in the latter part of FY05. Consequently, we were not able to correct the problem in time to prevent a recurring finding in FY05. The cash on hand exceeded our immediate needs due to an advance that was requested at the beginning of the fiscal year and was replenished as the funds were depleted. The department stopped maintaining and replenishing this advance in May of 2005 when the FY04 audit finding was determined. The department has been compliant with Federal cash management standards since June of 2005.

Finding 05-07

Contact: Kimberly A. Smith, Deputy Service Center Director, 287-1276
We concur with the finding that the SEFA reporting was inaccurate. The CFDA information assigned to the Fund Ledger (Report Org) in the database table was in error. This error has been corrected and a process has been put in place that will provide supervisory review of the SEFA report and supporting documentation prior to future submissions.

With the implementation of the new State Advantage Accounting system, it will be easier to generate federal reporting for the SEFA without the assistance of an external database.

Time Line for Implementation: SFY 2006 SEFA reporting.

Finding 05-08

Contact: Rose M. Bailey, Chief Accountant, 287-1276
The Service Center B concurs with the finding. All cash has been drawn for both major and minor programs using the structure outlined in the CMIA agreement. We agree this method is not accurate for the Trade Adjustment Assistance grant and fluctuations in program expenditures appear to be a consistent problem. The Service Center B has implemented a new method for drawdown of this grant, in that we have created queries and reports from the MFASIS Financial Warehouse that would allow expenditures to be identified for a specific period. This will ensure that the cash balance stabilizes.

Time Line for Implementation: Immediate

Finding 05-09

Contact: Heather L'Hommedieu Perreault, CPA, Deputy Director of Finance, General Government Service Center, 624-7420
We disagree with this finding.

In order to comply with federal cash management requirements, DAFS has in place the following procedures:

CORRECTIVE ACTION PLAN

When Federal Program Cash reports are received from schools (due quarterly), the amounts reported by the schools are compared to actual expenditures per MFASIS. A report is then prepared, the "excess cash list", showing which schools have more cash on hand than the next scheduled payment they are due to receive.

When a request for grant payments is received from the Department of Education, it is cross-checked against the following:

- The excess cash list, by program, described above
- A "delinquency list", showing which payees have not submitted their quarterly Federal Program Cash report
- A "hold" list, showing payees that have submitted their Federal Program Cash report but we have questioned the report and are awaiting a response or revised report from the school

After confirming that a school has submitted a valid Federal Program Cash report, and that the school does not have excess cash on hand for a given program, a payment is processed for that grant.

Due to the high number of transactions that are processed in this way (350 school districts, 15 federal programs, with quarterly or monthly payments), some errors may occur. However, the extensive internal controls already in place provide *reasonable* assurance that subrecipients comply with cash management requirements.

Finding 05-10

Contact: Heather L'Hommedieu Perreault, CPA, Deputy Director of Finance, General Government Service Center, 624-7420
We agree that a payment was made on an encumbered contract 10 days beyond the end of the grant period. It appears that an error was made when the grant end date was entered into MFASIS that allowed this isolated incident to occur.

We will review the controls that are in place to ensure compliance with federal requirements, and perform training to refresh staff's knowledge of how to correctly monitor periods of availability. Also, we will conduct a review of federal guidelines for end of grant expenditure processing, to be certain that all staff handling these transactions understand the rules pertaining to the periods of availability of grant funds.

Finding 05-11

Contact: Heather L'Hommedieu Perreault, CPA, Deputy Director of Finance, General Government Service Center, 624-7420
We disagree with this finding. In August 2004, the Division of Finance and Personnel Services (DFPS), in consultation with the Department of Audit and the Department of Education (DOE), established procedures to assure compliance with federal suspension and debarment requirements.

Vendors contracting with the DOE, on contracts exceeding $25,000, must sign an attestation that they are not currently debarred or suspended by the federal government, and requiring them to report any change in that status to the State. These forms are part of the contract package that is reviewed by the DOE and DFPS prior to being submitted to the Bureau of Purchases to be processed.

In researching this finding, it has come to light that DOE has not been including the debarment and suspension form with the contract package that is submitted to Purchases. Thus, although there is a system in place to check for suspension and debarment, the forms were not on file with the tested contracts. We are taking corrective action regarding document retention to ensure that documentation showing compliance with the suspension and debarment requirements will be retained for DOE contracts beginning with contracts dated in September, 2005.

Of the 15 vendors sampled by the Department of Audit, none were suspended or debarred as of the date of this finding.

Finding 05-12

Contact: Anke Siem, Financial Analyst, 287-3572; Rose M. Bailey, Chief Accountant, 287-1276
The Service Center B concurs that between July 2004 and March 2005, records substantiating draw downs could not be located. A change in personnel responsible for draw downs occurred in April 2005 and supporting documentation is available for the remainder of 2005 through the current period.

Many changes have been put in place since last year. Each draw down is backed up with detailed documentation. Journal entries which had been made quarterly for the states match have been made monthly, resulting in more accurate draw down estimates. Reconciliations are being performed currently and are up to date. The cash balances are reviewed regularly by management. The accounting structure of the grants has been simplified and is monitored regularly with the Bureau and Division Directors. Personnel changes have been made to ensure good documentation and backup of those performing the accounting functions.

Time Line for Implementation: April 2005

Finding 05-13

Contact: Anke Siem, Financial Analyst, 287-3572
We agree that program income (Social Security Administration SSA) was not reported in the quarter that it occurred in FY05. We are now including program income expenditures on the quarterly SF269 report in a timely manner, by using information from the MFASIS B919 report and Data Warehouse queries. The Grantee has an additional year to disburse the program income revenues reported on the SF269 report. We are now tracking program income and expenditures on a monthly worksheet by grant award year and will disburse program income

before the budget period expires. Time Line for Implementation: March 2006 quarterly reporting.

Finding 05-14

Contact: Charles Bryant, Senior Staff Accountant, 287-3171
The Department of Health and Human Services Service Center agrees with this finding.

At the end of FY 2005, the Department revised the procedures that were in place to reimburse the Immunization Program for cost incurred for the Early Prevention, Screening, Detection and Treatment Program. The Department is now using the Maine State Time and Attendance System to charge payroll expenditures directly to the program. All other expenditures are now directly expensed and drawn from the correct program.

Finding 05-15

Contact: Charles Bryant, Senior Staff Accountant, 287-3171
The Department of Health and Human Services Service Center agrees with the finding.

During March 2006, the Immunization Program financial status reports were revised to reflect the correct treatment of outstanding encumbrances. For all CDCP programs, it is no longer a practice to include outstanding encumbrances in financial status reports unless program staff receives prior, written approval from the federal agency authorizing expenditures to occur more than 90 days after the grant period.

Finding 05-16

Contact: Charles Bryant, Senior Staff Accountant, 287-3171
The Department of Health and Human Services Service Center agrees with this finding.

During FY 2006, staff contacted the federal Center of Disease Control for direction on handling outstanding encumbrances. As a result, it is no longer a practice to include outstanding encumbrances in financial status reports unless program staff receives prior, written approval from the federal agency authorizing expenditures to occur more than 90 days after the grant period. The reports for this period were revised in March 2006 to reflect the correct treatment of outstanding encumbrances.

Finding 05-17

Contact: Lisa Thibodeau, Senior Staff Accountant, 287- 3160
The Department of Health and Human Services Service Center agrees with this finding.

This was an error in the formula of a spreadsheet. The error was corrected on journal voucher JV10A81MOEFY5FL2. Since 10/1/2005, our current system maintains a verification with the federal 196 reports and MFASIS that will be continued on a quarterly basis.

CORRECTIVE ACTION PLAN

Finding 05-18

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851
The Department of Health and Human Services Service Center agrees with this finding.

Since 10/1/2005, our current system maintains verification with the federal 196 reports and MFASIS expenditures; this will be continued on a quarterly basis prior to filing reports.

Our practice currently is to draw for actual transactions posting in MFASIS. The Payment Management System (federal draw system) is currently reconciled with our draw documentation monthly. This reconciliation needs to be expanded to include MFASIS revenue transactions to close the cycle. The plan is to address this by the close of this FFY.

Finding 05-19

Contact: Lisa Thibodeau, Senior Staff Accountant, 287- 3160
The Department of Health and Human Services Service Center agrees with this finding.

The Payment Management System (federal draw system) is currently reconciled with our draw documentation monthly. This reconciliation needs to be expanded to include MFASIS revenue transactions to close the cycle. The plan is to address this by the close of this FFY. This error would have been caught with the implementation of this new reconciliation.

Finding 05-20

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851; Deanna Boynton, Senior Staff Accountant, 287-5540
The Department of Health and Human Services Service Center agrees with this finding.

Due to continued staff turnover, it was not until Fiscal Year 2006 that we were able to dedicate a Senior Staff for the Division of Support Enforcement and Recovery. As a result, there was a disconnect between quarterly program activities and adjustments to quarterly reports. With the assignment of the account to one Senior Staff Accountant, such inconsistencies will cease, and adjustments will be reflected promptly on quarterly reconciliations. Those specific discrepancies addressed in this finding will be researched and corrected on or before the reconciliation for quarter ended September 30, 2006, and the applicable draw or payback will be processed.

Finding 05-21

Contact: Aimee Carlton, Managing Staff Accountant, 287-1851; Deanna Boynton, Senior Staff Accountant, 287-5540
We agree with this finding. Due to new staff at the time these errors occurred, the errors were not subsequently uncovered. During FY 2006, staff has been trained and are aware of procedures regarding the operations of the Child Support Enforcement account. Reconciliations that were not in place at the time have been instituted in the current DHHS cost allocation plan, reconciling bi-weekly activity to actual data. Further, a full staff has recently allowed all Child

CORRECTIVE ACTION PLAN

Support program activity to be assigned to a single Senior Staff Accountant. This employee will have the opportunity to gain a detailed program and fiscal knowledge of this account, where previously responsible parties, due to the assignment to multiple programs, were not able to do so. Additionally, the newly revised DHHS cost allocation plan, recently submitted for Federal approval, eliminates the complex manual spreadsheets cited in this finding, and will reduce or eliminate inaccuracies, duplications, omissions, and other calculation errors.

Effective July 1, 2006 many of the accounts commingled in the BFI Central account were separated out for accounting purposes. These include OIAS allocated costs, Child Support Enforcement, and Food Stamps Administration.

<u>Finding 05-22</u>

Contact: Deanna Boynton, 287-5540; Aimee Carlton, Managing Staff Accountant, 287-1851
We agree with this finding. All questioned costs have been researched and errors have been verified. Corrected OCSE – 396A reports will be submitted by 09/30/06.

The bi-weekly payroll costs are now being recorded on our MSTAMS system, for DSER and Non DSER time. A journal was done for pay periods beginning in July 2005 through October 05, 2005, JV10A8106DB040, to reimburse DSER for payroll costs that are not associated with the DSER account. From that date forward, the payroll costs were reported into the MSTAMS system. The recording of time worked on the MSTAMS system will ensure that the correct program-related payroll costs will be recorded on the OCSE – 396A expenditure report.

<u>Finding 05-23</u>

Contact: Mark Toulouse, Managing Staff Accountant, 287-1869
The Department of Health and Human Services agrees with this finding. During Fiscal Year 2005, the procedure of allocating Attorney General legal costs was adjusted slightly from the previous years' procedures, but found to be less accurate. As a result, Fiscal Year 2006 practices have been adjusted once more, and those figures are reconciled to the quarterly 396A report. Because the Department's correct legal services allocation schedule, not the allocation procedures, were used to compile the 396A report, no Federal report adjustments are necessary.

<u>Finding 05-24</u>

Contact: Deanna Boynton, Senior Staff Accountant, 287-5540; Aimee Carlton, Managing Staff Accountant, 287-1851
The Department of Health and Human Services Service Center agrees with the findings.

All questioned costs have been researched and verified. Corrected OCSE – 396A – reports will be submitted by 09/30/06.

DHHS has spoken with the federal agency to gain an understanding on the misinterpretation of reporting instructions. DHHS reported the APD expenditures on the wrong line of the OCSE-

396 report. DHHS has also reviewed the reporting process and documented the modifications that are needed to ensure the reports contain complete and accurate information.

Finding 05-25

Contact: Elizabeth Hanley, DHHS Service Center Director, 287-1861
We agree with this finding. During FY 2006, the Department has dedicated one FTE to implementing the grant sub system in MFASIS for all grants. This position is not only reconciling accounts but is also training staff on the importance of the grant sub system.

As of July 2007, the Department will also have one FTE dedicated to the Child Care accounts and SSBG accounts.

Finding 05-26

Contact: Elizabeth Hanley, DHHS Service Center Director, 287-1861
We agree with this finding. In March 2006, the staff was involved in a LEAN process workshop that was dedicated to the recording of accounts receivable and cash receipts resulting from grant award cost settlements from subrecipients. DHHS has implemented the process that was developed during the workshop. During FY 2007, the Department plans to reassess the FTEs needed to properly handle and follow up on all account receivables.

Finding 05-27

Contact: Charles Bryant, Senior Staff Accountant, 287-3171
We agree with this finding. The Title IVE Federal report for the quarter ending 12/31/05 was adjusted therefore returning the question cost amount back to the grant. By the end of FY 2006, a new procedure will be in place to ensure accurate reporting of the Foster Care and Adoption Assistance programs. The Senior Staff Accountant will prepare the IV-E reports and the Managing Staff Accountant will review for accuracy. During FY 07, the Program Fiscal Coordinator for the Office of Child and Family Services and the Managing Staff Accountant will review the existing methodology and determine any appropriate simplifying modifications. Also during FY07, we will identify all additional information which can be entered into the state accounting system and continue to document the procedures.

Finding 05-28

Contact: Charles Bryant, Senior Staff Accountant, 287-3171
We agree with this finding. During FY2006, DHHS revised its policy shifting payments to subgrantees from a quarterly to a monthly basis. The contract unit reviews, reconciles and adjusts the payments accordingly to the subgrantee.

CORRECTIVE ACTION PLAN

Finding 05-29

Contact: Charles Woodman, DHHS Deputy Service Center Director, 287-2572
We agree with this finding. DHHS has recently hired a full time position to manage this account. As part of this person's responsibilities, processes and procedures will be reviewed and revised as necessary to ensure accurate reporting on the SF269 Financial Status Report and the Schedule of Expenditures of Federal Awards. Additionally, a global chart of accounts for the Department is being prepared, as per LD 1949, and will include a specific chart of accounts for the Social Services Block Grant.

Finding 05-30

Contact: Colin Lindley, Senior Staff Accountant, 287-1855
We agree with this finding. DHHS anticipates reports from MECMS will be available in SFY 2007 to track waivers by year, to reconcile PIPs to actual hospital billing and to report on seed accounts. DHHS has started to reconcile actual claims to interim payments and the actual interim payments are reported correctly therefore there is not a need to "revise reports accordingly".

Finding 05-31

Contact: Dick Thompson, CIO, 624-7568, J. Michael Hall, Acting Director, OMS, 287-1921
The Department of Administrative and Financial Services and the Department of Health and Human Services agree with this finding.

OIT became responsible for providing oversight on state information technology systems in July of 2005, after the implementation. Since that time, DHHS and OIT have worked in cooperation to focus on claims payments and this process continues. Corrective actions have been identified, prioritized and in many cases implemented. The necessary additional functionality is being prioritized and a schedule for implementation is being developed.

Since the audit period, the Department has taken numerous steps to address the issues identified by the audit team, as well as measures intended to improve the functionality and performance of the Maine Claims Management System and bring the system to completion.

In June 2005, the Department installed a new management team at MaineCare, including a new Acting Director of OMS and a new Chief Information Officer dedicated full-time to the MeCMS project. A few months later, the Department added Dr. Laureen Biczak to the management team as MeCMS Project Director. In this same timeframe, the Department acquired additional consulting resources from Deloitte Consulting and xWave, to assist in project management, flaw diagnosis and remediation planning. The Department also added substantial staff resources to the project.

Shortly after arrival of the new management team, more rigorous protocols were instituted to the edit change control process. Management reorganized the CCB (Change Control Board) to ensure appropriate, strategic prioritization of CCFs. The Claims Resolution Unit was similarly reorganized and new strategies for identifying and resolving payment errors and systemic defects were put in place.

As a result, functionality of the MeCMS system has dramatically improved since the audit period. The weekly adjudication rate has improved from 55% in July 2005 to 91% in April 2006. The suspended claim backlog, which had peaked at 560,000 unresolved claims, has dropped to 180,000 claims and the backlog continues to decline each week. The functionality and reliability of the system improves with each passing week as the Department identifies and patches flaws.

The Department has implemented an aggressive schedule for completing the system – repairing lingering malfunctions and implementing essential subsystems, such as adjustments, HIPAA compliance, crossover claims, SURS, and third party liability. In the coming months, the Department will deploy a series of major version upgrades every 60-90 days, bringing MeCMS closer to final completion.

The version upgrade schedule coincides with adoption of a full-scale end-to-end testing process designed to ensure that every change is tested exhaustively for quality assurance, both to ensure that the modifications perform as intended and to make sure that they don't generate unintended malfunctions elsewhere in the system.

Finding 05-32

Contact: Elizabeth Hanley, DHHS Service Center Director, 287-1861
We agree with the finding. As noted in the finding, DHHS could not provide support for one quarter, from July 1, 2004 to Sept 30, 2004. The department has a written procedure in place and all amounts reported on the PSC 272 are properly supported.

Finding 05-33

Contact: Elizabeth Hanley, DHHS Service Center Director, 287-1861
We agree with this finding. In March 2006, the staff was involved in a LEAN process workshop that was dedicated to the recording of accounts receivable and cash receipts resulting from grant close outs and audit settlements. DHHS has implemented the process that was developed during the workshop. The staff will be involved in another LEAN process, this time addressing procedures to ensure that amounts due providers from the State are promptly paid. During FY 2007, the Department plans to reassess the FTE's needed to properly handle and follow up on all account receivables.

Finding 05-34

Contact: Carol Elsemore, Managing Staff Accountant, 624-7383
We disagree that during FY05 OIT did not have adequate internal controls procedures over working capital reserves.

CORRECTIVE ACTION PLAN

We agree that $1.17million is a reasonable estimate of the federal share of OIT's 6-30-06 excess retained earnings.

The Office of Information Technology (OIT) has taken steps to comply with OMB Circular A-87 as follows:

- During Fiscal Year 2005 OIT began to undergo major changes in its organizational structure and a new "Performance Management and Administration Office" was established. The new office is working with the Chief Information Officer to develop a rate structure that reflects actual costs of OIT services and supports a long-term plan for future technology projects.
- During Fiscal Year 2005, OIT reduced the rates charged to State of Maine agencies for many of its services. As a result, the 6-30-05 retained earnings balance was approximately the same as the 6-30-04 retained earnings balance, indicating that during FY05 rates did reflect actual costs of OIT services. The $4.5million total excess retained earnings reported on the federal Cost Plan is an accumulation of retained earnings over prior years and not a result of FY05 operations.
- During FY04 OIT refunded to the General Fund and to State Agencies approximately $1million of excess retained earnings. During FY05 no further rebates of retained earnings were made because high cost new projects are being conducted in FY06 and are planned for future years. It is expected that retained earnings will decrease in fiscal years after 2005.
- The excess retained earnings in FY05 and in the prior years 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. OIT 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 had much contact during FY05 with a federal auditor from US DHHS, Program Support Center, Financial Management Service, 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.
- OIT and DAFS do not yet know what federal DHHS' opinion or decision will be related to the prior or current years' questioned costs related to excess retained earnings.

<u>Finding 05-35</u>

Contact: Mark Toulouse, Managing Staff Accountant, 287-1869

We agree with this finding. Because we contracted with a vendor to design and implement a new public assistance cost allocation plan, we did not expend significant energy correcting programmatic errors in the cost allocation plan schedules. It was our belief that the new plan would be in effect before the corrections would be implemented. We have since found that our timetable for the new plan's submission and approval was optimistic, and the plan could take in excess of a year to receive Federal approval.

The Department will review all FY2005 cost allocation schedules and make the corrections cited by this audit finding. As a result of these adjustments, Federal reports will be revised and re-submitted as needed. In addition, allocated accounts will be reconciled to the corrected schedule amounts, and Federal funds will be drawn/returned as required.

The Departments will complete the above-listed tasks on or before September 30, 2006.

Finding 05-36

Contact: Elizabeth Hanley, DHHS Service Center Director, 287-1861
We agree with this finding. DHHS has been working diligently on utilizing the MFASIS Grant subsystem to improve grant accounting. For the majority of DHHS grants, the system is in use and procedures are in place to draw Federal cash based on posted or pending account activity. While improvements have been made in many accounts, however, there are still some with multiple programs and or grants housed within them. Several of these accounts have been addressed and will be successfully broken out via the FY06/07 Supplemental Budget LD 1968, and DHHS continues to work to break out those remaining. Associated with this process is the improvement of cash management of those accounts that continue to house multiple programs and or grants. DHHS intends to focus this analysis on programs of the Office of Child and Family Services in Fiscal Years 2006 and 2007.

CORRECTIVE ACTION PLAN

Department of Defense, Veterans and Emergency Management

Finding 05-37

Contact: Karen Roderick, Assist. Director Service Center B, 624-9321
As of the date of this finding, a list of all employees assigned to the Homeland Security Grant program will be obtained from the payroll system and approved by the program manager every six months or less. In the future, the department intends to update the State's TAMS application to include the program name. When these changes are completed and approved by the Federal program manager it will no longer be necessary to run periodic reports from the data warehouse as the supervisor's bi-weekly time sheet approvals in the TAMS application will accomplish this task.

Finding 05-38

Contact: Karen Roderick, Assist. Director Service Center B, 626-4296
Homeland Security grant funds are awarded to governmental entities and it would be a rare occurrence to discover that such an entity was either debarred or suspended. However, because the possibility does exist, we now verify that each subrecipient is in good standing before we approve the award and have been doing so since this oversight was pointed out to us in March of 2006.

Finding 05-39

Contact: Karen Roderick, Assist. Director Service Center B, 626-4296
Our award letters were revised in March of 2006; the standard grant award letter now includes the grant CFDA title, CFDA number and the federal award number.

CORRECTIVE ACTION PLAN

Department of Education

Finding 05-40

Contact: Department of Education, 21st CCLC program is Lauren Sterling, Grants Manager, 287-4349; Department of Administrative and Financial Services is Diane Williamson, Managing Staff Accountant, 624-7400

This finding for the 21st Century Community Learning Centers grants (21st CCLC) (CFDA #84.287) was resolved in September 2005 (fiscal year 2006). System-wide protocol issued by Commissioner Gendron on March 22, 2005 ensuring compliance with Federal debarment and suspension requirements, has been implemented for the current 21st CCLC contract year, and will be maintained for each subsequent year. A copy of the debarment and suspension protocol required by the Department to be implemented by all Federal Team Leaders and Federal program directors/managers can be provided to the State Controller or State Auditor upon request.

Oversight responsibility for managing and monitoring debarment and suspension requirements is shared by the Department of Education and the Department of Administrative and Financial Services.

Finding 05-41

Contact: Lauren Sterling, 21st CCLC Grants Manager, telephone (207) 287-4349

This finding for the 21st Century Community Learning Centers grants (21st CCLC) (CFDA #84.287) was resolved in March 2006 (fiscal year 2006).

Although site visits were done in 2005 by contracted staff through the Maine Parent Federation, the hard copy of those site visits was not maintained by the Office of Special Services, Department of Education, nor were they communicated in measurable language.

Staff for the 21st CCLC are redesigning the site visit tool and process that will document key program compliance findings and detail any needed corrective action within required time lines during fiscal year 2006. All Site Visit Compliance Reports will be maintained by the Office of Special Services, Department of Education, and will be provided to the State Controller or State Auditor upon request.

CORRECTIVE ACTION PLAN

Department of Health and Human Services

<u>Finding 05-42</u>

Contact: Tom Keyes, Director, Information Systems, 287-2310; Rose Masure, Director of Policy and Programs, 287-3104
DHHS agrees with this finding. ACES now provides support for the FNS 209 report. In October 2005, DHHS was officially notified by it federal agency responsible for monitoring the program that ACES is submitting a valid FNS 209 report.

Instructions on case record retention have been reissued and the Fraud Investigation Unit will be monitoring compliance.

<u>Finding 05-43</u>

Contact: Janice Grenier, WIC Financial Manager, 287- 1469
We have developed a schedule to drawdown federal cash that meets federal requirements. We have implemented new procedures to ensure that the schedule is followed to include documentation for each pending expenditure related to each cash draw.

Timeline: Immediately

<u>Finding 05-44</u>

Contact: Mary Owen, Acting Director, 287-5368

1. The WIC grantee agency contracts have been corrected to include the CFDA title, Special Supplemental Nutrition Program for Women, Infants and Children (WIC)

2. The WIC program's acting director has implemented a system to track WIC grantee agency management evaluation reviews to ensure that corrective action plans are received within the required time and extensions are appropriately documented.

3. The WIC program's financial manager has implemented a system to track receipt of each grantee agency's independent audit to ensure compliance with OMB Circular A-133 (M).

4. The WIC program's financial manager has implemented a system to track receipt of each grantee agency's management decisions on audit findings that pertain to the WIC grant to ensure compliance with OMB Circular A-133 (M).

Implementation Timeline: Immediately

CORRECTIVE ACTION PLAN

Finding 05-45

Contact: Richard Jones, Manager, CACFP, phone: 287-5015
Although the condition, as stated in the above finding, did exist, the final figures submitted to the Federal government (USDA) were reconciled manually and were, to the best of our ability, accurate. The problem arises from the fact that we are still processing claims on an Rbase system; this program was written approximately 14 years ago. In our attempts to rectify the problems with the system, we located the original programmer who wrote the program and engaged him to try and correct the problem with the system; however, he was only able to partially correct the problem. We had the choice of possibly losing the historical data, which would have been catastrophic, or adjusting the calculations manually. We chose the latter course as being the most expedient.

In the meantime, we have been meeting with DHHS Technology Services over the past several months to develop an RFP to purchase a new payment system. There are several good "canned" versions available, but due to the complexity of the program, they are fairly expensive. So we are having to time the publication of the RFP to coincide with the availability of our limited funds.

We have petitioned the USDA Regional Office for Reallocation Funds (based on a competitive process) which, if approved, would provide our Program with all the funds necessary to purchase the new system by the end of July. If we do not receive these funds and have to rely on our limited resources, we anticipate having the new system in place by October 31, 2006.

Finding 05-46

Contact: Richard Jones, Manager, CACFP, 287-5015
While we agree that all of the reviews for FY 05 were not complete at the time of the Auditor's visit, most of the reviews were in-process at the time of the audit. Due to an extended illness in the prior fiscal year and the retirement of a long-time staff person (we have only two Reviewers to cover the entire State), we fell behind in our agency review. This, combined with increased monitoring requirements at the Federal level, had a significant ripple effect in the two subsequent fiscal years. At the beginning of FY 05, we were processing FY 04 reviews and scheduling the FY 05 reviews. As a result of a Federal review, we were required to finish all of the FY 04 agency reviews first, which caused the FY 05 reviews to be put on hold. At this point, we hired a Consultant to assist with the outstanding reviews and all reviews for FY 05 are complete (exception: one agency has not received the formal summation, but has been visited and received the initial findings in writing). We are in the process of hiring an additional full-time staff person and anticipate having the FY 06 reviews completed on schedule.

As stated above, we anticipate being back on schedule by September 30, 2006. If the new position requested should not materialize, we will continue to retain a consultant to assist with the agency reviews.

CORRECTIVE ACTION PLAN

Finding 05-47

Contact: Shawn M. Box, BS, Public Health Educator, 287-3746

1) Correction Plan:
   a) MIP is utilizing TAMS to direct bill OMS.
   b) MIP staff have been informed to track their time according to work performed, not a set valuation per week.

2) Timeline:
   a) Completed 2005
   b) Completed 2005, and ongoing.

3) Cost Implications: No future cost implication

Finding 05-48

Contact: Shawn M. Box, BS, Public Health Educator, 287-3746

1) Correction Plan:
   a. We have contracted with a new vendor. The CPA requirements are not included within the new contract.
   b. MIP staff are expected to physically visit the facility and check for vaccine storage and handling adherence.

2) Timeline:
   a. Contract with GIV established.
   b. Calendar Year, 2006

3) Cost Implications: N/A.

Finding 05-49

Contact: Shawn M. Box, BS, Public Health Educator, 287-3746

Adult only providers are not required by CDC to meet the Vaccine For Children's (VFC) storage and handling CQI requirements. MIP will modify its provider contract to indicate whether a provider site is pediatric, adult, or inclusive.

Adult providers, as indicated by their enrollment, are exempt from VFC requirements.

Timeline: January 2006. Completed.

Cost Implications: N/A

CORRECTIVE ACTION PLAN

Finding 05-50

Contact: Rose Masure, Director of Policy and Programs, 287-3104
The Department of Health and Human Services agrees that its ACF 199 and 209 reports contain discrepancies. However, the Department disagrees that the final effect is that all Maine performance data is called into question, or that discrepancies between federal and state means errors by the state.

Maine does conduct some testing of its data prior to submitting its ACF 199 and 209 reports. However, for ten years, Maine has relied heavily on the Federal Government to use its computer software to analyze the data Maine submits and then relied on the Federal Government's feedback before making final changes to our reports and then resubmitting. When the Federal Government reports discrepancies, Maine's MIS staff review them and make corrections or not, depending on what action is appropriate.

In the future, the Office of Integrated Access and Support plans to conduct more up-front testing prior to submitting its initial report to ACF.

Long term, the Office of Integrated Access and Support plans to develop a data analysis software tool, much like the one used by the Federal Government, to further reduce the number of discrepancies contained in the first submission of our reports.

Finding 05-51

Contact: Rose Masure, Director of Policy and Programs, 287-3104
The Division of Support Enforcement and Recovery agrees with the finding that 22 of 47 reviewed cases were not opened within 20 days of receiving the referral. Several events were responsible for this temporary situation. First, and foremost, staffing levels were extremely low during this period due to hiring freezes at the Clerk Typist II & Human Services Aide III positions. DSER had eight positions assigned to initiate cases and for significant periods we had only one person hired to complete this function. We were able to shift staff internally for some of the time, however, this created backlogs in other areas. A second problem was uncovered during this same time period that arose because of a malfunctioning interface between IV-A and IV-D programs. It is recognized by our office that a redesign of this interface will be necessary. We have been able to place temporary fixes on our system to ensure that all referrals are received and acted upon timely. Additionally, DSER received approval from the Office Director to use overtime to the extent necessary to act upon these backlogged referrals from IV-A. DSER utilized 1580 hours of overtime from April 19, 2005 – October 22, 2005 to initiate cases. Cases are now being opened within the twenty-day timeframe. Maintaining staffing levels at the authorized levels and timely receipt of these referrals will result in continued compliance with this requirement.

CORRECTIVE ACTION PLAN

Finding 05-52

Contact: Dulcey Laberge, Director of Public Service Management, 287-5064
The Department of Health and Human Services agrees with this finding.

The Office of Child and Family Services agrees that a process for determining subrecipient status and the monitoring of these programs be established.

OCFS has begun developing a plan to meet this need, which will require the designation of staff to provide program and fiscal oversight of agencies determined to be subrecipients. It is estimated that this plan will take, minimally, six months to develop and begin the monitoring process.

Finding 05-53

Contact: Dulcey Laberge, Director of Public Service Management, 287-5064
The Department of Health and Human Services agrees with this finding.

The Office of Child and Family Services and Regional Operations will conduct a review of all active adoption cases, beginning no later than July 1, 2006, and will be completed within 10 months.

Additionally, beginning July 1, 2006, the Adoption Assistance Financial Resource Specialist will request relevant components of the child's eligibility file and will use a checklist to ensure complete documentation of the child's file in pending and future Adoption Assistance cases. Eligibility determinations will be maintained in the files in OCFS Central Office in addition to the DROMBO district offices.

Regarding the Auditor's recommendation that procedures be developed to ensure information is retained; Regional Operations increased the documentation retention period from three years to six years. This began in November 2005.

For the 8 of the 10 cases highlighted by the Auditor as cases identified by OIG, corrections regarding eligibility were made on our automated child welfare information system. While these corrections may not have been completed at the time of the State Audit, they have now been finished.

Finding 05-54

Contact: Carolyn Drugge, Director, 287-5014; Dulcey Laberge, Director of Public Service Management, 287-5060
The Department of Health and Human Services agrees with this finding.

The FY 06 contracts for Homemakers, Transportation and Domestic Violence will being revised by May 31, 2006 to include the appropriate language to assure that SSBG/TANF funds are being spent only on clients with incomes at or below the 200% of poverty guidelines. Site visits of all agencies that received SSBG/TANF funds to determine that all eligibility requirements are being met will be done before October 2006. During FY 07, the department will continue doing site visits that include sampling to determine that all eligibility requirements are being met.

Finding 05-55

Contact: Kirsten Figueroa, Deputy Commissioner of Finance, and Dulcey Laberg, Director of Public Service Management, 287-5064
The Department of Health and Human Services disagrees with the finding.

The Office of Child and Family Services performs case management services. It is considered targeted because it is provided to a target population, not because it is something other than "direct case management".

OCFS allocates its costs based on narrative log entries completed by caseworkers. Of the 11 possible entry service types in our SACWIS system, three are eligible for Title IV-E funds. One service type—case management—is claimable to Medicaid.

OCFS does not claim for the same service to both Title IV-E and Medicaid. The calculations for each claim are based on two distinct sets of logged minutes, each of which is divided by the total of all logged minutes.

For Title IV-E, OCFS totals the minutes logged for Title IV-E eligible services (court services, life skills and placement services) and divides that number by the total number of minutes logged for all services. This percentage is then applied to the total cost pool. These services are not allowable charges to Medicaid and therefore are not included in the Targeted Case Management rate.

The Targeted Case Management rate was determined by looking at all of the minutes spent on case management services to Medicaid eligible clients and divided that number by the total amount of minutes logged by caseworkers.

The current established rate had been negotiated with the Department of Health and Human Services. (See attached letter to OIG). OCFS is currently undertaking the process of developing a random time study of OCFS Human Services Caseworker actual activities. As of January 2006, OCFS will no longer make TCM claims for Title IV-E eligible children because of recent changes in federal law.

Finding 05-56

Contact: J. Michael Hall, Acting Director, OMS, 287-1921; Dick Thompson, CIO, 624-7568
The Department of Health and Human Services and the Department of Administrative and Financial Services agree with this finding.

CORRECTIVE ACTION PLAN

OIT became responsible for providing oversight on state information technology systems in July of 2005, after the implementation. Since that time, DHHS and OIT have worked in cooperation to focus on claims payments and this process continues. Corrective actions have been identified, prioritized and in many cases implemented. The necessary additional functionality is being prioritized and a schedule for implementation is being developed.

Since the audit period, the Department has taken numerous steps to address the issues identified by the audit team, as well as measures intended to improve the functionality and performance of the Maine Claims Management System and bring the system to completion.

In June 2005, the Department installed a new management team at MaineCare, including a new Acting Director of OMS and a new Chief Information Officer dedicated full-time to the MeCMS project. A few months later, the Department added Dr. Laureen Biczak to the management team as MeCMS Project Director. In this same timeframe, the Department acquired additional consulting resources from Deloitte Consulting and xWave, to assist in project management, flaw diagnosis and remediation planning. The Department also added substantial staff resources to the project.

Shortly after arrival of the new management team, more rigorous protocols were instituted to the edit change control process. Management reorganized the CCB (Change Control Board) to ensure appropriate, strategic prioritization of CCFs. The Claims Resolution Unit was similarly reorganized and new strategies for identifying and resolving payment errors and systemic defects were put in place.

As a result, functionality of the MeCMS system has dramatically improved since the audit period. The weekly adjudication rate has improved from 55% in July 2005 to 91% in April 2006. The suspended claim backlog, which had peaked at 560,000 unresolved claims, has dropped to 180,000 claims and the backlog continues to decline each week. The functionality and reliability of the system improves with each passing week as the Department identifies and patches flaws.

The Department has implemented an aggressive schedule for completing the system – repairing lingering malfunctions and implementing essential subsystems, such as adjustments, HIPAA compliance, crossover claims, SURS, and third party liability. In the coming months, the Department will deploy a series of major version upgrades every 60-90 days, bringing MeCMS closer to final completion.

The version upgrade schedule coincides with adoption of a full-scale end-to-end testing process designed to ensure that every change is tested exhaustively for quality assurance, both to ensure that the modifications perform as intended and to make sure that they don't generate unintended malfunctions elsewhere in the system.

CORRECTIVE ACTION PLAN

Finding 05-57

Contact: Kirsten Figueroa, Deputy Commissioner of Finance, 287-1950
The Department of Health and Human Services disagrees with this finding.

The department does agree with the recommendation that a uniform rate setting and approval process be established and implemented. The department will implement per PL 2005, chapter 12, part CCCC-1 and PL 2005, chapter 519, part CCC-1. However, the department disagrees with many of the assertions in this finding.

The department had adequate internal controls to ensure that the vast majority of Home and Community Based Waiver Program funds were expended in accordance with federal regulations, as evidenced by the fact that the federal agency has already audited the year in question and stated no audit findings. It is true that there were no uniform rates in place in the audit year and that the department relied on negotiations to establish rates of reimbursement. Because the providers ranged from sophisticated corporate businesses serving many consumers to "mom-and-pop" providers who served very few consumers, negotiations varied from complex to very simple. Some corporate providers offered specific itemized budgets for the department's consideration in negotiating the rate of reimbursement; in contrast, some sole proprietors simply accepted what was offered by the department as adequate in light of limited funds.

It is true that some errors were made. However, the department corrected its errors as soon as it was clear that its policies were not in accordance with federal law. For example, the department stopped reimbursement for utility costs upon discovering in federal guidance issued in 2005 that utilities were expected to be included in "room and board," a cost not reimbursable by the waiver program.

The department did not violate federal regulations by not having the Division of Purchases approve all provider agreements or by not using a standard service agreement template. In any event, all agreements with waiver providers were monitored continually by the work of case managers who monitored the provision of services, the efficacy of services, and the needs of consumers that were either met or unmet as a result. These were sufficient internal controls to measure not only the actual delivery but also the quality of the services purchased with waiver funding.

There is no description of the statistical validity of the sampling method used by the State Auditor to identify the case files that were requested for review. Therefore, there is no way to determine if any extrapolation of the results can be applied more broadly over the department's entire waiver program.

CORRECTIVE ACTION PLAN

Finding 05-58

Contact: Bob Thibodeau, MaineCare Program Manager, 287-5054
The Department of Health and Human Services agrees with the findings above and submits the following corrective action plan:

OIAS has reinforced with its eligibility staff and Medical Review Team that the proper retention period for paper case records is 36 months. The Medical Review Team management is analyzing the record retention process and is implementing changes to improve record keeping.

OIAS is working closely with OMS Classification Review staff to make sure Katie Beckett medical assessments are completed in a timely fashion. OIAS and OMS staff have set up an improved communication process using e-mail instead of fax machine to communicate assessment requests, medical assessment results and case status. OIAS staff are conducting a desk review of cases to make sure the dates for financial review line up with the scheduled medical classification review month.

MaineCare Program Manager is holding periodic meetings with Long Term Care eligibility staff to discuss eligibility determination procedures, policy rules and expectations for conducting initial eligibility determinations and annual reviews.

Implementation of this corrective plan should be completed by July 1, 2006. Many items in the plan will be ongoing and monitored for needed improvements.

Finding 05-59

Contact: Thomas Keyes, Division Director MIS/QA/MRT for Office of Integrated Access and Support, 287-2310
The Department of Health and Human Services agrees with this finding.

With assistance from Audit and CMS, the errors in the EXCEL reports will be corrected before the next scheduled submission. In addition, there will be resubmissions of corrected reports for the two(2) periods for FY2005. The formula for report submissions has been provided by Steven Doucette, the CMS contact person who is the recipient of the semi-annual submissions.

Future submissions will be reviewed and validated by OIAS Management Information staff. Currently, the submission is signed by the MaineCare(Medicaid) Program Manager at OIAS. Future submissions will be reviewed and co-signed by the Division Director for Management Information Systems and Quality Control.

Finding 05-60

Contact: Jim Lopatosky, Information Technology Director, 287-1921
The Department of Health and Human Services agrees with this finding.

Steps to be taken.

- OIT-OMS will review the security requirements defined under 42 CFR §95.621, Subpart F.
- OIT-OMS will institute a security review as outlined, part of which will review MECMS for compliance. A documented results history will be maintained for review.
- OIT-DHHS will review its security policy to ensure inclusion of the requirements stated above.
- OIT-DHHS will ensure its new Security Representative understands his expectations with respect to this program.
- OIT-OMS will certify to CMS that we are in compliance with this security review.
- This will be done in coordination with the newly assigned IVV for the MECMS project.

Timeline

- These steps will occur over the next 6-12 months.

Costs

- As we determine the details for compliance, identified costs will be reported.

Finding 05-61

Contact: Norm Curtis, PCR Director, 287-5336
The Department of Health and Human Services agrees with this finding.

In the latter half of calendar year 2005, OMS made substantial management changes in the Provider File Unit. At the same time, OMS substantially increased staffing in the unit, doubling the number of FTEs. Significant progress has been made in completing all Provider Files. OMS anticipates the omissions identified during this audit period will be rectified for SFY 2007.

Finding 05-62

Contact: Jim Lopatosky, Information Technology Director, 287-3828
The Department of Health and Human Services agrees with this finding.

Prior approval of contracts in accordance with 45 CFR §95.611. DHHS received prior approval for expenditure of enhanced federal funding participation up to $2,075,636 for acquiring IV&V services in a letter from U.S. DHHS dated September 22, 2000. U.S. DHHS was aware of the DHHS RFP process and contract award to the IV&V vendor but DHHS did not request prior approval of the actual contract required by 45 CFR §95.611 since it was not specified in the letter. The letter did specify prior approval of an RFP, PEP, and contract for a system contractor was required and DHHS fully complied with this requirement. In the future, DHHS will fully comply with 45 CFR §95.611 and the prior approval requirement for contracts and amendments exceeding $100,000.

Lack of IV&V contractor coverage prior to the system implementation. DHHS did have an active contract with an IV&V vendor through system implementation, but there was no on-site presence or implementation recommendation due to the level of funding on the contract. The IV&V vendor did support the test process through December 2004 and DHHS did acquire other lower cost consulting services to assist with issue management and quality assurance. However, the level of independent verification support was not adequate to assess implementation readiness. DHHS has developed a contract amendment to re-engage the original IV&V vendor for the completion of the MECMS project. DHHS has provided a copy of the amendment to U.S. DHHS for prior approval per 45 CFR §95.611.

Finding 05-63

Contact: Marc Fecteau, 287-9280
The Department of Health and Human Services agrees with this finding.

The Office of MaineCare Services has 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 (SURS) component and decision support system will be implemented. The new SURS component will provide the unit with the capability to identify potential cases utilizing sampling methods and will increase the percentage of cases that are initiated within the unit. The new system will also allow the unit to download data in order to perform specialized analysis. This system is to be implemented in SFY 2007.

In the meantime to mitigate issues related to system reporting, the SURS unit has been obtaining data extracts and provider payment reports with assistance from the Muskie Institute. SURS has used these reports to continue its business by conducting fraud reviews and initiating adverse action letters to providers whenever overpayment has occurred or inappropriate billing has been detected. Completion of the decision support system and SURS component (as described above) will further enhance this effort.

Finding 05-64

Contact: Kirsten Figueroa, Deputy Commissioner of Finance, 287-1921
The Department of Health and Human Services agrees with this finding.

Before the end of FY06, DHHS will assign responsibility for the School Based Rehabilitation program to a specific policy manager as well as to a specific financial team member to address identified issues and ensure policy and financial compliance. Additionally, a separate individual will provide supervisory review. All actions taken will be documented, and the Program Integrity Unit will be apprised as to the actions taken. Going forward, issues highlighted by the Program Integrity Unit will be reviewed in a more timely manner.

Finding 05-65

Contact: Marie Hodgdon, Director of Purchased Services, 287-3774
The Department of Health and Human Services agrees with this finding.

Procedures were in place during FY 05 but provided insufficient tracking to monitor completion of the task. DHHS has amended the procedures to include written expectations of the staff responsible for following up on the action plan and the procedure to follow. We have also developed a chart that depicts receipt of the request for a management decision and it's completion. All requests for DHHS response will come to the DHHS Director of the Division of Purchased Services, who will maintain the chart, monitor to ensure that completion is achieved within six months, and sign the management decision letters. Research and drafting the response will be done by the Audit Resolution Manager.

Finding 05-66

Contact: Tom Keyes, Director, Information Systems, 287-2310
The Department of Health and Human Services agrees with this finding.

Responses and Corrective Actions:

1. Requests for front end users start up access requires a written request and approval by Office Director. In addition, OIT is taking steps to eliminate generic access to development and training databases. There is also a Lean Management project in OIT to develop and initiate an access control process across DHHS systems, utilizing Personnel information as the gateway for granting, deleting, and changing access.
2. Agree. When ACES is moved to the Enterprise level servers, Disaster Recovery will be inclusive with the overall OIT plan.
3. The link below connects to a reporting page at OIT where 25 different monitoring reports can be requested. In addition, when ACES is moved to the Enterprise level servers, monitoring will be greatly improved. Also, an upgrade in WebLogic software will provide enhanced monitoring capability.
4. Agree. When ACES is moved to the Enterprise level servers, the Data Dictionary will be properly maintained.
5. Agree. When ACES is moved to the Enterprise level servers, the ERD will be accessible and more readily usable.
6. During FY 06, ACES had met compliance to the satisfaction of USDA based on a review by the Food and Nutrition Service of the US Department of Agriculture. Robert L. Canavan, NERO Regional Administrator stated "We also reviewed your Agency's internal procedures for submitting food stamp recipients debts to TOP. We determined that your process for submitting address requests, as well as adding new debts and updating debts in TOP, meets the requirements to re-implement your participation in TOP." Mr Canavan continues "Due to the significant accomplishments in meeting the regulatory requirements and certifying a valid FNS-209, FNS is rescinding the Formal Warnings." This warning had been provided in April 2005, and was the basis for the possible sanctions.

Finding 05-67

Contact: Tom Keyes, Director, Information Systems, 287-2310
The Department of Health and Human Services agrees with this finding.

OIAS has a task group working on training for handling of ACES Reports. This training curriculum is expected to be completed by July 1, 2006. The training will be given to all Eligibility staff and Supervisors on a regional basis throughout the state.

CORRECTIVE ACTION PLAN

In addition, there is a new web-based Case Reading Tool being developed for OIAS supervisors. This tool will provide the mechanism for assigning case readings to supervisors and provide a centralized reporting of case reading findings. Proper handling of Reports and exception findings will be included in the Case Reading regimen. This will be on-line by July 1, 2006.

Monthly statewide meetings of OIAS supervisors will continue. Findings as referenced here will be part of the agenda for those meetings. Meeting minutes are kept.

CORRECTIVE ACTION PLAN

Department of Labor

Finding 05-68

Contact: Dale Hinds, 624-6370

1. Unauthorized personnel able to make changes to master files, production programs and live data files,

   Response
   Updated internal authorization procedures will be instituted by 4/30/06 to insure that all changes are authorized. In addition a software product has been selected to manage all production source files. The product will control access to the files and will maintain an automated historical tracking of all changes made to source files. Testing and setup of this product is currently underway; deployment planned before 6/30/06.

2. Passwords are not confidential, unique, changed at regular intervals and canceled upon employee termination,

   Response
   New password procedures were implemented in September 05.

   All access to the OSOS application is now governed by a unique staff identifier (system-assigned numeric ID) as well as a password that adheres to State "strong" password requirements. Passwords are required to be changed every 120 days, and we do lock out users after a limited number of failed attempts. In addition, users of the application are assigned roles that are associated with functions within the application for security and workflow reasons. OIP is working with the user community in developing a tighter process for canceling passwords upon staff termination.

3. Procedures not in place to prohibit test versions of programs from being run on production data and controls not in place for when it is determined that these types of tests need to be run,

   Response
   All production code is currently managed by a manually initiated automated process which moves code from a specific directory into the appropriate locations in the production environment. Programs slated for production are specifically copied into an export folder.

   A review of version control software management systems was completed before December of 2005.

Additionally, we are currently doing feasibility testing on a change management product which has the ability to record, track, notify, and manage all changes scheduled to be implemented into a production environment.

The Enterprise environment will further enhance our ability to control the distribution of programs by controlling write access to specific directory structures. Deployment planned before 6/30/06.

4. Disaster contingency plans have not been tested.

   Response

   We are currently testing our new disaster recovery architecture. The application in question will be moved to this platform in the fall of 06. New recovery plans will be developed and tested before the application system goes into production.

Finding 05-69

Contact: Harold Lewis, 624-5974; Penny Plourde, 624-5975
We agree with the finding. A single individual can no longer authorize and invoice expenditures within BRS purchasing procedures. The bureau's purchasing form (R-20) has been revised and simplified to require one signature for authorization and a second different signature for invoicing. All staff has been trained on the process and requirement for two signatures on the purchasing form. ORSIS, lacking electronic signature capability at this time, will be revised to further prevent one individual from authorizing and paying R-20s by requiring an electronic signature. The estimated time frame is 12 months.

Case reviews are now performed regularly by supervisors to assure that services are provided only to eligible individuals, and that all services are part of an Individual Plan for Employment (IPE) consistent with state VR rules. All new IPEs greater than $6,000, and all cases with cumulative expenditures of $12,000 or more are reviewed, as well as a random sample of all cases.

In the past have not consistently been documenting case reviews in the case record. We will immediately begin documenting the date and the result of the case review by the supervisor for verification.

Finding 05-70

Contact: Harold Lewis, 624-5974; Penny Plourde, 624-5975
We disagree with the finding. There is no systemic deficiency in our system to certify employees working on a single federal grant or on multiple activities. Employees enter and certify their time in TAMS with an electronic signature. The supervisors then access TAMS to certify the correctness of the timesheets with their electronic signature. The personal services accounting system for Voc Rehab is set up to give each employee the capability to post their time to the respective program(s) they are working on. The majority of field personnel are

working solely in the VR program and do not have the need for multiple postings. An exception may exist for the program directors, who spend 97% or more of their time on the VR program. Their time is certified solely to one grant. The remainder of their time, less than 3%, is spent on incidental activities and is not segregated due to the negligible impact on the program.

BRS will recertify and document the logic and assignment of all staff to specific TAMS cost centers and reporting organizations, which allows their time to be correctly charged to major and minor program activity. This activity will be completed within the next 60 days and we will continue to monitor certifications regularly.

Finding 05-71

Contact: Harold Lewis, 624-5974; Penny Plourde, 624-5975
We agree with this finding. However, this finding does not reference that federal regulations provide for an extension beyond sixty days when information is not available to make an eligibility determination and the client agrees to a specific extension, we note that fact, as well as the fact that frequently the agreement for this extension is not documented in the case record. We are planning to address the issues within the next sixty days as follows:

Modifying our electronic case-management system (ORSIS) to provide a reminder to the counselor at 45 days after application that eligibility needs to be completed,

Included in the 45-day message is a statement that the client must agree to a specific extension of time if the 60-day limit is exceeded,

Requiring that supervisors review all cases that exceed 60 days to confirm documentation of agreement by counselor and client to an extension,

Requiring that all VR counselor performance evaluations have an expectation that eligibility or extension agreement will be accomplished and documented by 60 days.

In addition, presumptive eligibility based on SSA beneficiary status will include documentation of beneficiary status. All counselors will receive reinforcement of this guidance by May 1, and compliance will be tested in the case review of eligibility.

Finding 05-72

Contact: Anke Siem, Financial Analyst, 287-3572
We agree with the finding. Although there have been past deficiencies with documenting program income, we are currently retaining program information in compliance with Federal regulations. We can document that our electronic records have been deemed accurate and satisfactory by the Social Security Administration. Program income is tracked on a monthly basis and reconciled with the B919 report.

CORRECTIVE ACTION PLAN

We have revised the chart of accounts to ensure proper accounting for and disbursement of Federal funds. The revised chart of accounts clearly identifies individual reporting orgs for each federal and non-federal program.

Obligated funds are currently expended within the period of availability. The funds are tracked on a monthly basis and expended within the proper timeframe.

CORRECTIVE ACTION PLAN

Department of Public Safety

Finding 05-73

Contact: Tracy J. Poulin 624-7209

The Department of Public Safety agrees that the Certification for Suspension and Debarment forms were not always on file or readily available with the supporting documentation for the purchases made using MEMA Homeland Security Grant funding. All forms were secured from the vendors either by our Department or by Purchases when we were asked to produce them. None of the vendors used to procure services or to make purchases was debarred now or at the time of the purchase. We believe that we made all contracts using the best information available and have for the past two years have included the suspension and debarment form as a routine matter when contracting. The documentation is kept with the original purchase/grant information retained by the Maine State Police Contract/Grant Specialist. Corrective action was implemented on January 26, 2006.

CORRECTIVE ACTION PLAN

Department of Transportation

Finding 05-74

Contact: Todd Pelletier, Director, Contract Procurement Office, 624-3468
The Contract Procurement Office (CPO) was created in May 2005. The purpose of this office is to ensure compliance with all Federal, State, and Departmental requirements. Since that time, one major focus of the CPO has been proper documentation of government estimates and procurement methods. The CPO has been assembling and training key personnel in proper contract procurement and administration. Seven Contract Specialist positions have been created throughout the Department to meet these goals. In addition, the current version of the General Consultant Conditions, which governs all of our consultant projects, includes the required suspension and debarment language. A process checklist is now used to ensure that all required documentation is obtained and that all necessary steps satisfying Federal and State regulations are followed. Maine DOT will work with the Department of Audit during future years to ensure that the new practices implemented are represented in the audited list of contracts.

Timeline for this action:
The new practices were implemented in the weeks following the creation of the CPO in May 2005.

Finding 05-75

Contact: Scott Bickford, 624-3533
1. General:
   a. The Prime will provide certified payrolls and fringe benefit statements weekly for the Prime employee's on site and all the subcontractors' employees on site to the Resident.
   b. The Department will perform payroll interviews onsite as follows:
      i. On projects of short duration – 90 calendar days or less
         1. One payroll interview of at least two employees of each contractor and subcontractor on site the day of the interview
      ii. On projects of longer duration
         1. One payroll interview of at least two employees of each contractor and subcontractor on site the day of the interview shall be made once in each 90 calendar day period of work.
   c. When it is suspected there may be wage violations of any type more interviews should be done and the Civil Rights Office must be contacted.
   d. During on-site reviews by the EEO Officer, the Certified Payroll and Fringe Benefits folders will be checked for completeness.
   e. On at least 20% of the Projects the EEO Officer will do an onsite interview of 3 or more contracted employees regarding their payroll in accordance with Davis Bacon. More people will be interviewed if irregularities are found.

CORRECTIVE ACTION PLAN

2. Preconstruction:
   a. After project award the Department will send the Prime Contractor a notice requesting hourly fringe benefit statements for the Prime and all known sub contractors to be working on the project.
   b. All fringe benefit statements must be sent to the Resident Engineer to be kept with the payrolls prior to the start of any work.
   c. The Department will review the wage rate schedule (General Decision) in detail at the preconstruction conference and go over all occupational titles listed on the General Decision.
3. If Required:
   a. The Department shall request the Prime submit a SF-1444 form to the Department for any needed additional wage rates which were not included in the bid book.
   b. The Department will obtain response from the USDOL and return the new rates and/or rate corrections to the Prime.
   c. The Prime will then provide the Department with corrected payrolls and copies of cancelled checks made to employees who received additional compensation as a result of the request.

Timeline for this action: The new policy will be implemented immediately after approval is received from the Federal Highway Administration (FHWA), and in time for the new construction season.