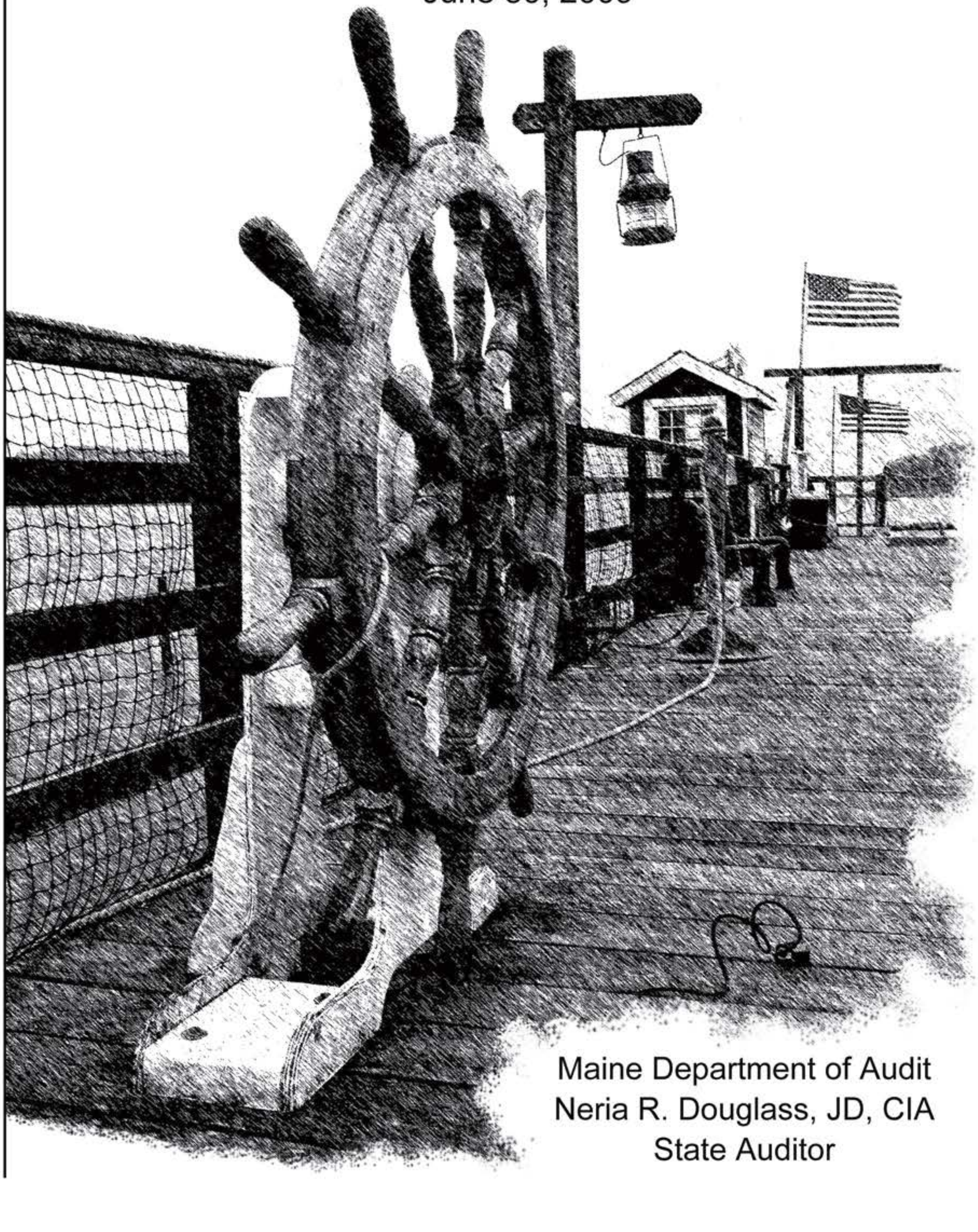
State of Maine

Single Audit Report

Fiscal Period Ending
June 30, 2009



Maine Department of Audit
Neria R. Douglass, JD, CIA
State Auditor

STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

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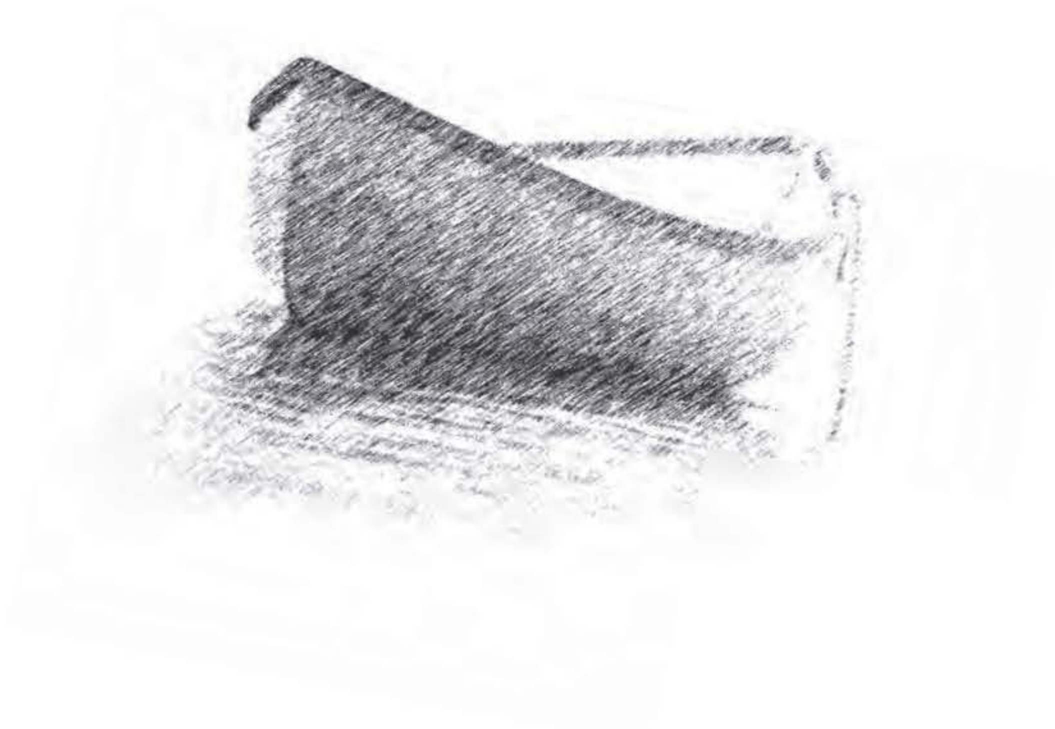

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Letter of Transmittal

Senator Elizabeth Mitchell
President of the Senate

Representative Hannah Pingree
Speaker of the House of Representatives

The Honorable John E. Baldacci
Governor of Maine

I am pleased to submit the Single Audit of the State of Maine for the fiscal year ended June 30, 2009. This 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*. Our audit complies with 5 MRSA §243 and is a prerequisite for the receipt of $3.1 billion in federal financial assistance during fiscal year 2009.

This document contains the following reports and schedules:

- Independent Auditor's Report
- Basic Financial Statements, Management's Discussion and Analysis, Notes to Financial Statements, and Required Supplementary Information
- Report on Internal Control over Financial Reporting and on Compliance and Other Matters 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 on Internal Control over Compliance in Accordance with OMB Circular A-133
- Schedule of Expenditures of Federal Awards
- Schedule of Findings and Questioned Costs
- Financial Statement Findings
- Indexes to Federal Program Findings
- Federal Findings, Questioned Costs and Corrective Action Plan
- Summary Schedule of Prior Audit Findings

On behalf of the Maine Department of Audit, I thank employees throughout Maine government who have assisted us during our audit. I know that we all work to improve financial reporting and accountability for our citizens and our State.

Please contact me if you have questions or comments about the 2009 Single Audit of the State of Maine.

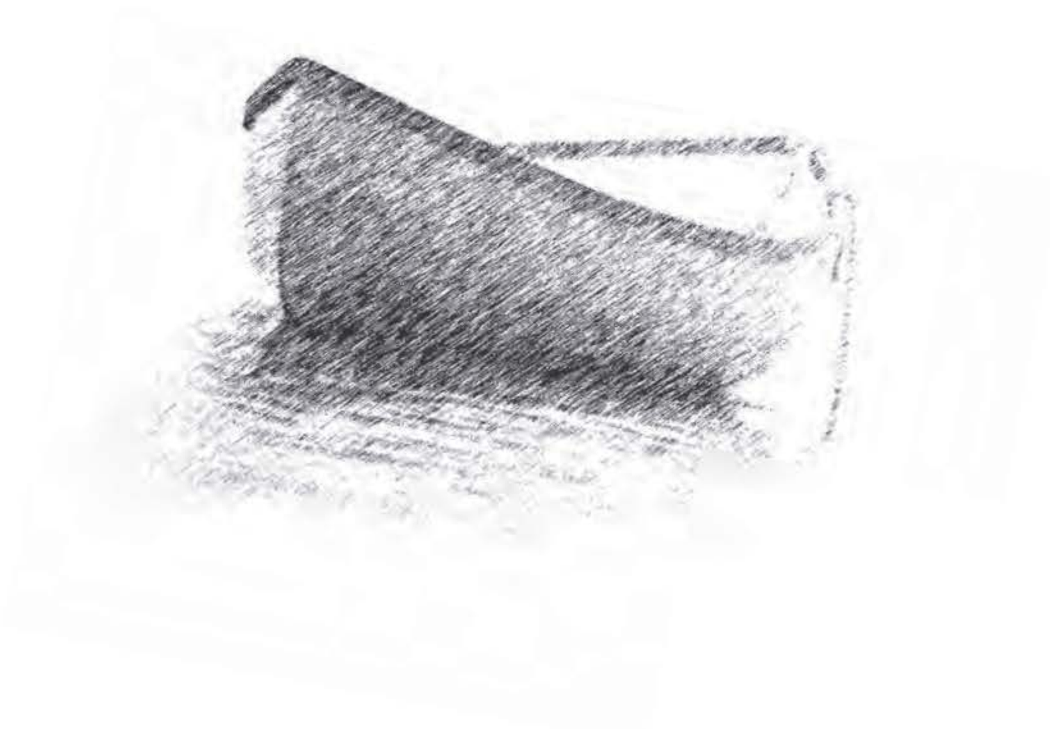
Respectfully submitted,

Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

March 31, 2010

STATE OF MAINE
EXECUTIVE SUMMARY
FOR THE YEAR ENDED JUNE 30, 2009



STATE OF MAINE
SINGLE AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2009

EXECUTIVE SUMMARY

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. Our audit included 22 major federal programs representing 93% of the $3.1 billion in federal assistance that the State received. The Single Audit Report consists of various audit reports along with related financial statement and federal audit findings and recommendations.

Independent Auditor's Report

We rendered an unqualified opinion on the State's basic financial statements which means that the financial report is presented fairly in all material respects in accordance with generally accepted accounting principles.

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

We reported on internal control over financial reporting and issued two audit findings on control weaknesses that we considered to be significant deficiencies. Significant deficiencies in internal control could adversely affect the State's ability to report financial information in accordance with generally accepted accounting principles. An audit finding is considered to be a significant deficiency if there is more than a remote likelihood of a misstatement that is more than inconsequential, and that misstatement of the financial statements will not be prevented or detected by the State's internal control.

As part of obtaining reasonable assurance about whether the State's financial statements were not materially misstated, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements. The results of our tests disclosed no instances of noncompliance that were required to be reported under *Government Auditing Standards*.

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 four audit findings that resulted in qualifications of our opinions on compliance with program requirements for five federal programs because of material noncompliance. The remaining 17 programs complied in all material respects with program requirements.

We identified 54 instances of control weaknesses in internal control that are considered to be significant deficiencies. A significant deficiency is a control deficiency that could adversely affect the State's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the State's internal control.

Seven of the significant deficiencies noted in the previous paragraph are considered to be a material weakness in internal control. A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program would not be prevented or detected by the State's internal control.

Schedule of Findings and Questioned Costs

The Schedule of Findings and Questioned Costs includes audit findings and managements' responses and plans for corrective action. The audit findings also include a total of $1.8 million of questioned costs. Questioned costs are amounts of federal financial assistance that we believe were not spent in accordance with program requirements. The federal government may or may not disallow these costs and could result in reimbursements from the State to the federal government.

STATE OF MAINE
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009

INDEX TO FINANCIAL INFORMATION

General Purpose Financial Statements of the State of Maine
For the Year Ended June 30, 2009

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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, 2009, 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 opinions on these financial statements based on our audit. We did not audit the financial statements of the following component units: Child Development Services, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, 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 Public Employees Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, Small Growth Enterprise Fund, and University of Maine System. We also did not audit the financial statements of the NextGen College Investing Plan. These financial statements reflect the following percentages of total assets and net assets or fund balance of the indicated opinion unit:

Opinion Unit	Percent of Opinion Unit's Total Assets	Percent of Opinion Unit's Net Assets/Fund Balance
Aggregate Discretely Presented Component Units	100%	100%
Aggregate Remaining Fund Information	95%	97%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us and our opinions, insofar as they relate to the amounts included for these entities, are based 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. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. 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, 2009, 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 23, 2009 on our consideration of the State's internal control over financial reporting and our tests of its compliance with laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. 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 assessing the results of our audit.

As discussed in Note 3, the State has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and GASB No. 52, *Land and Other Real Estate Held as Investments by Endowments.*

The Management's Discussion and Analysis on pages B5 – B16, and budgetary comparison schedules and related notes, State Retirement Plan and Other Post-Employment Benefits Plans, Information About Infrastructure Assets Reported Using the Modified Approach, included on pages B94 – B104, 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 and other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State of Maine's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basis 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

State Auditor

December 23, 2009

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, 2009. 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 decreased by 0.01 percent from the previous fiscal year, as restated. Net assets of Governmental Activities increased by $86.2 million, while net assets of Business-type Activities decreased by $86.6 million. The State's assets exceeded its liabilities by $4.2 billion at the close of fiscal year 2009. Component units reported net assets of $2.0 billion, an increase of $33.5 million (1.7 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 $202 million, an increase of $14 million from the previous year. The General Fund's total fund balance was a negative $273.4 million, a decline of $34.9 million from the previous year. The Highway Fund total fund balance was $34.9 million, an increase of $37 million from the prior year.

- The proprietary funds reported net assets at year end of $594.4 million, a decrease of $31.1 million from the previous year as restated. This decrease is due to several factors: an increase in the Retiree Health Insurance Fund of $40.9 million, an increase in the Dirigo Health Fund of $5.1 million, an increase in the Maine Military Fund of $4.4 million, an increase in the Alcoholic Beverages Fund of $12.5 million, and an increase in the Workers' Compensation Fund of $10.2 million, offset by a decrease in the Employment Security Fund of $109.8 million, and a decrease in the Employee Health Insurance Fund of $11.6 million,

Long-term Debt:

- The State's liability for general obligation bonds increased by $54.5 million during the fiscal year, which represents the difference between new issuances and payments of outstanding debt. During the year, the State issued $133.3 million in bonds and made principal payments of $79.2 million.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-wide Statements

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

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

Both government-wide statements report three activities:

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

Business-type activities - The State charges fees to customers to help cover all or most of the costs of certain services it provides. 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 15 other component units (6 major and 9 non-major) as discretely presented component units of the State, and one component unit is 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 revenues in the 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; are capital assets, net of accumulated depreciation, and reduced by outstanding balances for bonds, notes, and other debt attributed to the acquisition, construction or improvement of those assets.

  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 Public Employees Retirement System, a component unit, private-purpose trusts, and agency funds. Fiduciary funds are reported using the accrual basis of accounting. The State excludes these activities from the government-wide financial statements because these assets are restricted in purpose and do not represent discretionary assets of the State to finance its operations.

Notes to the Financial Statements

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

Required Supplementary Information

The required supplementary information includes budgetary comparison schedules for the General Fund and major special revenue funds. Also included are notes and a reconciliation of fund balance from the budgetary basis to fund balance determined according to generally accepted accounting principles. This section also includes schedules of funding progress for certain pension and other post-employment benefit 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. Budgetary comparison schedules by agency are also included for the general fund, the highway fund, federal funds, and other special revenue fund.

FINANCIAL ANALYSIS OF THE STATE AS A WHOLE

The State's net assets decreased by 0.01 percent (as restated) to $4.2 billion at June 30, 2009, 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	
	2009	**2008***	**2009**	**2008**	**2009**	**2008***
Current and other noncurrent assets	$ 1,901,420	$ 2,114,633	$ 410,353	$ 511,516	$ 2,311,773	$ 2,626,149
Capital assets	4,338,301	4,095,417	96,665	95,905	4,434,966	4,191,322
Total Assets	**6,239,721**	**6,210,050**	**507,018**	**607,421**	**6,746,739**	**6,817,471**
Current liabilities	1,419,356	1,602,289	42,720	44,095	1,462,076	1,646,384
Long-term liabilities	1,040,284	913,855	50,691	63,088	1,090,975	976,943
Total Liabilities	**2,459,640**	**2,516,144**	**93,411**	**107,183**	**2,553,051**	**2,623,327**
Net assets (deficit):						
Investment in capital assets, net of related debt	3,767,895	3,632,073	96,667	95,905	3,864,562	3,727,978
Restricted	162,240	200,888	383,970	493,733	546,210	694,621
Unrestricted (deficit)	(150,054)	(139,055)	(67,030)	(89,400)	(217,084)	(228,455)
Total Net Assets	**$ 3,780,081**	**$ 3,693,906**	**$ 413,607**	**$ 500,238**	**$ 4,193,688**	**$ 4,194,144**

*As Restated

Changes in Net Assets

The State's fiscal year 2009 revenues totaled $7.4 billion. (See Table A-2) Taxes and operating grants and contributions accounted for most of the State's revenue by contributing 43.6 percent and 41.7 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 $7.4 billion for the year 2009. (See Table A-2) These expenses are predominantly (68.8 percent) related to health & human services and education activities. The State's governmental support & operations activities accounted for 6.5 percent of total costs. Total net assets decreased by $456 thousand.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008*	2009	2008	2009	2008*
Revenues						
Program Revenues:						
Charges for Services	$ 452,597	$ 460,080	$ 482,911	$ 493,197	$ 935,508	$ 953,277
Operating Grants/Contributions	3,081,827	2,559,533	20,170	22,950	3,101,997	2,582,483
Capital Grants/Contributions	-	-	-	-	-	-
General Revenues:						
Taxes	3,245,180	3,512,767	-	-	3,245,180	3,512,767
Other	159,276	198,263	-	2	159,276	198,265
Total Revenues	6,938,880	6,730,643	503,081	516,149	7,441,961	7,246,792
Expenses						
Governmental Activities:						
Governmental Support	484,127	541,338			484,127	541,338
Education	1,689,036	1,669,353			1,689,036	1,669,353
Health & Human Services	3,428,680	3,290,482			3,428,680	3,290,482
Justice & Protection	419,027	407,879			419,027	407,879
Transportation Safety	301,355	329,914			301,355	329,914
Other	534,032	412,007			534,032	412,007
Interest	40,148	35,524			40,148	35,524
Business-Type Activities:						
Employment Security			225,181	122,518	225,181	122,518
Lottery			163,030	178,419	163,030	178,419
Military Equip. Maint.			71,380	80,306	71,380	80,306
Dirigo Health			58,861	76,860	58,861	76,860
Other			27,560	25,322	27,560	25,322
Total Expenses	6,896,405	6,686,497	546,012	483,425	7,442,417	7,169,922
Excess (Deficiency) before Special Items and Transfers	42,475	44,146	(42,931)	32,724	(456)	76,870
Special Items	-	(100,000)	-	-	-	(100,000)
Transfers	43,700	38,470	(43,700)	(38,470)	-	-
Increase (Decrease) in Net Assets	86,175	(17,384)	(86,631)	(5,746)	(456)	(23,130)
Net Assets, beginning of year	3,693,906	3,711,290	500,238	505,984	4,194,144	4,217,274
Ending Net Assets	$ 3,780,081	$ 3,693,906	$ 413,607	$ 500,238	$ 4,193,688	$ 4,194,144

*As Restated

Governmental Activities

Revenues for the State's Governmental Activities totaled $6.94 billion while total expenses equaled $6.90 billion. The increase in net assets for Governmental Activities was $86.2 million in 2009. This is due, primarily, to a decrease in General Fund expenditures resulting from participation in the federal American Recovery and Reinvestment Act of 2009. Additionally, program revenues were insufficient to cover program expenses. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes. Tax revenue decreased by $267.6 million from the prior year, however net expenses supported by tax revenue also decreased by approximately $304.9 million. Furthermore, the State's Business-type Activities transferred $43.7 million (net) to the Governmental Activities in statutorily required profit transfers.

The users of the State's programs financed $452.6 million of the cost. The federal and State governments subsidized certain programs with grants and contributions of $3.1 billion. $3.4 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 2009

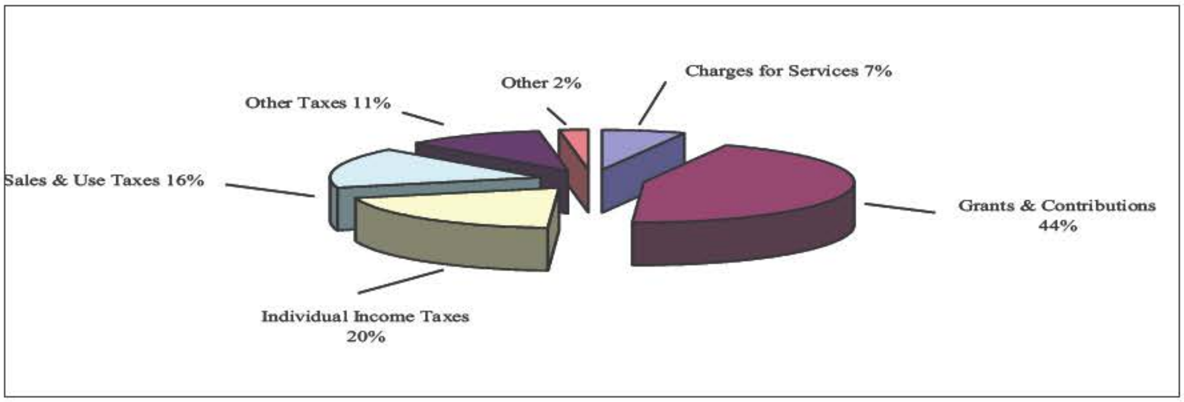
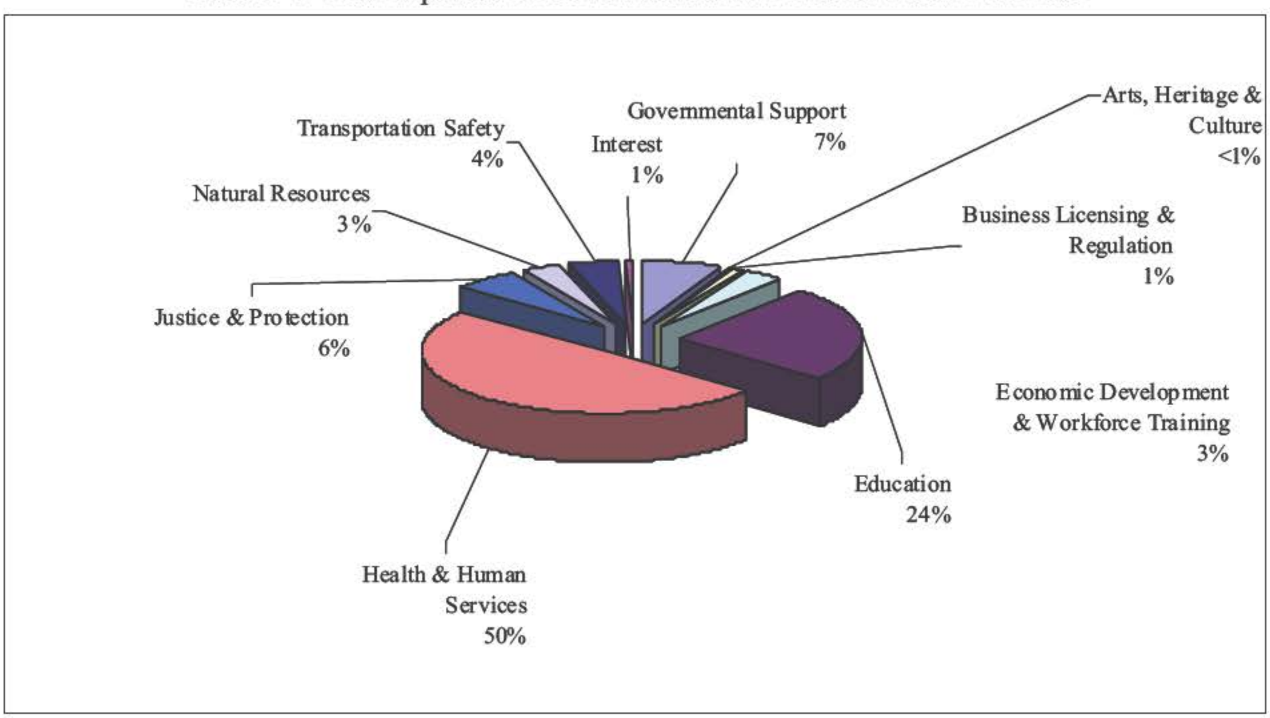


Table A-4: Total Expenses for Governmental Activities for Fiscal Year 2009



Business-type Activities

Revenues for the State's Business-type Activities totaled $503.1 million while expenses totaled $546 million. The decrease in net assets for Business-type Activities was $86.6 million in 2009, due mainly to the increase of unemployment compensation payments in the Employment Security fund.

Table A-5 presents the cost of State Business-type Activities: employment security, alcoholic beverages, lottery, 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	**2009**	**2008**	**2009**	**2008**
Employment Security	$ 225,181	$ 122,518	$ (107,649)	$ 6,968
Alcoholic Beverages	-	-	12,530	12,527
Lottery	163,030	178,419	50,043	50,561
Military Equip. Maint.	71,380	80,306	4,404	(3,077)
Dirigo Health	58,861	76,860	9,843	(22,353)
Other	27,560	25,322	(12,102)	(11,902)
Total	$ 546,012	$ 483,425	$ (42,931)	$ 32,724

The cost of all Business-type Activities this year was $546 million. The users of the State's programs financed most of the cost. The State's net cost from Business-type Activities was $42.9 million, with Employment Security making up $107.6 million of the total. The State's Business-type Activities transferred $43.7 million (net) to the Governmental Activities in statutorily required profit transfers.

FINANCIAL ANALYSIS OF THE STATE'S FUNDS

Table A-6: Governmental Fund Balances
(Expressed in Thousands)

Fund	Total Cost 2009	2008	Change
General	$ (273,393)	$ (238,472)	$ (34,921)
Highway	34,885	(2,263)	37,148
Federal	27,163	38,155	(10,992)
Other Special Revenue	300,263	291,084	9,179
Other Governmental	113,038	99,404	13,634
Total	$ 201,956	$ 187,908	$ 14,048

As of the end of the current fiscal year, the State's governmental funds reported combined ending fund balances of $202 million, an increase of $14 million in comparison with the prior year. Of this amount, a net deficit fund balance of $357.6 million constitutes unreserved fund balance with 109 percent ($390.4 million) of the shortfall residing in the General Fund. The remainder of the fund balances for the governmental funds is reserved and is not available for new spending because it has already been dedicated for continuing appropriations ($417.3 million), Capital Projects ($53.0 million), and various other commitments ($89.4 million).

General Fund expenditures and other uses surpassed General Fund revenues and other sources resulting in a decrease in the fund balance by $34.9 million. While expenditures and other uses of the General Fund decreased by approximately $315.6 million (9 percent) led by an approximate decrease in health and human service expenditures (mainly Medicaid) of $277 million; General Fund revenues and other sources also decreased by $276.9 million (8 percent) which is mainly attributed to a reduction in tax revenue ($270.7 million).

The fund balance of the Highway Fund increased by $37.1 million from fiscal year 2008, due mainly to a reduction in the transportation, safety and development expenditures by $48.3 million in fiscal year 2009. In addition, the Highway Fund was reimbursed by approximately $23 million from the Federal Fund for prior period expenditures that were ultimately approved for federal funding.

Budgetary Highlights

For the 2009 fiscal year, the final legally adopted budgeted expenditures for the General Fund amounted to $3.1 billion, a decrease of about $59.1 million from the original legally adopted budget of approximately $3.2 billion. Actual expenditures on a budgetary basis amounted to approximately $100.4 million less than those authorized in the final budget; however, after deducting the encumbered obligations and other commitments that will come due in fiscal year 2010, including the budgeted starting balance for Fiscal Year 2010, there were no funds remaining to distribute in Fiscal Year 2009. General Fund revenues fell $31.7 million short of the revised projections. As a part of the final budget adjustment for Fiscal Year 2009, the Legislature approved transfers of $131.6 million from the Budget Stabilization Fund to unappropriated surplus. Interest earnings netted against the legislatively approved transfers decreased the balance in the Fund to $195 thousand as of June 30, 2009. This item is further explained in Note 2 of Notes to the Financial Statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of fiscal year 2009, the State had roughly $4.4 billion in a broad range of capital assets, including land, infrastructure, improvements, buildings, equipment, vehicles and intangibles. During fiscal year 2009, the State acquired or constructed more than $310.1 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-7 - Capital Assets
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Land	$ 449,256	$ 434,230	$ 43,344	$ 43,345	$ 492,600	$ 477,575
Buildings	576,236	564,182	9,655	9,499	585,891	573,681
Equipment	250,031	250,828	47,134	44,194	297,165	295,022
Improvements	18,818	19,541	74,572	62,607	93,390	82,148
Infrastructure	3,378,914	3,178,666	-	-	3,378,914	3,178,666
Construction in Progress	57,350	24,175	3,416	10,368	60,766	34,543
Total Capital Assets	4,730,605	4,471,622	178,121	170,013	4,908,726	4,641,635
Accumulated Depreciation	392,304	376,205	81,456	74,108	473,760	450,313
Capital Assets, net	$ 4,338,301	$ 4,095,417	$ 96,665	$ 95,905	$ 4,434,966	$ 4,191,322

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 8,811 highway miles or 17,921 lane miles within the State. Bridges have a deck area of 12 million square feet among 2,963 total bridges. The State has established a policy to maintain its highways at an average condition assessment of 60. At June 30, 2009, the actual average condition was 75.3. Its policy for bridges is an average sufficiency rating condition assessment of 60. The actual average condition for bridges was 78 at June 30, 2009. Preservation costs for fiscal year 2009 totaled $76.1 million compared to estimated preservation costs of $56.5 million.

Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 39, PL 2007, $50 million was spent during FY 2009.

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 percent 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 percent of the total valuation of the State of Maine, whichever is the lesser.

At year-end, the State had $1.2 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-8 - Outstanding Long-Term Debt
(Expressed in Thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008*	2009	2008	2009	2008*
General Obligation Bonds	$ 529,990	$ 475,835	$ -	$ -	$ 529,990	$ 475,835
Other Long-Term Obligations	671,940	580,805	880	750	672,820	581,555
Total	$1,201,930	$ 1,056,640	$ 880	$ 750	$1,202,810	$ 1,057,390

*As restated

During the year, the State reduced outstanding long-term obligations by $79.2 million for outstanding general obligation bonds and $263.1 million for other long-term debt. Also during fiscal year 2009, the State incurred $487.7 million of additional long-term obligations.

Credit Ratings

Two of the major bond rating agencies assessed the State’s credit rating during fiscal year 2009. During fiscal year 2009, Moody’s Investors Service rated the State at Aa3 and Standard & Poor’s rated it at AA. For fiscal year 2008, the Moody’s rating was Aa3 and Standard & Poor’s was AA.

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

Inflation increased at a much slower rate during the past year. The Consumer Price Index rose only 1.4 percent from July 2008 to June 2009; fuel and utilities prices declined during the 12 month period. The rise in oil prices to over $140 a barrel in late summer 2008 due to unrest in the Middle East and a strained dollar put pressure on both household and government budgets. The subsequent crash in oil prices during the second half of 2008 and into early 2009 helped to offset the faltering economy for Maine households and governmental operations at all levels in the State during the 2008-09 winter heating season. Fuel oil prices started 2008 at approximately $3.34 per gallon rising steadily through the summer months to $4.65 per gallon in July which is the peak of the pre-buy season for consumers in Maine, and then declined steadily to $2.64 per gallon in December 2008. Home heating oil prices are currently averaging $2.56 a gallon. The decline in fuel oil prices was driven by the worsening economy in the US driven by the crises in the subprime mortgage credit markets which developed into a nationwide recession and banking credit crunch.

Personal income continued to rise in Maine faster than inflation. According to the latest statistics available, the average weekly wage in Maine is estimated to have risen by 3.2 percent in calendar year 2008 and personal income by 4.0 percent. The moderate growth in 2008 is in contrast to the much slower growth that is expected for 2009 as a result of the severe national recession. Unemployment has been below the national average throughout the year. The rate in Maine stood at 8.2 percent in October of 2009 which is which was below both the national and New England averages.

The recent General Fund Revenue estimate accepted by the Independent Revenue Forecasting Commission for the 2010-2011 Biennium provides approximately $5.4 billion in resources to be available for general purpose spending. The upcoming supplemental budget will require adjustments to keep in balance throughout the current biennium as revenues continue to erode. The Budget will be amended as necessary through public laws to ensure adequate resources are available for the fiscal years of the biennium as revenues and resources appear to be in decline as the result of the national recession.

The national economic recession has impacted Maine, but not as severely as some parts of the nation. While the housing market has slowed in Maine, homes prices have not fallen as much as the rest of the nation and most financial institutions in Maine are solid. Maine's economy is not heavily dependent on financial services jobs, and therefore was not significantly affected by the crisis in the nation's financial sector. The one area that was strongly affected by the recession is the retail sector. Employment in the retail sector is forecasted to contract during 2009 as consumers continue to retrench.

At the close of Fiscal Year 2009, the deficit in the State of Maine's Unreserved Fund Balance Account in the General Fund has decreased to $390.4 million (from a deficit $403.9 reported in the prior year). This reduction is primarily due to a reduction in Medicaid liabilities of $155.6 million. A significant amount of this reduction in Medicaid liabilities was offset by additional internal cash borrowing. The cash borrowing was necessary due to the use of the Budget Stabilization Fund to resolve budget shortfalls at the close of Fiscal Year 2009.

There are many factors that adversely affect our General Fund Balance Sheet that we should strive to resolve over the next several years. The paramount cause for the current condition is the Medicaid liabilities that accrue at the end of each fiscal year. The increases in funding that the State has provided to local school districts has also place a huge strain on resources. Other factors that have a significant impact on the State's Financial Statements compiled and issued in accordance with Generally Accepted Accounting Principles as applicable to governments include such factors as accruing tax revenues for budgetary purposes and for financial statement purposes without accruing the offsetting liabilities for budgetary purposes; the increase in the demand for carrying accounts and a lack of allowing money to accrue to the Unreserved Fund Balance of the General Fund.

These items together, conspire to cause the State of Maine's General Fund to be subjected to lack of liquidity each year and an inability to adequately manage its Balance Sheet within existing resources.

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


DIRIGO
MAINE

STATE OF MAINE
STATEMENT OF NET ASSETS

June 30, 2009
(Expressed in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ 325,090	$ 5,254	$ 330,344	$ 58,656
Cash and Cash Equivalents	296	757	1,053	58,484
Cash with Fiscal Agent	84,309	-	84,309	-
Investments	59,943	-	59,943	731,891
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	58,010	-	58,010	-
Restricted Deposits and Investments	3,053	358,893	361,946	-
Inventories	6,931	3,363	10,294	2,641
Receivables, Net of Allowance for Uncollectibles:				
Taxes Receivable	347,275	-	347,275	-
Loans Receivable	4,251	-	4,251	86,676
Notes Receivable	-	-	-	2
Other Receivables	196,588	62,016	258,604	56,179
Internal Balances	24,978	(24,978)	-	-
Due from Other Governments	644,247	-	644,247	147,380
Due from Primary Government	-	-	-	25,065
Loans receivable from primary government	-	-	-	9,590
Due from Component Units	1,377	136	1,513	-
Other Current Assets	4,495	3,578	8,073	89,545
Total Current Assets	1,760,843	409,019	2,169,862	1,266,109
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	7,942	130	8,072	1,429
Assets Held in Trust	-	-	-	798
Restricted Assets:				
Restricted Equity in Treasurer's Cash Pool	1,396	-	1,396	-
Restricted Deposits and Investments	-	-	-	450,923
Investments	-	-	-	436,597
Receivables, Net of Current Portion:				
Taxes Receivable	81,013	-	81,013	-
Loans Receivable	-	-	-	2,543,849
Notes Receivable	-	-	-	260,695
Other Receivables	1,952	-	1,952	17,670
Due from Other Governments	19,506	-	19,506	1,230,445
Loans receivable from primary government	-	-	-	122,179
Due From Primary Government	-	-	-	1,560
Other Noncurrent Assets	-	-	-	32,474
Post-Employment Benefit Asset	28,768	1,204	29,972	-
Capital Assets:				
Land, Infrastructure, and Other Non-Depreciable Assets	3,885,520	46,760	3,932,280	74,749
Buildings, Equipment and Other Depreciable Assets	845,085	131,361	976,446	1,207,356
Less: Accumulated Depreciation	(392,304)	(81,456)	(473,760)	(415,008)
Capital Assets, Net of Accumulated Depreciation	4,338,301	96,665	4,434,966	867,097
Total Noncurrent Assets	4,478,878	97,999	4,576,877	5,965,716
Total Assets	$ 6,239,721	$ 507,018	$ 6,746,739	$ 7,231,825

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

	Primary Government			
	Governmental Activities	Business-Type Activities	Totals	Component Units
Liabilities				
Current Liabilities:				
Accounts Payable	$ 882,191	$ 9,518	$ 891,709	$ 75,252
Accrued Payroll	55,929	1,980	57,909	880
Tax Refunds Payable	135,128	-	135,128	-
Due to Component Units	25,048	17	25,065	-
Due to Primary Government	-	-	-	1,513
Undistributed Grants and Administrative Funds	-	-	-	15,560
Allowances for Losses on Insured Commercial Loans	-	-	-	10,971
Current Portion of Long-Term Obligations:				
Compensated Absences	5,509	189	5,698	2,385
Due to Other Governments	134,883	-	134,883	2,759
Amounts Held under State & Federal Loan Programs	-	-	-	61,646
Claims Payable	23,769	-	23,769	-
Bonds and Notes Payable	86,725	-	86,725	238,868
Notes Payable	-	-	-	12,500
Revenue Bonds Payable	17,130	-	17,130	50,371
Obligations under Capital Leases	6,367	-	6,367	330
Certificates of Participation and Other Financing Arrangements	22,525	-	22,525	-
Loans Payable to Component Unit	9,590	-	9,590	-
Accrued Interest Payable	7,946	-	7,946	46,885
Deferred Revenue	1,786	12,781	14,567	71,870
Current portion of OPEB obligation	-	-	-	3,033
Other Current Liabilities	4,830	18,235	23,065	35,862
Total Current Liabilities	1,419,356	42,720	1,462,076	630,685
Long-Term Liabilities:				
Compensated Absences	39,857	691	40,548	-
Due to Component Units	1,560	-	1,560	-
Due to Other Governments	183	-	183	16,669
Amounts Held under State & Federal Loan Programs	-	-	-	45,893
Claims Payable	34,842	-	34,842	-
Bonds and Notes Payable	443,265	-	443,265	3,114,011
Revenue Bonds Payable	175,805	-	175,805	1,276,923
Obligations under Capital Leases	31,267	-	31,267	6,183
Certificates of Participation and Other Financing Arrangements	27,554	-	27,554	-
Loans Payable to Component Unit	122,179	-	122,179	-
Deferred Revenue	8,226	50,000	58,226	21,728
Pension Obligation	18,881	-	18,881	-
Other Post-Employment Benefit Obligation	71,789	-	71,789	-
Pollution Remediation	64,876	-	64,876	-
Other Noncurrent Liabilities	-	-	-	91,591
Total Long-Term Liabilities	1,040,284	50,691	1,090,975	4,572,998
Total Liabilities	2,459,640	93,411	2,553,051	5,203,683
Net Assets				
Invested in Capital Assets, Net of Related Debt	3,767,895	96,667	3,864,562	629,344
Restricted:				
Highway Fund Purposes	34,154	-	34,154	-
Federal Programs	27,163	-	27,163	-
Natural Resources	17,690	-	17,690	-
Unemployment Compensation	-	383,970	383,970	-
Other Purposes	23,159	-	23,159	1,114,591
Funds Held as Permanent Investments:				
Expendable	48,907	-	48,907	-
Nonexpendable	11,167	-	11,167	-
Unrestricted	(150,054)	(67,030)	(217,084)	284,207
Total Net Assets	$ 3,780,081	$ 413,607	$ 4,193,688	$ 2,028,142

STATE OF MAINE
STATEMENT OF ACTIVITIES

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary government:				
Governmental activities:				
Governmental Support & Operations	$ 484,127	$ 82,738	$ 7,030	$ -
Arts, Heritage & Cultural Enrichment	13,430	1,172	2,734	-
Business Licensing & Regulation	66,155	56,042	865	-
Economic Development & Workforce Training	229,838	4,531	157,826	-
Education	1,689,036	2,053	229,351	-
Health & Human Services	3,428,680	12,573	2,369,010	-
Justice & Protection	419,027	90,497	77,456	-
Natural Resources Development & Protection	224,609	91,562	41,665	-
Transportation Safety & Development	301,355	111,429	195,890	-
Interest Expense	40,148	-	-	-
Total Governmental Activities	6,896,405	452,597	3,081,827	-
Business-Type Activities:				
Employment Security	225,181	97,362	20,170	-
Alcoholic Beverages	-	12,530	-	-
Lottery	163,030	213,073	-	-
Transportation	8,473	3,961	-	-
Marine Ports	1,382	78	-	-
Ferry Services	10,210	4,347	-	-
Military Equipment Maintenance	71,380	75,784	-	-
Dirigo Health	58,861	68,704	-	-
Other	7,495	7,072	-	-
Total Business-Type Activities	546,012	482,911	20,170	-
Total Primary Government	$ 7,442,417	$ 935,508	$ 3,101,997	$ -
Component Units:				
Finance Authority of Maine	44,809	15,252	24,428	-
Maine Community College System	113,287	27,639	30,745	9,523
Maine Health & Higher Educational Facilities Authority	67,859	65,163	5,331	-
Maine Municipal Bond Bank	62,300	52,048	9,176	53,424
Maine State Housing Authority	259,670	75,283	190,847	-
University of Maine System	659,996	295,792	111,564	13,636
All Other Non-Major Component Units	105,335	37,547	47,526	1,730
Total Component Units	$ 1,313,256	$ 568,724	$ 419,617	$ 78,313

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

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
$ (394,359)	$ -	$ (394,359)	$ -
(9,524)	-	(9,524)	-
(9,248)	-	(9,248)	-
(67,481)	-	(67,481)	-
(1,457,632)	-	(1,457,632)	-
(1,047,097)	-	(1,047,097)	-
(251,074)	-	(251,074)	-
(91,382)	-	(91,382)	-
5,964	-	5,964	-
(40,148)	-	(40,148)	-
(3,361,981)	-	(3,361,981)	-
-	(107,649)	(107,649)	-
-	12,530	12,530	-
-	50,043	50,043	-
-	(4,512)	(4,512)	-
-	(1,304)	(1,304)	-
-	(5,863)	(5,863)	-
-	4,404	4,404	-
-	9,843	9,843	-
-	(423)	(423)	-
-	(42,931)	(42,931)	-
$ (3,361,981)	$ (42,931)	$ (3,404,912)	$ -
-	-	-	(5,129)
-	-	-	(45,380)
-	-	-	2,635
-	-	-	52,348
-	-	-	6,460
-	-	-	(239,004)
-	-	-	(18,532)
$ -	$ -	$ -	$ (246,602)
266,551	-	266,551	-
1,374,681	-	1,374,681	-
177,103	-	177,103	-
39,120	-	39,120	-
1,137,428	-	1,137,428	-
250,297	-	250,297	-
6,417	-	6,417	(1,448)
-	-	-	282,840
91,528	-	91,528	1,199
(57)	-	(57)	(2,450)
61,388	-	61,388	-
43,700	(43,700)	-	-
3,448,156	(43,700)	3,404,456	280,141
86,175	(86,631)	(456)	33,539
3,693,906	500,238	4,194,144	1,994,603
$ 3,780,081	$ 413,607	$ 4,193,688	$ 2,028,142


DIRIGO
MAINE

STATE OF MAINE
BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2009
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Assets						
Equity in Treasurer's Cash Pool	$ 55,824	$ 35,044	$ 47,726	$ 9,647	$ 132	$ 148,373
Cash and Short-Term Investments	130	116	4	43	-	293
Cash with Fiscal Agent	217	1,669	-	68,404	-	70,290
Investments	-	-	-	-	59,943	59,943
Restricted Assets:						
Restricted Equity in Treasurer's Cash Pool	738	-	-	-	58,668	59,406
Inventories	1,475	-	1,387	-	-	2,862
Receivables, Net of Allowance for Uncollectibles:						
Taxes Receivable	396,815	20,433	-	11,040	-	428,288
Loans Receivable	1	53	-	4,197	-	4,251
Other Receivable	45,117	1,989	72,575	70,332	-	190,013
Due from Other Funds	42,125	9,995	3,838	202,835	-	258,793
Due from Other Governments	-	-	643,651	-	-	643,651
Due from Component Units	4	-	12	1,254	107	1,377
Other Assets	3,556	-	488	-	13	4,057
Working Capital Advances Receivable	111	-	-	-	-	111
Total Assets	$ 546,113	$ 69,299	$ 769,681	$ 367,752	$ 118,863	$ 1,871,708
Liabilities and Fund Balances						
Accounts Payable	$ 210,154	$ 12,922	$ 588,874	$ 25,172	$ 2,426	$ 839,548
Accrued Payroll	25,315	10,332	6,531	9,690	-	51,868
Tax Refunds Payable	135,124	4	-	-	-	135,128
Due to Other Governments	-	-	105,883	-	-	105,883
Due to Other Funds	223,361	3,678	32,800	3,172	81	263,092
Due to Component Units	1,912	69	6,000	337	3,317	11,635
Deferred Revenue	220,452	7,005	1,387	27,918	-	256,762
Other Accrued Liabilities	3,188	404	1,043	1,200	1	5,836
Total Liabilities	819,506	34,414	742,518	67,489	5,825	1,669,752
Fund Balances:						
Reserved						
Continuing Appropriations	110,930	49,568	61,535	195,128	120	417,281
Capital Projects	-	-	-	-	52,964	52,964
Permanent Trusts	-	-	-	-	11,167	11,167
Other	6,056	195	-	23,149	48,787	78,187
Unreserved	(390,379)	(14,878)	(34,372)	81,986	-	(357,643)
Total Fund Balances	(273,393)	34,885	27,163	300,263	113,038	201,956
Total Liabilities and Fund Balances	$ 546,113	$ 69,299	$ 769,681	$ 367,752	$ 118,863	$ 1,871,708

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, 2009
(Expressed in Thousands)

Total fund balances for governmental funds		$ 201,956
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.	4,405,945	
Less: Accumulated depreciation	(205,687)	4,200,258
Other Post Employment Benefit Assets are not financial resources		28,768
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	(529,990)	
Interest Payable Related to Long term Financing	(4,302)	
Certificates of Participation and Other Financing Arrangements	(17,077)	
Due to Federal Government Disallowed Costs in Litigation	(29,000)	
Loans Payable to Component Unit	(131,769)	
Compensated Absences	(41,144)	
Pension Obligation	(18,881)	
Other Post Employment Benefit Obligation	(71,789)	
Pollution Remediation Obligation	(64,876)	(908,828)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		270,070
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.		(12,143)
Net assets of governmental activities		$ 3,780,081

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, 2009
(Expressed in Thousands)

	General	Highway	Federal	Other Special Revenue	Other Governmental Funds	Total Governmental Funds
Revenues:						
Taxes	$ 2,808,997	$ 222,998	$ -	$ 208,274	$ -	$ 3,240,269
Assessments and Other Revenue	120,682	98,401	6	103,150	-	322,239
Federal Grants and Reimbursements	14,844	3	3,070,383	7,527	-	3,092,757
Service Charges	44,211	7,587	678	96,428	-	148,904
Investment Income	8,425	957	282	2,375	(12,303)	(264)
Miscellaneous Revenue	9,892	92	378	122,980	5,398	138,740
Total Revenues	3,007,051	330,038	3,071,727	540,734	(6,905)	6,942,645
Expenditures						
Current:						
Governmental Support & Operations	273,595	36,728	7,770	140,728	7,783	466,604
Economic Development & Workforce Training	35,751	-	161,048	21,667	10,624	229,090
Education	1,451,223	-	226,957	5,430	19,307	1,702,917
Health and Human Services	786,512	-	2,376,870	282,619	2,400	3,448,401
Business Licensing & Regulation	6	-	810	64,419	-	65,235
Natural Resources Development & Protection	67,669	41	41,831	101,407	11,999	222,947
Justice and Protection	270,594	37,547	78,685	57,683	880	445,389
Arts, Heritage & Cultural Enrichment	8,096	-	2,843	1,197	1,072	13,208
Transportation Safety & Development	1	225,602	166,325	73,667	59,208	524,803
Debt Service:						
Principal Payments	65,685	13,505	4,135	2,434	-	85,759
Interest Payments	15,179	3,848	2,810	1,434	-	23,271
Total Expenditures	2,974,311	317,271	3,070,084	752,685	113,273	7,227,624
Revenue over (under) Expenditures	32,740	12,767	1,643	(211,951)	(120,178)	(284,979)
Other Financing Sources (Uses):						
Transfer from Other Funds	87,178	34,068	20,867	171,894	1,501	315,508
Transfer to Other Funds	(155,566)	(10,385)	(33,502)	(51,123)	(3,724)	(254,300)
COP's and Other	727	698	-	359	2,690	4,474
Loan Proceeds from Component Unit	-	-	-	100,000	-	100,000
Bonds Issued	-	-	-	-	133,345	133,345
Net Other Finance Sources (Uses)	(67,661)	24,381	(12,635)	221,130	133,812	299,027
Revenues and Other Sources over (under) Expenditures and Other Uses	(34,921)	37,148	(10,992)	9,179	13,634	14,048
Fund Balances at Beginning of Year	(238,472)	(2,263)	38,155	291,084	99,404	187,908
Fund Balances at End of Year	$ (273,393)	$ 34,885	$ 27,163	$ 300,263	$ 113,038	$ 201,956

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, 2009
(Expressed in Thousands)

Net change in fund balances - total governmental funds		$ 14,048
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	249,929	
Depreciation expense	(18,262)	231,667
The net effect of various transactions involving capital assets (ie. sales, trade ins and contributions) is to increase net assets.		(5,320)
Post-employment benefit asset funding, net		(24,435)
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 the amount that proceeds exceed repayments:		
Bond proceeds	(133,345)	
Proceeds from other financing arrangements	(1,425)	
Loan proceeds from component unit	(100,000)	
Repayment of bond principal	79,190	
Repayment of other financing debt	10,084	
Repayment of pledged revenue principal	6,569	
Accrued interest	348	(138,579)
Certain expenditures are reported in the funds. However, they either increase or decrease long-term liabilities reported as expenditures on the Statement of Net Assets and have been eliminated from the Statement of Activities as follows:		
Pension obligation	(173)	
Other post-employment benefit obligation	(36,924)	
Pollution remediation obligation	723	
Due to Federal Government - Disallowed Costs in Litigation	(29,000)	
Compensated absences	(358)	(65,732)
Certain revenues are earned but not available and therefore are not reported in the governmental fund statements.		3,345
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is included in governmental activities in the Statement of Activities.		71,181
Changes in net assets of governmental activities		$ 86,175

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

STATE OF MAINE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2009
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major Employment Security	Non-Major Other Enterprise	Totals	Internal Service Funds
Assets				
Current Assets:				
Equity in Treasurer's Cash Pool	$ -	$ 5,254	$ 5,254	$ 180,265
Cash and Short-Term Investments	-	757	757	3
Cash with Fiscal Agent	-	-	-	14,019
Restricted Assets:				
Restricted Deposits and Investments	358,893	-	358,893	3,053
Inventories	-	3,363	3,363	4,069
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	17,130
Other Receivable	31,262	30,754	62,016	3,066
Due from Other Funds	123	362	485	24,332
Due from Component Units	-	136	136	-
Other Current Assets	-	3,578	3,578	438
Total Current Assets	390,278	44,204	434,482	246,375
Noncurrent Assets:				
Equity in Treasurer's Cash Pool	-	130	130	4,394
Receivables, Net of Allowance for Uncollectibles:				
Loans Receivable	-	-	-	175,805
Post-Employment Benefit Asset	-	1,204	1,204	-
Capital Assets - Net of Depreciation	-	96,665	96,665	138,043
Total Noncurrent Assets	-	97,999	97,999	318,242
Total Assets	390,278	142,203	532,481	564,617
Liabilities				
Current Liabilities:				
Accounts Payable	4,006	5,512	9,518	17,633
Accrued Payroll	-	1,980	1,980	4,061
Due to Other Governments	-	-	-	183
Due to Other Funds	808	25,742	26,550	15,469
Due to Component Units	-	17	17	14,973
Current Portion of Long-Term Obligations:				
Certificates of Participation and Other Financing Arrangements	-	-	-	12,641
Revenue Bonds Payable	-	-	-	17,130
Obligations Under Capital Leases	-	-	-	6,367
Claims Payable	-	-	-	23,769
Compensated Absences	-	189	189	654
Deferred Revenue	-	12,781	12,781	399
Other Accrued Liabilities	1,494	16,741	18,235	2,638
Total Current Liabilities	6,308	62,962	69,270	115,917
Long-Term Liabilities:				
Working Capital Advances Payable	-	-	-	111
Deferred Revenue	-	50,000	50,000	867
Certificates of Participation and Other Financing Arrangements	-	-	-	20,361
Revenue Bonds Payable	-	-	-	175,805
Obligations Under Capital Leases	-	-	-	31,267
Claims Payable	-	-	-	34,842
Compensated Absences	-	691	691	3,568
Total Long-Term Liabilities	-	50,691	50,691	266,821
Total Liabilities	6,308	113,653	119,961	382,738
Net Assets				
Invested in Capital Assets, Net of Related Debt	-	96,667	96,667	82,452
Restricted for:				
Unemployment Compensation	383,970	-	383,970	-
Other Purposes	-	-	-	4,341
Unrestricted	-	(68,117)	(68,117)	95,086
Total Net Assets	$ 383,970	$ 28,550	412,520	$ 181,879
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.			1,087	
Net Assets of Business-Type Activities			$ 413,607	

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

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		
	Employment Security	Other Enterprise	Totals	Internal Service Funds
Operating Revenues				
Charges for Services	$ -	$ 369,136	$ 369,136	$ 454,648
Assessments	97,331	1,758	99,089	-
Miscellaneous Revenues	31	29	60	89
Total Operating Revenues	97,362	370,923	468,285	454,737
Operating Expenses				
General Operations	-	311,862	311,862	382,806
Depreciation	-	8,647	8,647	18,876
Claims/Fees Expense	225,181	-	225,181	8,837
Other Operating Expenses	-	-	-	138
Total Operating Expenses	225,181	320,509	545,690	410,657
Operating Income (Loss)	(127,819)	50,414	(77,405)	44,080
Nonoperating Revenues (Expenses)				
Investment Revenue (Expense) - net	20,170	-	20,170	6,681
Interest Expense	-	-	-	(17,181)
Other Nonoperating Revenues (Expenses)- net	-	14,626	14,626	(1,423)
Total Nonoperating Revenues (Expenses)	20,170	14,626	34,796	(11,923)
Income (Loss) Before Capital Contributions, Transfers and Special Items	(107,649)	65,040	(42,609)	32,157
Capital Contributions, Transfers and Special Items				
Capital Contributions from (to) Other Funds	-	9,474	9,474	17,979
Transfers from Other Funds	-	5,404	5,404	19,209
Transfers to Other Funds	(2,114)	(56,464)	(58,578)	(14,112)
Special Items	-	-	-	-
Total Capital Contributions, Transfers In (Out) and Special Items	(2,114)	(41,586)	(43,700)	23,076
Change in Net Assets	(109,763)	23,454	(86,309)	55,233
Total Net Assets - Beginning of Year (as restated)	493,733	5,096		126,646
Total Net Assets - End of Year	$ 383,970	$ 28,550		$ 181,879
Amounts reported for business-type activities in the government-wide Statement of Activities are different due to elimination of the State's internal business-types activities			(322)	
Changes in Business-Types Net Assets			$ (86,631)	

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

STATE OF MAINE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

June 30, 2009
(Expressed in Thousands)

	Business-Type Activities Enterprise Funds			Governmental Activities
	Major	Non-Major		Internal
	Employment Security	Other Enterprise	Totals	Service Funds
Cash Flows from Operating Activities				
Receipts from Customers and Users	$ 96,275	$ 365,814	$ 462,089	$ 493,962
Payments of Benefits	(221,103)	-	(221,103)	-
Payments to Prize Winners	-	(131,544)	(131,544)	-
Payments to Suppliers	-	(147,046)	(147,046)	(339,710)
Payments to Employees	-	(36,436)	(36,436)	(79,099)
Net Cash Provided (Used) by Operating Activities	(124,828)	50,788	(74,040)	75,153
Cash Flows from Noncapital Financing Activities				
Operating Transfers in	-	5,404	5,404	12,517
Operating Transfers out	(2,114)	(56,464)	(58,578)	(14,112)
Net Cash Provided (Used) by Noncapital Financing Activities	(2,114)	(51,060)	(53,174)	(1,595)
Cash Flows from Capital and Related Financing Activities				
Payments for Acquisition of Capital Assets	-	(511)	(511)	(14,041)
Proceeds from Financing Arrangements	-	-	-	42,285
Principal and Interest Paid on Financing Arrangements	-	-	-	(87,727)
Proceeds from Sale of Capital Assets	-	576	576	177
Net Cash Provided (Used) by Capital Financing Activities	-	65	65	(59,306)
Cash Flows from Investing Activities				
Interest Revenue	20,170	2,128	22,298	6,681
Net Cash Provided (Used) by Investing Activities	20,170	2,128	22,298	6,681
Net Increase (Decrease) in Cash/Cash Equivalents	(106,772)	1,921	(104,851)	20,933
Cash/Cash Equivalents - Beginning of Year	465,665	4,220	469,885	180,801
Cash/Cash Equivalents - End of Year	$ 358,893	$ 6,141	$ 365,034	$ 201,734
Reconciliation of Operating Income (Loss) to Net Cash Used by Operating Activities				
Operating Income (Loss)	$ (127,819)	$ 50,414	$ (77,405)	$ 44,080
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities				
Depreciation Expense	-	8,647	8,647	18,876
Decrease (Increase) in Assets				
Accounts Receivable	(989)	(5,265)	(6,254)	15,790
Interfund Balances	710	6,569	7,279	(3,168)
Inventories	-	(2,514)	(2,514)	1,252
Increase (Decrease) in Liabilities				
Accounts Payable	2,648	(616)	2,032	(3,621)
Accrued Payroll Expenses	-	348	348	694
Change in Compensated Absences	-	130	130	374
Other Accruals	622	(6,925)	(6,303)	876
Total Adjustments	2,991	374	3,365	31,073
Net Cash Provided (Used) by Operating Activities	$ (124,828)	$ 50,788	$ (74,040)	$ 75,153
Non Cash Investing, Capital and Financing Activities				
Property Leased, Accrued, or Acquired	-	-	-	5,057
Contributed Capital Assets	-	9,474	9,474	17,979
Decrease of deferred revenue from the sale of liquor operations	-	12,500	12,500	-

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

STATE OF MAINE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

June 30, 2009
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts	Agency Funds
Assets			
Equity in Treasurer's Cash Pool	$ -	$ 1,995	$ 6,413
Cash and Short-Term Investments	31,530	-	27
Receivables, Net of Allowance for Uncollectibles:			
State and Local Agency Contributions	11,283	-	-
Interest and Dividends	15,408	31	-
Due from Brokers for Securities Sold	465,884	-	-
Investments at Fair Value:			
Debt Securities	1,332,356	-	-
Equity Securities	1,462,431	-	-
Common/Collective Trusts	5,741,472	-	-
Other	225	9,079	-
Securities Lending Collateral	199,188	-	-
Due from other funds	-	25,010	-
Investments Held on Behalf of Others	-	4,209,169	66,021
Capital Assets - Net of Depreciation	10,168	-	-
Other Assets	-	4,365	4,009
Total Assets	9,269,945	4,249,649	76,470
Liabilities			
Accounts Payable	6,071	2,827	9
Due to Other Funds	-	7	3,502
Due to Brokers for Securities Purchased	321,133	-	-
Agency Liabilities	-	-	72,959
Obligations Under Securities Lending	199,188	-	-
Other Accrued Liabilities	300,405	-	-
Total Liabilities	826,797	2,834	76,470
Net Assets			
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes	8,443,148	4,246,815	-
Total Net Assets	$ 8,443,148	$ 4,246,815	$ -

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, 2009
(Expressed in Thousands)

	Pension (and Other Employee Benefit) Trusts	Private Purpose Trusts
Additions:		
Contributions:		
Members	$ 161,015	$ 1,433,070
State and Local Agencies	392,332	-
Investment Income (Loss):		
Net Increase (Decrease) in the Fair Value of Investments	(2,154,696)	(1,120,795)
Capital Gains Distributions from Investments	-	34,375
Interest and Dividends	155,370	120,980
Securities Lending Income	23,924	-
Less Investment Expense:		
Investment Activity Expense	23,245	-
Securities Lending Expense	15,586	-
Net Investment Income (Loss)	(2,014,233)	(965,440)
Miscellaneous Revenues	-	12,348
Transfers In	-	644
Total Additions	(1,460,886)	480,622
Deductions:		
Benefits Paid to Participants or Beneficiaries	685,836	1,544,126
Refunds and Withdrawals	46,115	-
Administrative Expenses	10,479	35,370
Claims Processing Expense	718	-
Transfers Out	-	13,775
Total Deductions	743,148	1,593,271
Net Increase (Decrease)	(2,204,034)	(1,112,649)
Net Assets Held in Trust for Pension, Disability, Death, Group Life Insurance Benefits and Other Purposes:		
Beginning of Year	10,647,182	5,359,464
End of Year	$ 8,443,148	$ 4,246,815

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

STATE OF MAINE
STATEMENT OF NET ASSETS
COMPONENT UNITS

June 30, 2009
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Assets			
Current Assets:			
Equity in Treasurer's Cash Pool	$ 27,992	$ 9,840	$ -
Cash and Cash Equivalents	4,001	822	12,705
Investments	137,611	23,689	25,122
Restricted Assets:			
Inventories	-	1,324	-
Receivables, Net of Allowance for Uncollectibles:			
Loans Receivable	-	-	49,363
Notes Receivable	-	-	-
Other Receivables	4,570	3,601	2,716
Due from Other Governments	131	-	-
Due from Primary Government	-	13,338	-
Loans receivable from primary government	-	-	-
Other Current Assets	2,759	1,068	307
Total Current Assets	177,064	53,682	90,213
Noncurrent Assets:			
Equity in Treasurer's Cash Pool	682	240	-
Assets Held in Trust	-	-	-
Restricted Assets:			
Restricted Deposits and Investments	-	1,163	155,318
Investments	-	9,097	-
Receivables, Net of Current Portion:			
Loans Receivable	-	-	1,152,749
Notes Receivable	216,162	-	-
Other Receivables	-	-	132
Due from Other Governments	-	-	-
Due from Primary Government	-	-	-
Loans receivable from primary government	-	-	-
Capital Assets - Net of Depreciation	2,515	114,794	2,743
Other Noncurrent Assets	-	272	1,038
Total Noncurrent Assets	219,359	125,566	1,311,980
Total Assets	396,423	179,248	1,402,193
Liabilities			
Current Liabilities:			
Accounts Payable	1,595	3,178	537
Accrued Payroll	-	-	-
Compensated Absences	-	1,936	-
Due to Other Governments	-	-	57
Due to Primary Government	-	-	-
Amounts Held under State & Federal Loan Programs	-	-	-
Undistributed Grants and Administrative Funds	11,905	-	-
Allowances for Losses on Insured Commercial Loans	10,971	-	-
Bonds Payable	67,813	-	50,235
Notes Payable	-	-	-
Obligations under Capital Leases	-	-	-
Accrued Interest Payable	647	-	26,653
Deferred Revenue	1,672	1,808	2,859
Current portion of OPEB obligation	-	-	-
Other Current Liabilities	14	7,368	1,872
Total Current Liabilities	94,617	14,290	82,213
Long-Term Liabilities:			
Due to Other Governments	1,250	-	1,476
Amounts Held under State & Federal Loan Programs	45,893	-	-
Bonds Payable	219,677	23,371	1,274,780
Obligations under Capital Leases	-	3,490	-
Deferred Revenue	-	-	-
Other Noncurrent Liabilities	-	-	-
Total Long-Term Liabilities	266,820	26,861	1,276,256
Total Liabilities	361,437	41,151	1,358,469
Net Assets			
Invested in Capital Assets, Net of Related Debt	2,515	89,367	2,743
Restricted	4,947	16,056	3,243
Unrestricted	27,524	32,674	37,738
Total Net Assets	$ 34,986	$ 138,097	$ 43,724

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

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
$ -	$ -	$ 19,983	$ 841	$ 58,656
248	2,918	1,468	36,322	58,484
24,285	378,200	140,282	2,702	731,891
-	-	-	1,317	2,641
-	26,750	-	10,563	86,676
-	2	-	-	2
1,160	15,969	26,233	1,930	56,179
130,298	3,880	9,760	3,311	147,380
-	-	6,181	5,546	25,065
9,590	-	-	-	9,590
75,714	-	7,460	2,237	89,545
241,295	427,719	211,367	64,769	1,266,109
-	-	487	20	1,429
-	-	-	798	798
284,495	-	6,314	3,633	450,923
-	155,415	238,843	33,242	436,597
-	1,268,194	-	122,906	2,543,849
-	690	41,721	2,122	260,695
-	-	9,233	8,305	17,670
1,230,445	-	-	-	1,230,445
-	-	1,560	-	1,560
122,179	-	-	-	122,179
769	2,634	645,103	98,539	867,097
2,627	5,496	15,739	7,302	32,474
1,640,515	1,432,429	959,000	276,867	5,965,716
1,881,810	1,860,148	1,170,367	341,636	7,231,825
551	48,389	12,576	8,426	75,252
-	-	-	880	880
-	-	-	449	2,385
792	334	-	1,576	2,759
1,254	-	-	259	1,513
61,646	-	-	-	61,646
3,655	-	-	-	15,560
-	-	-	-	10,971
111,162	39,920	8,412	11,697	289,239
-	-	-	12,500	12,500
-	-	310	20	330
10,798	8,320	-	467	46,885
24,209	8,965	15,638	16,719	71,870
-	-	3,033	-	3,033
-	-	24,667	1,941	35,862
214,067	105,928	64,636	54,934	630,685
3,692	6,592	-	3,659	16,669
-	-	-	-	45,893
1,127,362	1,405,526	202,169	138,049	4,390,934
-	-	2,646	47	6,183
-	20,072	-	1,656	21,728
-	-	91,409	182	91,591
1,131,054	1,432,190	296,224	143,593	4,572,998
1,345,121	1,538,118	360,860	198,527	5,203,683
-	2,634	436,233	95,852	629,344
473,396	305,104	288,153	23,692	1,114,591
63,293	14,292	85,121	23,565	284,207
$ 536,689	$ 322,030	$ 809,507	$ 143,109	$ 2,028,142

STATE OF MAINE
STATEMENT OF ACTIVITIES
COMPONENT UNITS

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	Finance Authority of Maine	Maine Community College System	Maine Health and Higher Educational Facilities Authority
Expenses	$ 44,809	$ 113,287	$ 67,859
Program Revenues			
Charges for Services	15,252	27,639	65,163
Program Investment Income	4,058	(1,512)	5,331
Operating Grants and Contributions	20,370	32,257	-
Capital Grants and Contributions	-	9,523	-
Net Revenue (Expense)	(5,129)	(45,380)	2,635
General Revenues			
Unrestricted Investment Earnings	-	(415)	1,265
Non-program Specific Grants, Contributions and Appropriations	-	55,259	-
Miscellaneous Income	3,150	1,617	146
Gain (Loss) on Assets Held for Sale	-	(1,379)	-
Total General Revenues	3,150	55,082	1,411
Change in Net Assets	(1,979)	9,702	4,046
Net Assets, Beginning of the Year	36,965	128,395	39,678
Net Assets, End of Year	$ 34,986	$ 138,097	$ 43,724

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

Maine Municipal Bond Bank	Maine State Housing Authority	University of Maine System	Non-Major Component Units	Totals
$ 62,300	$ 259,670	$ 659,996	$ 105,335	$ 1,313,256
52,048	75,283	295,792	37,547	568,724
5,929	26,900	-	1,442	42,148
3,247	163,947	111,564	46,084	377,469
53,424	-	13,636	1,730	78,313
52,348	6,460	(239,004)	(18,532)	(246,602)
757	322	(2,853)	(524)	(1,448)
-	-	210,663	16,918	282,840
1,511	-	-	(5,225)	1,199
-	-	(1,110)	39	(2,450)
2,268	322	206,700	11,208	280,141
54,616	6,782	(32,304)	(7,324)	33,539
482,073	315,248	841,811	150,433	1,994,603
$ 536,689	$ 322,030	$ 809,507	$ 143,109	$ 2,028,142

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NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

For financial reporting purposes, the State of Maine's reporting entity includes the "primary government" and its "component units." The primary government includes all funds, organizations, agencies, boards, commissions and authorities. Component units are legally separate organizations for which the State is financially accountable. Component units can also be legally separate, tax exempt entities that raise and hold economic resources for the direct benefit of a governmental unit.

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

GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement No. 14*, establishes criteria for legally separate, tax-exempt entities that should be reported as component units if all of the criteria are met. Although the State has not identified any organizations that would qualify as direct component units of the State by meeting all of the criteria of GASB Statement No. 39, a few of the component units described later in this note have significant foundations that meet the criteria of GASB Statement No. 39.

Blended Component Units - The Maine Governmental Facilities Authority (MGFA) is a legally separate organization that has its board appointed by the primary government and provides services entirely, or almost entirely, to the State. Therefore, the State reports MGFA's balances and transactions as though they were part of the primary government, using the blending method.

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. Component units that are not material to the State's financial statements have been excluded. The column labeled "Component Units" emphasizes these organizations' separateness from the State's primary government.

The State is able to impose its will upon these discretely presented component units:

The Maine Community 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 University of Maine System is the State University governed by a single Board of Trustees appointed by the Governor. 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.

There is a financial burden/benefit relationship between these entities and the State:

The Finance Authority of Maine 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, and the Occupational Safety Program 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 fifteen voting members of the Authority.

Maine Health & Higher Educational Facilities Authority (MHHEFA) – MHHEFA assists Maine health care institutions and institutions of higher education in undertaking projects involving the acquisition, construction, improvement, reconstruction and equipping of their facilities and the refinancing of existing indebtedness. The Authority, pursuant to the Student Loan Corporations Act of 1983, may also finance student loan programs of institutions of higher education. MHHEFA consists of twelve members, four of whom serve *ex officio* and must be the Superintendent of Financial Institutions, the Commissioner of Health and Human Services, the Commissioner of Education, and the Treasurer of State. The remaining eight members must be residents of the State appointed by the Governor.

The Maine Municipal Bond Bank issues bonds on behalf of counties, cities, towns, school administrative districts, community school districts, or other quasi-municipal corporations or eligible borrowers as designated by the Legislature (the "governmental units") 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*.

Maine State Housing Authority issues bonds to purchase 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 remaining two commissioners are the Treasurer of State and the Director of the Maine State Housing Authority, both of whom serve *ex officio*. The Authority's fiscal year ends on December 31.

The State's financial statements also include a fiduciary component unit:

Maine Public Employees Retirement System administers 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 eight voting trustees. A fifth trustee is either the Treasurer of State or the Deputy Treasurer of State.

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

Finance Authority of Maine 5 Community Dr. PO Box 949 Augusta, ME 04332 0949	Maine Governmental Facilities Authority PO Box 2268 Augusta, ME 04338 2268	Maine Municipal Bond Bank PO Box 2268 Augusta, ME 04338 2268	Maine State Housing Authority 89 State House Station 353 Water Street Augusta, ME 04330 4633
Maine Community College System 323 State Street Augusta, ME 04330 7131	Maine Health and Higher Ed. Facilities Authority PO Box 2268 Augusta, ME 04338 2268	Maine Public Employees Retirement System 46 State House Station Augusta, ME 04333 0046	University of Maine System 16 Central Street Bangor, ME 04401 5106

Related Organizations
Officials of the State's primary government appoint a voting majority of the governing boards of the Maine Turnpike Authority and the Maine Veteran's Home. The primary government has no material accountability for these organizations beyond making 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. The government-wide statement of net assets reports $546.2 million of restricted net assets, of which $17.7 million is restricted by 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 is offset by program revenues. Direct expenses are those that are clearly identifiable within a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not meeting the definition of program revenues are instead reported as general revenues.

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

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

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

As allowed by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* 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 a GASB pronouncement. The FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

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, generally 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 pay liabilities of the current period. For this purpose, the State generally considers revenues available if they are collected within 60 days 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. Examples of the most significant types of revenue sources include: Fund for a Healthy Maine (tobacco settlement revenue), State municipal revenue sharing, hospital and service provider taxes, and oil transfer fees.

The State reports the following major enterprise fund:

The *Maine Employment Security Fund* receives contributions from employers and provides unemployment compensation benefits to eligible unemployed workers.

Additionally, the State reports the following fund types:

Governmental Fund Types:

Special Revenue Funds include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes. An example is funds for acquisition of public reserved lands.

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

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.

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 technology, 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 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 Public Employees Retirement System (MPERS). The fund also reports resources that are required to be held in trust for members and beneficiaries of the State's retiree healthcare benefits. The investment trust, managed by the Maine Public Employees Retirement System, holds the long-term investments of the trust. The trustees of the Other Employee Benefit Trust Fund are the State Controller and State Treasurer.

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

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 pools 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 component units that participate in the cash pool, equity 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 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 $168 million of Workers' Compensation, $47 million of Bureau of Insurance, and $24 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 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. Food commodities 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 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. Receivables due from related providers for interim payments are $3.1 million, net of an allowance for uncollectible amounts of $7.7 million.

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 in the Statement of Net Assets.

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. Two component units have December 31 year ends, therefore the "due to" and "due from" amounts may differ.

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 primarily consist of 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 (e.g., roads, bridges, ramps and similar items), are reported in the government-wide statements and applicable fund financial statements. Capital assets that are used for governmental activities are only reported in the government-wide statements. The State

capitalizes governmental fund buildings valued at $1 million or more and proprietary fund buildings valued at $100 thousand or more. Governmental fund equipment is capitalized at $10 thousand or more and proprietary fund equipment is capitalized $5 thousand or more. All land, regardless of value, is capitalized. Capital assets are recorded at cost or, if donated, at estimated fair market value at date of acquisition. In some instances, capital assets historical cost were not available. The costs of these assets at the date of acquisitions have been estimated.

In the government-wide statements, most capital assets are depreciated 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 maintains and preserves its infrastructure assets at pre-determined condition levels, maintenance costs are expensed and depreciation is not reported. This approach is discussed further in the Required Supplementary Information.

Capital 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 incurred as a result of normal operations, but for which no actual payment has yet been issued to vendors/providers. Incurred but not paid (IBNP) Medicaid claims settlements are actuarially estimated. The IBNP estimate at June 30, 2009 is $321 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 liabilities as required by GASB. 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, 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 relates to sales and income taxes. Deferred revenue in the Federal Fund consists primarily of food commodities not yet issued. Deferred revenue in the Alcoholic Beverages Fund comprises the proceeds from the sale of the State's liquor operations.

Loans Payable to Component Unit

In the Statement of Net Assets, the amount of bond proceeds received by a component unit for unmatured GARVEE and TransCap bond proceeds is called "Loans Payable to Component Unit." 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.

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: charges to customers or applicants for goods, services, or privileges provided; operating grants and contributions; and 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.

Revenues and expenses of proprietary funds are classified as operating or nonoperating and are subclassified by object (e.g. general operations and depreciation). Operating revenues and expenses generally result from providing services and producing and delivering goods. All other revenues and expenses are reported as nonoperating, capital contributions, transfers or special items.

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 Maine Revised Statutes Annotated (MRSA) § 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, a fund designation established under Title 5 MRSA C. 142, is included in the negative $390.4 million unreserved General Fund fund balance. Amounts in the stabilization fund may be expended only to offset a General Fund revenue shortfall. The Governor may also allocate funds for payment of death benefits for law enforcement officers, firefighters and emergency medical services personnel.

Balances in the fund do not lapse, but carry forward each year. Money in the fund may be invested with any earnings credited to the fund except when the fund is at its statutory cap. Per Public Law 2009, Chapter 1, Part E and Public Law 2009, Chapter 371, Part B $131.6 million was transferred from the Budget Stabilization fund to the General Fund unappropriated surplus.

The statutory cap for the fund is 12 percent 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 2009 actual General Fund revenue, the statutory cap at the close of fiscal year 2009 and during fiscal year 2009 was $337.4 million. At the close of fiscal year 2009, the balance of the Maine Budget Stabilization Fund was $195 thousand. 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.

Budget Stabilization Fund Activity
(Expressed in Thousands)

Balance, beginning of year	$ 128,877
Decrease in fund balance	(128,682)
Balance, end of year	$ 195

Budget and Budgetary Expenditures
The gross unified budget bills and budget document encompass resources from the General Fund, Highway Fund, Federal Expenditures Fund, Federal Block Grant Fund, Other Special Revenue Fund, internal service funds and enterprise funds. Separate gross unified budget bills must be submitted for the General Fund and the Highway Fund. All funds except trust and agency funds, bond funds and costs of goods sold expenditures in internal service funds and enterprise funds are subject to legislative allocation. The biennial budget sets forth proposed expenditures for the administration, operation and maintenance of the departments and agencies of the State Government; all interest and debt redemption charges during each fiscal year and all expenditures for capital projects to be undertaken and executed during each fiscal year. Within this structure, budgetary control by agency is maintained at the program and line category level. 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. Changes in appropriation, allocation, or funding for new programs are presented to the Legislature as a supplemental budget. For the year ended June 30, 2009, the Legislature decreased supplemental appropriations to the General Fund by $217.2 million.

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

NOTE 3 - ACCOUNTING CHANGES AND RESTATEMENTS

Accounting Changes
During fiscal year ended June 30, 2009, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. This Statement establishes accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This Statement excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning.

The provisions of GASB 49 require the measurement of pollution remediation liabilities at July 1, 2008; therefore, the State's beginning net assets have been restated. Beginning net assets for Governmental Activities were reduced by $48.6 million.

In addition, the State implemented Governmental Accounting Standards Board (GASB) Statement No. 52, Land and Other Real Estate Held as Investments by Endowments. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. Implementation of the statement did not require any modification to the financial statements.

Change in Accounting Estimate
During fiscal year ended June 30, 2009, the State recognized a receivable in the Dirigo Health Fund related to Savings Offset Payments (SOP) due from insurance companies. In prior fiscal years the State was unable to estimate quarterly SOP receivables due to inconsistency of payments and a lack of adequate historical data. The effect of this change was to increase revenue by $9.3 million, which resulted in a $5 million change in net assets (that would have otherwise been a deficit $4.3 million).

Subsequent to year end, the Dirigo Health Agency transitioned from quarterly SOP to monthly Access Payments. Pursuant to new Legislation, 24-A MRSA §6917, an Access Payment of 2.14 percent will apply to claims paid beginning on or after September 1, 2009 regardless of plan year.

Restatement – Primary Government
The beginning net assets of the Information Services Fund and the Internal Service Funds increased by $8.4 million to correct an error in reported Certificates of Participation.

NOTE 4 - DEFICIT FUND BALANCES/NET ASSETS

Four internal service funds showed deficit Net Assets for the fiscal year ended June 30, 2009. The Workers' Compensation Fund reported a deficit of $1.4 million, which reflects accruals for actuarially determined claims payable. The Leased Space Fund had a fund balance deficit of $4.2 million because rates charged were insufficient to cover expenses incurred. The Postal, Printing & Supply fund reported a deficit of $1.5 million because expenses are recognized when incurred; however, related revenue is not earned until jobs are satisfactorily completed. The Financial & Personnel Services Fund had a fund balance deficit of $796 thousand because rates charged were insufficient to cover expenses incurred. All of the deficits mentioned above are expected to be funded by future service charges.

The Alcoholic Beverages Enterprise Fund shows a deficit of $62.5 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 Dirigo Health Enterprise Fund shows a deficit of $10.9 million. This deficit is the result of the timing of revenue collections from the Savings Offset Program.

The General Fund shows a deficit fund balance of $273.4 million at June 30, 2009. This deficit is due to the full recognition of the State's share of Medicaid liabilities at fiscal year end, which are funded throughout the year with the aforementioned tax revenue. The federal portion of these liabilities is also fully accrued, with an offsetting receivable from the federal government as allowed under Governmental Accounting Standards Board (GASB) Statement No. 33. Per GASB 33, revenue associated with government mandated non-exchange transactions should be recognized when applicable eligibility requirements have been met and the resources are available. Medicaid is an entitlement program. Therefore, the funds are available when the payments for these liabilities are processed.

NOTE 5 - DEPOSITS AND INVESTMENTS

Title 5 MRSA § 135 governs the deposit and investment policies of the State of Maine Office of the Treasurer. 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 Title 5 MRSA § 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 MRSA. 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 percent of the capital, surplus, and undivided profits of any trust company or national bank or 25 percent 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 rate. 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, 2009:

Primary Government Deposits and Investments
(Expressed in Thousands)

	Governmental Activities	Business Type Activities	Private Purpose Trusts	Agency Funds	Total
Equity in Treasurer's Cash Pool	$ 333,032	$ 5,384	$ 1,995	$ 6,413	$ 346,824
Cash and Cash Equivalents	296	757		27	1,080
Cash with Fiscal Agent	84,309				84,309
Investments	59,943		9,079		69,022
Restricted Equity in Treasurer's Cash Pool	59,406				59,406
Restricted Deposits and Investments	3,053	358,893			361,946
Investments Held on Behalf of Others			4,209,169	66,021	4,275,190
Other Assets					
Total Primary Government	$ 540,039	$ 365,034	$ 4,220,243	$ 72,461	$ 5,197,777

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, 2009:

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	$15,460	$ 9,542	$	$	$	$	$ 25,002
US Treasury Notes							
Repurchase Agreements							
Corporate Notes and Bonds	2,365						2,365
Commercial Paper							
Certificates of Deposit	7,144						7,144
Money Market	365,333						365,333
Cash and Cash Equivalents						2,084	2,084
Unemployment Fund							
Deposits with US Treasury						358,893	358,893
Private-Purpose Trusts, Agency Funds, and Non-Major Special Revenue and Permanent Funds							
US Instrumentalities	806	2,656	526	1,124	3,763		8,875
US Treasury Notes	3,800	12,044	4,544	6,386	3,869		30,644
Repurchase Agreements							
Corporate Notes and Bonds	86	2,802	3,472	405	1,275	5,453	13,493
Other Fixed Income Securities	635		136		22		794
Commercial Paper							
Certificates of Deposit	6,756	7				3,100	9,863
Money Market	7,721					358	8,080
Cash and Cash Equivalents						20,440	20,440
Equities						49,349	49,349
Other						1,940	1,940
	$ 410,107	$ 27,050	$ 8,679	$ 7,915	$ 8,929	$ 441,618	$ 904,299
NextGen College Investing Plan							4,209,169
Other Assets							
Cash with Fiscal Agent							84,309
Total Primary Government							$ 5,197,777

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 percent 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 percent of the debt securities are rated A or better.

The Primary Government's total investments by credit quality rating as of June 30, 2009 are 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	$	$	$	$	$ 25,002	$	$	$	$ 25,002
US Treasury Notes									
Corporate Notes and Bonds			2,365						2,365
Commercial Paper									
Money Market								365,333	365,333
Private Purpose Trusts, Agency Funds, and Non Major Special Revenue and Permanent Funds									
US Instrumentalities					2,949			5,926	8,875
US Treasury Notes					3,960			26,684	30,644
Corporate Notes and Bonds		2,328	309		975	23	921	8,937	13,493
Commercial Paper									
Money Market								8,080	8,080
Other Fixed Income Securities		22					136	636	794
Total Primary Government	$	$ 2,350	$ 2,674	$	$ 32,886	$ 23	$ 1,057	$415,596	$ 454,586

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, 2009, there were no investments that exceeded five percent of the Treasurer's Cash Pool.

Custodial Credit Risk - For investments, custodial credit risk is the risk that, in the event of a failure of the counterparty to a transaction, the State will not be able to recover the value of its investment 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. Of the cash pool's $6.3 million invested in non-negotiable certificates of deposit, none exceeded the FDIC insured amounts for the institutions at which they were held. The State does not have a policy regarding custodial credit risk for its trusts. 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, 2009 was $48.7 million and was comprised of the following:

U.S. Instrumentalities	$ 5,380
US Treasury Notes	2,934
Corporate Notes and Bonds	3,770
Other Fixed Income Securities	771
Equities	34,126
Cash and Equivalents	995
Other	761
Total	$ 48,737

The State and certain vendors contract with a fiscal intermediary, Clareon, for electronic disbursements from the State to its vendors. During fiscal year 2009 these disbursements, on average, exceeded $184.6 million per month. The funds in transit are not collateralized and are not held by the State Treasurer. Until the vendor receives payment, the State retains some liability.

MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

The Maine Public Employees 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.

Derivative Securities – Derivative financial instruments are financial contracts whose value depends on the value of one or more underlying assets, reference rates or financial indices. They include futures, forwards, options, and swap contracts. The System's investments in derivative securities only have nominal exposure to custodial credit risk. Credit risk is managed, in the case of exchange-traded derivatives, by the execution of trades through a clearinghouse and, in the case of over-the-counter transactions, by managers' due diligence assessment and approval of counterparties. Market risk is managed by imposing strict limits as to the types, amounts and degree of risk that investment managers may undertake. These limits are approved by the Board of Trustees and are monitored by the Chief Investment Officer.

Foreign currency forward contracts are used to hedge against the currency risk in the System's foreign equity and fixed income security portfolios. As of June 30, 2009 the fair value of forward currency contracts held by the System was $7.1 million. The System's fixed income managers invest in CMOs and Asset-Backed Securities to improve the yield or adjust the duration of the fixed income portfolio. As of June 30, 2009 the carrying value of the System's CMO and Asset-Backed Security holdings totaled $111.0 million. The System also invests in swaps. Interest rate swaps are used to adjust interest rate and yield curve exposures and substitute for physical securities. As of June 30, 2009 the System carried swaps with a fair market values of $(3.4) million and notional values of $244.1 million.

Securities Lending - 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. All securities and loans can be terminated on demand by either the lender or the borrower.

Cash open collateral is invested in a short-term investment pool, the Global Core Collateral Section. Cash collateral may also be invested separately in "term loans." At June 30, 2009 all of the collateral for securities lending is subject to custodial credit risk. The System believes that there is no credit risk as defined in GASB Statement No. 28 and GASB Statement No. 40. The collateral held and the market value of securities on loan for the System as of June 30, 2009 was $200.0 million and $193.2 million, respectively.

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-A MRSA §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 47 different investment portfolios which are reported at fair value and total $4.2 billion at June 30, 2009.

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 investments are held in either the name of the Account or the Account 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, 2009 was $204.5 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 Certificate of Deposit's are FDIC insured or fully collateralized. The value of the Account at June 30, 2009 was $291.8 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 disclosure risk requirements.

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	$ 204,483
Cash Allocation Account	291,796
Fixed Income Securities	989,959
Total Fair Value	$1,486,238

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 13 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 $60.1 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 $18.5 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 as invested in the Treasurer's Cash Pool.

NOTE 6 - RECEIVABLES

Receivable balances are segregated by type, 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	$533,778	$96,166	$1	($188,012)	$441,933
Highway	28,204	2,005	53	(7,787)	22,475
Federal		93,998		(21,423)	72,575
Other Special Revenue	11,491	77,538	4,197	(7,657)	85,569
Other Governmental Funds					
Total Governmental Funds	573,473	269,707	4,251	(224,879)	622,552
Allowance for Uncollectibles	(145,185)	(79,694)			
Net Receivables	$428,288	$190,013	$4,251		$622,552
Proprietary Funds:					
Employment Security	$0	$41,702	$0	($10,440)	$31,262
Nonmajor Enterprise		31,577		(823)	30,754
Internal Service		3,066	192,935		196,001
Total Proprietary Funds		76,345	192,935	(11,263)	258,017
Allowance for Uncollectibles		(11,263)			
Net Receivables	$0	$ 65,082	$ 192,935		$258,017

Component Units Receivables
(Expressed in Thousands)

	Accounts	Loans	Notes	Allowance For Uncollectibles	Net Receivables
Finance Authority of Maine	$4,570	$	$223,114	($6,952)	$220,732
Maine Community College System	4,686			(1,085)	3,601
Maine Health and Educational Facilities Authority	3,580	1,202,112		(732)	1,204,960
Maine Municipal Bond Bank	1,160				1,160
Maine State Housing Authority	15,969	1,305,463	798	(10,625)	1,311,605
University of Maine System	39,057		43,111	(4,981)	77,187

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, 2009 were:

Interfund Receivables
(Expressed in Thousands)

	Due to Other Funds				
Due from Other Funds	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$ 315	$ 13	$ 18,033	$ 93	$
Highway	12	15	9,754		
Federal	2,220	82	886	450	
Other Special Revenue	180,800	356	647	560	79
Other Governmental					
Employment Security			123		
Non Major Enterprise	32	50	236	2	
Internal Service	14,972	3,162	3,121	2,067	2
Fiduciary	25,010				
Total	$ 223,361	$ 3,678	$ 32,800	$ 3,172	$ 81

Due from Other Funds	**Employment Security**	**Non Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$ 808	$ 5,560	$ 13,806	$ 3,497	$ 42,125
Highway			214		9,995
Federal			200		3,838
Other Special Revenue		20,052	341		202,835
Other Governmental					
Employment Security					123
Non Major Enterprise			42		362
Internal Service		130	866	12	24,332
Fiduciary					25,010
Total	$ 808	$ 25,742	$ 15,469	$ 3,509	$ 308,620

Not included in the table above are interfund loans/advances, which are not expected to be repaid within one year. Postal, Printing & Supply (an internal service fund) owes $111 thousand to the General Fund for operating capital.

The more significant balance included in Due to/Due from other funds is $165 million due to the Other Special Revenue Fund related to the General Fund's negative cash position in the Treasurer's Cash Pool. This type of temporary loan is typical; cash is frequently borrowed and returned depending on cash flow needs. Due to current economic conditions, it is likely that the General Fund will remain in a negative cash position through fiscal year 2010.

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 2009, the State of Maine, in accordance with the legislatively authorized budget, recorded several non-routine, nonrecurring transfers.

The Highway Fund transferred $5 million to the TransCap Trust Fund of the Other Special Revenue Fund.

The Other Special Revenue Fund transferred $10.6 million to the unappropriated surplus of the General Fund.

The Retiree Health Insurance Fund transferred $6.7 million to the unappropriated surplus of the General Fund.

The Accident, Sickness, and Health Insurance Fund transferred $1.4 million to the unappropriated surplus of the General Fund.

Interfund transfers for the year ended June 30, 2009, consisted of the following:

Interfund Transfers
(Expressed in Thousands)

	Transferred From				
Transferred To	**General**	**Highway**	**Federal**	**Other Special Revenue**	**Other Governmental**
General	$	$	$ 168	$ 23,689	$
Highway	2,395		22,986	8,068	
Federal	207			17,648	
Other Special Revenue	140,330	5,000	9,410		1,579
Other Governmental Funds					1,501
Employment Security					
Non Major Enterprise	269	4,177		586	
Internal Service	12,365	1,208	938	1,132	
Fiduciary					644
Total	$ 155,566	$ 10,385	$ 33,502	$ 51,123	$ 3,724

	Transferred From				
Transferred To	**Employment Security**	**Non Major Enterprise**	**Internal Service**	**Fiduciary**	**Total**
General	$	$ 49,870	$ 8,320	$ 5,131	$ 87,178
Highway			619		34,068
Federal	2,114		896	2	20,867
Other Special Revenue		6,156	775	8,644	171,894
Other Governmental Funds					1,501
Employment Security					
Non Major Enterprise		3	369		5,404
Internal Service		435	3,131		19,209
Fiduciary			2		646
Total	$ 2,114	$ 56,464	$ 14,112	$ 13,777	$ 340,767

NOTE 8 - CAPITAL ASSETS

The following schedule details changes in capital assets for the governmental activities and business-type activities of the primary government for the fiscal year ended June 30, 2009:

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	$ 434,230	$ 18,270	$ 3,244	$ 449,256
Construction in progress	24,175	35,318	2,143	57,350
Infrastructure	3,178,666	200,248		3,378,914
Total capital assets not being depreciated	3,637,071	253,836	5,387	3,885,520
Capital assets being depreciated:				
Buildings	564,182	15,908	3,854	576,236
Equipment	250,828	20,101	20,898	250,031
Improvements other than buildings	19,541	388	1,111	18,818
Total capital assets being depreciated	834,551	36,397	25,863	845,085
Less accumulated depreciation for:				
Buildings	200,801	15,617	2,570	213,848
Equipment	165,252	20,555	18,032	167,775
Improvements other than buildings	10,152	1,640	1,111	10,681
Total accumulated depreciation	376,205	37,812	21,713	392,304
Total capital assets being depreciated, net	458,346	(1,415)	4,150	452,781
Governmental Activities Capital Assets, net	$ 4,095,417	$ 252,421	$ 9,537	$ 4,338,301

	Beginning Balance	Net Additions	Net Deletions	Ending Balance
Business Type Activities:				
Capital assets not being depreciated:				
Land	$ 43,345	$	$ 1	$ 43,344
Construction in progress	10,368	3,043	9,995	3,416
Total capital assets not being depreciated	53,713	3,043	9,996	46,760
Capital assets being depreciated:				
Buildings	9,499	226	70	9,655
Equipment	44,194	4,615	1,675	47,134
Improvements other than buildings	62,607	11,965		74,572
Total capital assets being depreciated	116,300	16,806	1,745	131,361
Less accumulated depreciation	74,108	8,061	713	81,456
Total capital assets being depreciated, net	42,192	8,745	1,032	49,905
Business Type Activities Capital Assets, net	$ 95,905	$ 11,788	$ 11,028	$ 96,665

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	$ 21
Business Licensing and Regulation	430
Economic Development and Workforce Training	1,376
Education	500
Governmental Support and Operations	6,194
Health and Human Services	5,554
Justice and Protection	10,703
Natural Resources Development and Protection	4,004
Transportation Safety and Development	8,357
Total Depreciation Expense Governmental Activities	$ 37,139

NOTE 9 - MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM

PLAN DESCRIPTIONS

The Maine Public Employees Retirement System, formerly named the Maine State Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit public employee retirement system established and administered under the Title 5 MRSA C. 421, 423, and 425. The System provides pension, disability, and death benefits to its members, which includes employees of the State, public school employees (defined by Maine law as teachers and for whom the State is the employer for retirement contribution and benefit purposes, or SETP) and employees of 279 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, each of which contracts for participation in the System under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2009 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Maine Public Employees 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 for financial reporting purposes. The statements include $2.1 billion of assets related to the PLD's. The Attorney General's Office does not concur that these assets are available for payment of State benefits.

The total funds managed by the System are constitutionally restricted and 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 System administers three defined contribution plans for employees of PLD's that elect to participate. At June 30, 2009, there were 44 employers participating in these plans. The 567 participants individually direct the $7.7 million in assets covered by the plans.

The System also provides group life insurance under a plan administered by a third party insurance company and invests long-term assets for the Retiree Health Insurance Post-Employment Benefits Investment Trust Fund. Note 10 provides for further disclosure.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. Pension contributions are recognized as additions in the period when they become due pursuant to formal commitments or statutory or contractual requirements. Investment income is recognized when earned. Contributions to defined contribution plans are recognized in the period they are contributed. Pension benefits and contributions and premium refunds are recognized as deductions when due and payable in accordance with Statutes. Benefits payable incurred but not reported are reflected as other liabilities. Distributions from defined contribution plans are recognized in the period the disbursement is made.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

CONTRIBUTION INFORMATION

Membership in each defined benefit plan consisted of the following at June 30, 2009:

	State Employees and Teachers Plan	Consolidated Plan for PLD
Active vested and nonvested members	40,715	9,762
Terminated vested participants	6,680	1,102
Retirees and benefit recipients	27,727	7,235
Total	75,122	18,099
Number of participating employers/sponsors	1	279

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 biennial actuarial valuations.

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 percent.

STATE EMPLOYEES AND TEACHERS PENSION PLAN SPECIFICS

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 disability and survivor benefits, which are established by statute for State employee and teacher members, and by contract with other participating employers under applicable statutory provisions.

PARTICIPATING LOCAL DISTRICTS PLAN SPECIFICS

In the event that a PLD withdraws from the System, its individual employee-members can terminate membership or remain contributing members. The PLD 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.

SPECIAL FUNDING SITUATION – TEACHERS DEFINED BENEFIT PENSION PLAN

The State is legally responsible for contributions to the Teacher Group that covers retirees of other governmental entities. The State is the sole "employer" contributor for the teachers; therefore, is acting as the employer.

FUNDED STATUS AND FUNDING PROGRESS – DEFINED BENEFIT PENSION PLANS

The funded status of each plan as of June 30, 2009, the most recent biennial actuarial valuation date, is as follows:

Plans	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
SETP	8,383,147,465	12,377,262,461	3,994,114,996	67.7%	1,678,930,948	237.9%
PLD's	2,083,711,056	2,032,737,408	(50,973,648)	102.5%	382,515,248	13.3%

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. Additional information as of the latest actuarial valuation date follows:

	SETP	PLD's
Valuation date	June 30, 2009	June 30, 2009
Actuarial cost method	Entry age	Entry age
Amortization method	Level percent closed	Level percent open
Remaining amortization period	19 [1]	15
Asset valuation method	3 Year smoothed market	3 Year smoothed market
Actuarial assumptions:		
Investment rate of return	7.75%	7.75%
Projected salary increases	4.75% 10.00%	4.50% 10.50%
Includes inflation at	4.50%	4.50%
Cost of living adjustments	3.75%	3.75%
Most recent review of plan experience:	2006	2008
Plan changes from last valuation	none	none

[1] The System amortizes 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 contribution rate in effect for 2009 was determined by the 2006 valuation, as revised, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 8 years remained at June 30, 2009.

CONTRIBUTION RATES – DEFINED BENEFIT PENSION PLANS

The Maine Constitution, Maine Statutes and the System's funding policy provide for periodic employer contributions at actuarially determined rates that, based upon certain assumptions, are expressed as percentages of annual covered payroll and are sufficient to accumulate adequate assets to pay benefits when due.

In order to reduce any unfunded pension liability for State employees and teachers under Title 5 MRSA § 1536, the State is required to remit 20 percent of its General Fund unappropriated surplus to the System at year-end. For fiscal 2009, no General Fund unappropriated surplus existed.

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 2009 for participating entities:

State		
Employees	[1]	7.65 8.65%
Employer	[1]	15.85 50.14%
Teachers		
Employees		7.65%
Employer		16.72%
Participating Local Entities		
Employees	[1]	3.0 8%
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 participating local districts (PLDs), on 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 PLD's. 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	$ 320,112
Interest on net pension obligation	1,446
Adjustment to annual required contribution	(1,273)
Annual pension cost	320,285
Contributions made	320,112
Increase (decrease) in net pension obligation	173
Net pension obligation beginning of year	18,708
Net pension obligation end of year	$ 18,881

Analysis of Funding Progress
(Expressed in Thousands)

Year	Annual Pension Cost	Percentage Covered	Net Pension Obligation
2009	320,285	100.00%	18,881
2008	305,625	99.91%	18,708
2007	303,470	99.87%	18,444

Employer contributions met actuarially determined contribution requirements.

COMPONENT UNIT PARTICIPANTS
The Maine Municipal Bond Bank, Maine Maritime Academy, and the Maine Public Employees Retirement System have defined benefit pension plans. All are participating local entity participants in plans administered by the Maine Public Employees Retirement System. For financial reporting purposes, employees of the Maine Community College System, Maine Educational Center for the Deaf and Hard of Hearing, and the Northern New England Passenger Rail Authority are combined with State employees for retirement benefit purposes and are included in the pension disclosures of the State.

NOTE 10 - OTHER POSTEMPLOYMENT BENEFITS

POST RETIREMENT HEALTHCARE PLANS
The State sponsors and contributes to two defined benefit healthcare plans: a sole employer plan for its employees, and county and municipal law enforcement officers and firefighters (First Responders). Each plan provides medical benefits to eligible retired employees and beneficiaries. Statute prescribes what portion of health insurance costs are funded by the State. The State also agreed to fund a set percentage of retiree healthcare costs for teachers. Statute prescribes what portion of health insurance costs are funded by the State.

The State of Maine funds post retirement health care benefits for most retired State employees and legislators, as authorized by Title 5 MRSA § 285, and for a portion of the premiums for teachers, as authorized by Title 20-A MRSA § 13451. Pursuant to Title 5 MRSA § 285 most retired employees of the Maine Turnpike Authority, Maine Community College System, Maine Maritime Academy, Maine Public Employees Retirement System, and Maine Educational Center for the Deaf and Hard of Hearing are eligible to participate in the health plan but are not funded by the State. Specifically excluded (Title 5 MRSA § 285 1-B) are members of the Maine Municipal Association, Maine Teachers Association and employees of counties and municipalities and their instrumentalities, except as provided in subsection 11-A. Title 5 MRSA § 286-M included retired county or municipal law enforcement officers and municipal firefighters, as defined in subsection 286-M, who participate in an employer-sponsored retirement plan and, prior to July 1, 2007 were enrolled in a self-insured health benefits plan offered by the employing county or municipality.

The State pays 100 percent of post retirement health insurance premiums for state employee 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. Per Title 5 MRSA § 285 paragraphs 2 and 3, coverage depends upon terms and conditions contained in collective bargaining agreements with the State Health Commission. Retirees who are not eligible for Medicare retain coverage in the same group health plan as active employees. Retirees must pay for Medicare Part B coverage to be eligible to participate in the State-funded Companion Plan. Coverage for retirees ineligible for Medicare includes basic hospitalization; supplemental major medical and prescription drugs; and costs for treatment of mental health, alcoholism, and substance abuse.

Effective January 1, 2006, the State contribution to retired teacher health premiums was increased to 45 percent of the retiree-only premium. The rate is based on a single rate for single and employee plus children coverage, or 50 percent of the two party rate for two party and family coverage.

For State employees and Teachers, other options exist. Part-time employees are eligible for prorated benefits with retirees who worked 50 percent or more of full-time hours receiving 100 percent of the benefit. Surviving spouses and dependents may continue in the plan and pay 100 percent of the premium. Retirees ineligible for a State contribution are allowed to participate and pay the retiree premium.

County and municipal law enforcement officers and municipal firefighters began coverage in Fiscal Year 2008 with the State contributing 45 percent of the retiree-only premium of their respective plans. The State's premium subsidy is based on the Title 5 MRSA § 285 paragraph 11-A C cost of the retiree's share of the individual premium for the standard plan identified and offered under the group health insurance plan in which the retiree enrolls. The State subsidy ends after the retiree is eligible for Medicare. First Responders are eligible if they retire after age 50 with 25 or more years of service and receive a retirement benefit from either the MPERS or a defined contribution plan. If retirees have fewer than 25 years of service, the normal retirement benefit must be at least 50 percent of final average compensation. Retirees must also participate in their employer's health insurance plan or other fully insured health plan for at least 5 years. Retirees can elect to participate in the plan at their retirement date. If participation is waived at that time, the retiree is ineligible to participate at a later date.

The State also administers a fourth defined benefit healthcare plan, (Ancillary Group Plan), which covers one major, and two non-major discretely presented component units and a few small commissions. Under the last plan, the State acts as the plan administrator only.

Beginning in the fiscal year ending June 30, 2008, each participating employer is required by GASB Statement 45, *Accounting and Financial Reporting by Employer for Postemployment Benefits Other Than Pensions*, to disclose additional information with regard to funding policy, the employer's annual OPEB cost and contributions made, the funded status and funding progress of the employer's individual plan, and actuarial methods and assumptions used.

PLAN MEMBERSHIP

Membership in the four healthcare plans is as follows:

	State Employees	Teachers	First Responders	Ancillary Groups
Actives	14,654	27,180	912	1,452
Retirees	8,772	9,201	69	239
Total	23,426	36,381	981	1,691
Number of employers	1			3
Contributing entities		1	1	3

STATE EMPLOYEES PLAN FUNDING POLICY

Title 5 MRSA § 286-B authorizes an Irrevocable Trust Fund for Other Post-employment Benefits to meet the State's unfunded liability obligations for retiree health benefits for eligible participants who are the beneficiaries of the irrevocable trust fund. Annually, beginning with the fiscal year starting July 1, 2007, the Legislature shall appropriate funds to meet the State's obligations under any group health plan, policy or contract purchased by the State Employee Health Commission. Unfunded liabilities may not be created except those resulting from experience losses. Unfunded liability resulting from experience losses must be retired over a period not to exceed 10 years. The unfunded liability for retiree health benefits for eligible participants must be retired in 30 years or less from July 1, 2007.

Public Law 2007, Chapter 240, amended Title 5 Chapter 421 by establishing the Irrevocable Trust for Other Post-employment Benefits. MPERS holds and invests long-term funds in the irrevocable trust fund. Its fiduciary responsibilities include setting investment policy in order to fund the plan in accordance with a projected disbursement schedule that does not begin before the year 2027.

TEACHERS PLAN AND FIRST RESPONDERS PLAN FUNDING

A special funding situation exists for these plans. The State is statutorily responsible for contributions to the Teachers Plan and the First Responders Plan that cover the retirees of other governmental entities. The State is the sole contributing entity for Teachers and the primary contributing entity for the First Responders, therefore, making the contribution on behalf of the employing jurisdictions at a 45 percent level for the current portion of the health plan costs and are not included in the Trust.

No implied subsidy is calculated for either plan. The State does not pay for any of the costs of active employees. The State limited its contribution to 45 percent of the retiree-only premium.

ANCILLARY GROUP PLAN

The following plan, administered by the State is financially independent and is not included in the State Retiree Health Internal Service Fund. This multiple-employer agent postemployment benefit plan covers 239 retirees of three component units: Maine Community College System, Maine School for the Deaf and Hard of Hearing and the Northern New England Passenger Rail Authority. The plan also covers 21 retirees of five small councils and commissions. All active employees participate in the State Employee Group Health Insurance Plan. All eligible retired employees who elect coverage are included in this plan. The State Employee Health Commission establishes premiums annually.

ANNUAL OPEB COST

Contribution requirements are set forth in statute. The annual other post-employment benefit (OPEB) cost (expense) for each plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The State's annual OPEB cost for the current year and the related information for each plan are as follows:

(Expressed in Thousands)

	State Employees	Teachers	First Responders
Annual required contribution	$ 77,000	$ 60,000	$ 1,074
Interest on net OPEB obligation (asset)	(2,000)	1,000	47
Adjustment to annual required contribution	2,000	(1,000)	(76)
Annual OPEB cost	$ 77,000	$ 60,000	$ 1,045
Contributions made	50,384	18,387	257
Increase (decrease) in net healthcare obligation	26,616	41,613	788
Net healthcare obligation (asset) beginning of year	(55,388)	28,343	1,045
Net healthcare (asset) end of year	$ (28,772)		
Net healthcare obligation end of year		$ 69,956	$ 1,833

The annual OPEB cost for the current year, the percentage of annual OPEB cost contributed to the plan, and the net OPEB (asset) obligation for each plan are as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Plan	Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Asset	Net OPEB Obligation
State Employees	6/30/2009	77,000	65.43%	28,772	
	6/30/2008	111,000	149.90%	55,388	
Teachers	6/30/2009	60,000	30.65%		69,956
	6/30/2008	46,000	38.38%		28,343
First Responders	6/30/2009	1,045	24.69%		1,833
	6/30/2008	1,045	0.00%		1,045

Second year of prospective implementation.

FUNDED STATUS AND FUNDING PROGRESS
The funded status of the plans as of June 30, 2009 was as follows:

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees (in millions)	June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
	June 30, 2008	98	1,242	1,144	7.89%	568	201.41%
Teachers (in millions)	June 30, 2009	0	994	994	0.00%	1,215	85.93%
	June 30, 2008	0	1,044	1,044	0.00%	1,160	85.69%
First Responders (in thousands)	June 30, 2009	0	20,063	20,063	0.00%	51,876	38.67%
	June 30, 2008	0	19,806	19,806	0.00%	51,021	38.82%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS
Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan

members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

	State Employees	Teachers	First Responders
Valuation date	6/30/2008 rollforward to 6/30/2009	6/30/2008 rollforward to 6/30/2009	June 30, 2009
Actuarial cost method	Entry age normal	Entry age normal	Entry age normal
Amortization method	Level percent closed	Level percent closed	Level percent closed
Remaining amortization period UAAL	29	29	28
Plan changes	30 year fixed	30 year fixed	20 year fixed
Actuarial (gains) /losses	10 year fixed	rolling 17 year period	rolling 15 year period
Asset valuation method	market	n/a	n/a
Actuarial assumptions:			
Investment rate of return	4.50% initial 7.50% ultimate	4.50%	4.50%
Projected salary increases	4.75%	4.75%	3.75%
Inflation rate	3.75%	3.75%	3.75%
Healthcare inflation rate	initial 8% ultimate 4.5%	initial 9% ultimate 5%	initial 8% ultimate 4.5%

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The State's fiduciary financial statements are prepared on the accrual basis of accounting. Premiums are recognized when due and benefits are paid when incurred using the accrual basis of accounting. Premium refunds reduce premium revenue and claims recoveries reduce claims expense. Investment income is recognized when earned.

CONTRIBUTIONS AND RESERVES

The State Employees Health Insurance Committee establishes contributions to the plan by member employers and employees annually. Both active and retired members pay the same premium rate. Claims liabilities of the plan are periodically computed using statistical techniques to establish premium rates. Administrative costs of the plan are allocated to plan participants.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

POST RETIREMENT GROUP LIFE INSURANCE BENEFIT PLAN

The Maine Public Employees Retirement System, (the System), is a component unit of the State of Maine. For financial reporting purposes, the System administers an agent, multiple-employer, defined benefit Group Life Insurance Plan (GLIP) administered by a third party insurance company in accordance with Title 5 MRSA C. 423 and 425. Members include employees of the State, public school employees (defined by Maine law as teachers and for whom the State acts like the employer for retirement contribution and benefit purposes), members of the Judiciary and the Legislature, that are eligible for membership in the System. Group life insurance benefits are also provided to employees of 431 local municipalities and other public entities (Participating Local Districts, or PLDs) in Maine, that elect to participate under provisions of the relevant statutes. The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information (RSI) for the plan. The June 30, 2009 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The Plan provides Basic group life insurance benefits, during retirement, to retirees who participated in the group life insurance plan prior to retirement for a minimum of 10 years. The 10 year participation requirement does not apply to recipients of disability retirement benefits. The level of coverage in retirement is initially set to an amount equal to the retiree's average final compensation. The initial amount of Basic group life insurance benefit is then subsequently reduced at the rate of 15 percent per year to the greater of 40 percent of the initial amount or $2,500.

Group life insurance funds managed by the System are constitutionally restricted and held in trust for the payment of benefits to participants or their beneficiaries. 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 a single actuarial valuation that provides separate data for each participating entity.

BASIS OF ACCOUNTING

The System's financial statements are prepared on the accrual basis of accounting. 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 for premiums collected plus additional payments representing administrative fees.

Group life insurance premiums are recognized as additions in the period when they become due. Investment income is recognized when earned. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Group life insurance benefits and premium refunds are recognized as deductions when due and payable in accordance with Statutes. In addition, an estimate is made for group life insurance death benefits incurred before year end but not reported to the System until after year end. Group life insurance death benefits incurred but not reported are reflected as other liabilities.

INVESTMENTS

Investments are reported at fair value. Investments that do not have an established market are reported at estimated fair value. Fair value of shares in managed investment pools is based on unit values reported by the funds. The fair value of other investments, including real estate holdings and mortgage participation agreements, are based on third-party appraisals and valuations provided by the sponsor of the agreement. Investment purchases and sales are recorded as of their trade date. Proceeds related to securities sold not yet purchased are carried as a liability and adjusted to the fair value of the securities.

FUNDING POLICY

Premium rates are those determined by the System's Board of Trustees to be actuarially sufficient to pay anticipated claims and cover administrative costs. For State employee, legislative and judicial classes, the premiums for retiree life insurance coverage are factored into the premiums paid for Basic coverage while participants are active members. The State remits premiums at a single rate that supports basic coverage for active and retired State employees. This rate is $.56 per month for every $1,000 of coverage. Premiums for retiree life insurance coverage for retired teachers are paid by the State based on a rate of $.33 per $1,000 of coverage per month during the post-employment retired period.

ANNUAL OPEB COST

The State's OPEB cost, percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the second year of implementation is as follows:

Analysis of Funding Progress
(Expressed in Thousands)

Fiscal Year Ended	Annual OPEB Cost	Employer Contribution	Net OPEB Asset	Net OPEB Obligation	Percentage of OPEB Cost Contributed
June 30, 2009	5,700	12,377	1,200		217.14%
June 30, 2008	5,500	23		5,477	0.42%

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of June 30, 2009 was as follows:

(Expressed in Thousands)

Plan	Actuarial Valuation Date	(a) Actuarial Value of Assets	(b) Actuarial Accrued Liability (AAL)	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
State Employees	June 30, 2009	17,500	67,900	50,400	25.77%	601,100	8.38%
	June 30, 2008	21,100	64,900	43,800	32.51%	601,100	7.29%
	June 30, 2007	20,800	65,200	44,400	31.90%	521,200	8.52%
Teachers	June 30, 2009	17,700	54,700	37,000	32.36%	591,100	6.26%
	June 30, 2008	19,900	52,100	32,200	38.20%	591,100	5.45%
	June 30, 2007	19,100	54,100	35,000	35.30%	559,100	6.26%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and that actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Projection of benefits are based on the terms of the substantive plan at the time of each valuation and include types of benefits in force at the valuation date and the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

Significant methods and assumptions were as follows:

Valuation date	June 30, 2009
Actuarial cost method	Entry age normal
Amortization method	Level percent open
Asset valuation method	3 Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.75% 10.00%
Cost of living increases in life benefits	N/A
Participation percent for future retirees	100.00%
Form of benefit payment	lump sum

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; loans payable to component unit for repayment of bonds issued by the Maine Municipal Bond Bank 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 2009 were:

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

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Due Within One Year
General Obligation Debt:					
General Fund	$ 378,575	$ 96,035	$ 65,685	$ 408,925	$ 74,905
Special Revenue Fund	97,260	37,310	13,505	121,065	11,820
Self Liquidating					
Total	$ 475,835	$ 133,345	$ 79,190	$ 529,990	$ 86,725

Debt service requirements (principal and interest) for all outstanding general obligation bonds of the primary government, from June 30, 2009 until maturity, are summarized in the following table:

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

Fiscal Year	Principal	Interest	Total
2010	$ 86,725	$ 20,254	$ 106,979
2011	81,370	17,113	98,483
2012	77,340	14,238	91,578
2013	74,580	11,304	85,884
2014	57,625	8,507	66,132
2015 2019	152,350	15,936	168,286
Total	$ 529,990	$ 87,352	$ 617,342

General fund, special revenue and other general obligation bonds issued and outstanding at June 30, 2009 are as follows:

Primary Government General Obligation Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2009	Fiscal Year Maturities First Year	Last Year	Interest Rates
General Fund:					
Series 2000	66,290	5,605	2000	2010	4.875% 7.75%
Series 2001	22,050	4,210	2002	2011	4.00% 6.08%
Series 2002	27,610	8,280	2003	2012	3.00% 5.75%
Series 2003	97,080	38,820	2003	2013	1.50% 5.00%
Series 2004	117,275	58,670	2005	2014	2.00% 5.27%
Series 2005	137,525	91,600	2006	2015	2.00% 5.27%
Series 2006	52,390	36,665	2007	2016	4.00% 5.51%
Series 2007	33,975	27,170	2008	2017	4.00% 5.50%
Series 2008	46,525	41,870	2009	2018	3.00% 5.13%
Series 2009	96,035	96,035	2011	2019	2.50% 5.00%
Total General Fund		$ 408,925			
Special Revenue Fund:					
Series 2001	19,225	3,840	2002	2011	4.00% 5.00%
Series 2004	13,000	6,520	2005	2014	2.00% 4.00%
Series 2007	27,000	21,600	2008	2017	4.00% 5.50%
Series 2008	57,550	51,795	2009	2018	3.00% 5.13%
Series 2009	37,310	37,310	2011	2019	2.50% 5.00%
Total Special Revenue		$ 121,065			

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, 2009, general obligations bonds authorized and unissued totaled $82.9 million.

REVENUE BONDS OF THE MAINE GOVERNMENTAL FACILITIES AUTHORITY

The State included $192.3 million in other financing arrangements to reflect revenue bonds issued by the Maine Governmental Facilities Authority (MGFA), 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 MGFA is not debt of the State or any political subdivision within the State. The State is not obligated for such debt, nor is the full faith and credit of the State pledged for such debt. MGFA may not issue securities in excess of $325.5 million outstanding, at any one time, except for the issuance of certain revenue refunding securities.

During the fiscal year ended June 30, 2009, MGFA did not issue any bonds. At June 30, 2009, there were approximately $71.9 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 construction of certain State buildings, to purchase or generate software, and to purchase equipment and vehicles, including school buses. COP's 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 COP's 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.

SHORT TERM OBLIGATIONS

The State of Maine issued and retired $112.1 million in Bond Anticipation Notes during fiscal year 2009. Short term obligations are used to meet temporary operating cash flow needs. At June 30, 2008 and June 30, 2009 there were no outstanding Tax Anticipation Notes or Bond Anticipation Notes.

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.

Changes in other long-term obligations for governmental and business-type activities for the fiscal year ended June 30, 2009, are summarized as follows:

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

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
Governmental Activities:					
MGFA Revenue Bonds	$ 208,560	$	$ 15,625	$ 192,935	$ 17,130
COP's and Other Financing	66,493 *	6,191	22,605	50,079	22,525
Compensated Absences	44,634	5,940	5,208	45,366	5,509
Claims Payable	66,086	197,894	205,369	58,611	23,769
Capital Leases	37,522	7,110	6,998	37,634	6,367
Loans Payable to Component Unit	38,338	100,000	6,569	131,769	9,590
Net Pension Obligation	18,708	173		18,881	
Other Post Employment Benefit Obligation	34,865	36,924		71,789	
Pollution Remediation	65,599		723	64,876	
Total Governmental Activities	$ 580,805	$ 354,232	$ 263,097	$ 671,940	$ 84,890
Business Type Activities:					
Compensated Absences	$ 750	$ 130	$	$ 880	$ 189
Total Business Type Activities	$ 750	$ 130	$	$ 880	$ 189

* As restated

Debt service requirements (principal and interest) for COP's and other financing arrangements of the primary government, from June 30, 2009 until maturity, are summarized as follows:

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

	Governmental Funds			Internal Service Funds		
Fiscal Year	Principal	Interest	Total	Principal	Interest	Total
2010	$ 9,884	$ 610	$ 10,494	$ 29,770	$ 9,589	$ 39,359
2011	4,047	247	4,294	25,006	8,388	33,394
2012	2,246	104	2,350	22,367	7,413	29,780
2013	359	34	393	21,720	6,544	28,264
2014	126	25	151	17,464	5,647	23,111
2015 2019	415	38	453	73,740	17,168	90,908
2020 2024				26,300	4,343	30,643
2025 2029				9,570	1,138	10,708
Total	$ 17,077	$ 1,058	$ 18,135	$ 225,937	$ 60,230	$ 286,167

CONDUIT DEBT OBLIGATIONS

Under a General Bond Resolution adopted on June 5, 1973, Maine Health and Higher Educational Facilities Authority (MHHEFA) issues tax exempt bonds to assist in financing health care institutions and institutions for higher education. Loans to institutions made with proceeds of general resolution bonds are written for the entire amount of the bonds, including debt service reserve funds. Security for these bonds is limited to debt service reserve funds of and the loans to the specific institution for which the bond was issued. Therefore, these bonds are considered conduit debt.

LOANS PAYABLE TO COMPONENT UNIT
The State of Maine has pledged various revenue streams, as security for Grant Anticipation Bonds (GARVEE) and Transportation Infrastructure Revenue Bonds (TransCap) issued by the Maine Municipal Bond Bank (MMBB) on behalf of the Maine Department of Transportation to provide financing for qualified transportation projects.

Changes in GARVEE and TransCap revenue bonds during fiscal year 2009 were:

Primary Government - Changes in GARVEE and TransCap Revenue Bonds
(Expressed in Thousands)

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009	Due Within One Year
Loans Payable to Component Unit:					
Federal Funds	$ 38,338	$ 50,000	$ 4,135	$ 84,203	$ 7,625
Special Revenue Fund		50,000	2,434	47,566	1,965
Total	$ 38,338	$100,000	$ 6,569	$ 131,769	$ 9,590

Payment of principal and interest on the GARVEE bonds shall be subject to appropriation each year by the Legislature in an amount 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 insured payments of principal and interest with a financial guaranty insurance policy. The bonds do not constitute a debt or obligation of the State.

Principal and interest on TransCap bonds are payable solely from pledged revenues, pledged rights, and pledged TransCap funds and accounts. Pledged revenues include certain motor vehicle registration and other fees, a portion of excise tax on gasoline and other special fuel, and certain amounts required to be transferred from the Highway Fund. All pledged revenues are required to be transferred to the TransCap Fund. The bonds do not constitute a debt or liability of the State.

GARVEE and TransCap Revenue bonds issued and outstanding at June 30, 2009 are as follows:

GARVEE and TransCap Revenue Bonds Outstanding
(Expressed in Thousands)

	Amounts Issued	Outstanding June 30, 2009	Fiscal Year Maturities First Year	Fiscal Year Maturities Last Year	Interest Rates
Federal Funds:					
Series 2004	49,423	34,203	2005	2015	2.50% 5.00%
Series 2008	50,000	50,000	2010	2021	3.25% 4.00%
Total Federal Funds		$ 84,203			
Special Revenue Fund:					
Series 2008	50,000	47,566	2010	2024	3.00% 5.50%
Total Special Revenue		$ 47,566			

Total principal and interest requirements over the life of the 2004 GARVEE bonds are $60.2 million, with annual requirements of up to $5.6 million; for the 2008 GARVEE bonds total principal and interest requirements are $63.1 million, with annual requirements of up to $5.3 million. Federal transportation funds received by the State for the federal fiscal year preceding the issuance of the 2004 GARVEE bonds totaled $175 million. Total federal highway transportation funds received in federal fiscal year 2009 were $147.5 million. Current year payments to MMBB for GARVEE bonds were $6.4 million (4.3 percent of federal highway transportation funds received).

Total principal and interest requirements over the life of the 2008 TransCap Revenue Bond are $71.9 million, with annual requirements up to $4.8 million. Total revenue received for revenue sources used as pledged revenues were $37.9 million in fiscal year 2008. Pledged revenues will be transferred to the TransCap Fund beginning in fiscal year 2010.

OBLIGATIONS UNDER CAPITAL LEASES

The State 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 that are comparable to 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. The principal 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, 2009 capital assets include $72.1 million of capitalized buildings in the internal service funds, net of related accumulated depreciation of $38.7 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. Rental expense incurred under operating leases totaled $1.9 million during the year.

A summary of the operating and noncancelable capital lease commitments to maturity follows:

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

Fiscal Year	Capital Leases	Operating Leases
2010	$ 6,156	$ 1,781
2011	5,790	679
2012	5,528	334
2013	4,488	199
2014	3,924	175
2015 2019	14,007	227
2020 2024	5,076	1
2025 2029	975	
2030 2034		
Total Minimum Payments	45,944	$ 3,396
Less: Amount Representing Interest	8,521	
Present Value of Future Minimum Payments	$ 37,423	

MGFA REVENUE BONDS, COP'S AND OTHER FINANCING ARRANGEMENTS

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 loans payable to component unit will be liquidated from the Federal Fund and Highway 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; the General and Highway Funds will pay relatively small amounts.

CLAIMS PAYABLE

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. Other claims and judgments attributable to governmental activities will be liquidated by the General Fund and related special revenue funds.

COMPENSATED ABSENCES

In the government-wide statements and proprietary fund financial statements, compensated absences are reported as liabilities as required by GASB. In the governmental fund financial statements, liabilities for compensated absences are accrued when they are considered "due and payable" and recorded in the fund only for separations or transfers that occur before year-end. The liabilities are liquidated by the funds that account for the salaries and wages of the related employees.

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 3.31%	287,490	2009 2037
Maine Community College System	4.0 5.0%	23,371	2012 2036
Maine Health and Higher Educational Facilities Authority			
debt	2.0 6.2%	1,325,015	2009 2038
conduit debt	4.5 7.3%	149,080	2009 2039
Maine Municipal Bond Bank	1.0 10.25%	1,238,524	2009 2038
Maine State Housing Authority	2.00 6.50%	1,445,446	2009 2042
University of Maine System	2.0 5.75%	210,581	2009 2037

MHHEFA advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future payment on the debt. On December 3, 2008, MHHEFA issued $41.7 million Series 2008D reserve fund revenue bonds with an average interest rate of 5.38%. A portion of the $16.2 million proceeds was used to refund $16.1 million in in-substance defeased bonds. On May 14, 2009, MHHEFA issued $118.5 million Series 2009A and 2009B general resolution bonds with a combined average interest rate of 5.29 percent. A portion of the $123.6 million proceeds was used to refund $111.6 million of in substance defeased bonds. At June 30, 2009, there were approximately $114.0 million of in-substance defeased bonds remaining outstanding with respect to all advance-refunded issues within the reserve fund resolution. At June 30, 2009, there were approximately $13.6 million of defeased bonds outstanding with respect to advance refunded bond issues of the general resolution. The general resolution bonds are considered conduit debt.

UMS advance refunded various bond obligations in prior years. Proceeds were primarily used to purchase U.S. Government securities that will provide for future debt service payment on the debt. At June 30, 2009, $34.9 million of in-substance defeased bonds remained outstanding.

In periods of declining interest rates, MMBB has refunded its bond obligations, reducing aggregate debt service. Where allowed, the bank retires outstanding bonds prior to their contractual maturity. In other cases, the proceeds of the refunding bonds were principally used to purchase U.S. Government securities that will provide for future payment on the debt. At June 30, 2009 the remaining balances of the General Tax-Exempt Fund Group in-substance defeased bonds total approximately $128 million.

For the period ended December 31, 2008, MSHA redeemed $298.4 million of its Mortgage Purchase Fund group bonds from reserve funds, mortgage prepayments, surplus revenues and the proceeds of refunding bonds. Mortgage Purchase Fund losses of $441 thousand were attributable to recognition of the redemption premium, bond discount and debt issuance expenses associated with the redeemed bonds. MSHA also redeemed $335.4 million of its General Housing Draw Down Bond Fund group from the bond escrow funds.

The following table summarizes debt service requirements for outstanding bonds of the discretely presented component units:

Component Units Principal Maturities
(Expressed in Thousands)

Fiscal Year Ending	FAME	MMBB	MCCS	MSHA	UMS	MHHEFA
2010	$ 67,814	$ 111,071	$	$ 39,920	$ 8,073	$ 50,235
2011	805	111,420		38,540	8,514	52,810
2012	55	102,763		38,725	39,408	55,600
2013	56	97,441	545	41,185	7,603	59,085
2014	57	90,924	565	40,785	7,960	58,300
2015 2019	292	378,046	3,190	231,080	37,161	287,685
2020 2024	306	233,790	3,955	282,605	35,420	272,955
2025 2029	52	97,075	5,020	274,055	30,970	230,445
2030 2034	41,638	11,000	6,400	279,570	28,560	170,640
2035 2039	177,352	1,400	2,947	172,415	4,340	87,260
2040 2044				21,890		
2045 2049						
Net unamortized premium or (deferred amount)	(937)	3,594	749	(15,324)	2,572	
Total Principal Payments	$ 287,490	$ 1,238,524	$ 23,371	$ 1,445,446	$ 210,581	$ 1,325,015

NOTE 12 - SELF-INSURANCE

A. Risk Management

The State maintains several types of insurance plans and accounts for them in two funds that are combined for financial statement purposes as the Risk Management Fund. The Risk Management Division provides insurance advice and services to State governmental agencies. 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. All departments have elected to insure through the Risk Management Division. The Department of Transportation elected to purchase general liability insurance as of April 1, 2007; in prior fiscal years the Department of Transportation had elected not to purchase general liability insurance through the Risk Management Division.

In some cases the State purchases excess insurance to limit the State's liability for insured events. For example, coverage for property damage is $400 million per occurrence. The State retains $2 million of this risk per occurrence. A private insurance carrier covers the remaining risk (excess insurance). Settled claims 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 *	$400 million	$ 2 million	$400 million
Ocean Marine Boat Liability *, 1	10 million	10 thousand	10 million
Boiler and Machinery*	150 million	2 million	150 million
General Liability Including Employment Practices	400 thousand	400 thousand	none
Police Professionals	400 thousand	400 thousand	none
Vehicular Liability 2	400 thousand	400 thousand	600 thousand
Bonding	500 thousand	500 thousand	none
Foster Parents	300 thousand	300 thousand	none
Inland Marine (various policies)	500 thousand	500 thousand	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.
[1] $10 million is the maximum limit for per occurrence coverage. Some agencies have chosen $400 thousand.
[2] Excess insurance is only for out of state travel.

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 March 31, 2008. This cost of claims includes case reserves, the development of known claims, and the direct administrative expenses for settling specific claims.

Claims liabilities are determined on an actuarial basis. Biennial re-evaluation occurs 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 March 31, 2009 and 2008, the present value of the claims payable for the State's self-insurance plan was estimated at $3.5 million and $3.5 million, respectively. The actuary calculated this based on the State's rate on investments.

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

	2009	2008
Liability at Beginning of Year	$ 3,525	$ 3,190
Current Year Claims and Changes in Estimates	530	1,058
Claims Payments	530	723
Liability at End of Year	$ 3,525	$ 3,525

As of June 30, 2009, fund assets of $22.5 million exceeded fund liabilities of $4.1 million by $18.4 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 been partially incorporated into the estimate used to determine claims payable as of June 30, 2009.

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 $1.1 million for the fiscal year ended June 30, 2009.

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 as of June 30, 2009:

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

	2009	**2008**
Liability at Beginning of Year	$ 45,358	$ 45,358
Current Year Claims and Changes in Estimates	1,622	9,474
Claims Payments	8,307	9,474
Liability at End of Year	$ 38,673	$ 45,358

Based on the actuarial calculation as of June 30, 2009, the State is liable for unfunded claims, and incurred but not reported claims, of approximately $45.4 million. The discounted amount is $38.7 million and was calculated based on a 3.5 percent interest rate 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 $500 thousand.

The State 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 averaged approximately 40,200 covered individuals. This total includes 29,000 active employees and dependents, 4,400 pre-Medicare retirees and dependents, and 6,800 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, 2009, the State recorded a payable of $9.9 million for an underpayment 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 $16.4 million. Changes in the Employee Health Insurance and Retiree Health Insurance claims liability for the fiscal year ending June 30, 2009 follows (in thousands):

	Employee Health Fund	Retiree Health Fund
Liability at Beginning of Year	$ 10,956	$ 6,582
Current Year Claims and Changes in Estimates	145,775	49,632
Claims Payments	144,326	52,206
Liability at End of Year	$ 12,405	$ 4,008

The table above reflects actual activity of the employee health and retiree health insurance programs. In accordance with GASB Statement No. 45, certain costs reported above were reclassified for financial statement purposes. $38.4 million in retiree healthcare costs were reclassified from the internal service fund to the OPEB Trust Fund, a fiduciary fund. Additionally, $12 million of active employee healthcare costs was reclassified from the internal service fund to the OPEB Trust Fund to reflect age-adjusted claims.

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 under Title 8 MRSA C. 16.

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 designated that 50 percent of its sales revenue be reserved for prize awards and agent bonuses.

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 U.S. Government Treasury Strips.

A proportional share of revenues and expenses are allocated to each State based on 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, per diem charges, advertising, and certain printing, travel, and miscellaneous costs, which are allocated based on actual charges generated by each state.

The Tri-State Lotto Commission financial report for fiscal year 2009, 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	$	32,251
Noncurrent Assets		69,707
Total Assets	$	101,958
Current Liabilities	$	21,630
Long term Liabilities		64,752
Total Liabilities		86,382
Designated Prize Reserves		4,345
Reserve for Unrealized Gains		11,231
Total Net Assets		15,576
Total Liabilities and Net Assets	$	101,958
Total Revenue	$	65,303
Total Expenses		44,446
Allocation to Member States		20,857
Change in Unrealized Gain on Investments Held for Resale		(287)
Change in Net Assets	$	(287)

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 32 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 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 2009, 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	$ 116,777
Investments in US Government Securities	113,564
US Government Securities Held for Prize Annuities	561,399
Due from Party Lotteries	22,758
Other Assets	1,992
Total Assets	$ 816,490
Amount Held for Future Prizes	$ 225,677
Grand Prize Annuities Payable	586,653
Other Liabilities	3,366
	815,696
Net Assets, Unrestricted	794
Total Liabilities and Net Assets	$ 816,490
Total Revenue	$ 4,140
Total Expenses	3,621
Excess of revenue over expenses	519
Net assets, beginning	275
Net assets, ending	$ 794

NOTE 14 - RELATED PARTY TRANSACTIONS

PRIMARY GOVERNMENT

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

By statute, program assets 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 had approximately $4.2 billion in net assets at June 30, 2009, which have been recorded in a Private Purpose Trust Fund on the financial statements of the State.

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 Health and Human Services in the Maine Legislature. During fiscal 2009, the State paid $14.7 million for these services; $3.7 million from the General Fund; $8.8 million from the Federal Fund and $2.2 from the Other Special Revenue Fund. At June 30, 2009, the State had no outstanding balance with this vendor.

The State of Maine pays a family owned company as a provider for road reconstruction through the Department of Transportation. The family includes a House Representative on the Utilities and Energy Committee. During fiscal 2009, the State paid $12.5 million for these services; $11.3 million from the Highway Fund, $.5 million from the Transit, Aviation and Rail Transportation Fund and $.7 million from the Capital Projects Fund. At June 30, 2009, the State owed $458 thousand to this vendor.

The State of Maine pays subsidiaries of a local business for nursing facilities medical care services for seniors. The Chief Executive Officer of the company is the spouse of a Deputy Director. During fiscal 2009, the State paid $10.8 million for these services; $3.9 million from the General Fund and $6.9 million from the Federal Fund. At June 30, 2009, the State had no outstanding balance with this vendor.

The State of Maine pays a local non-profit to provide medical care, nursing facilities and MaineCare services to individuals with developmental disabilities. The Chief Executive Officer of the company is the spouse of the Commissioner of the Department of Health and Human Services. During fiscal 2009, the State paid $5.6 million for these services; $3.6 million from the Federal Fund and $2.0 million from the General Fund. At June 30, 2009, the State had no outstanding balance with this vendor.

The State of Maine 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, $236.1 million; Maine Community College System, $62.9 million; Maine Municipal Bond Bank, $10.8 million; Finance Authority of Maine, $12.1 million; and Maine State Housing Authority, $3.2 million.

FAME administers several revolving loan funds on behalf of the State of Maine. FAME recorded these funds, which total $32.2 million at June 30, 2009, 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 2009, the State expended $3.9 million to FAME for State revolving loan funds. The State also transferred $1 million from its Loan Insurance Reserves to FAME.

Title 20-A MRSA Chapter 419-A established 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 2007, the NextGen College Savings grant funds and the Maine State Grant funds were pooled into the new State of Maine Grant. FAME paid approximately $7.8 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.

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 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, 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 2009.

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.

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.

POLLUTION REMEDIATION

The Department of Environmental Protection (DEP) and Department of Transportation (DOT) have pollution remediation obligations as defined by Governmental Accounting Standards Board (GASB) Statement No. 49. The State's total amount of pollution remediation obligation as of June 30, 2009 is $64.9 million. Superfund sites account for approximately $54.3 million. Superfund is the federal government program to clean up hazardous waste sites.

The following are Superfund sites for which the State has recorded a liability for pollution remediation activities:

Eastland Woolen Mill – The State recorded a liability for pollution remediation activities of approximately $15.5 million. Currently the State shares the costs with Environmental Protection Agency (EPA) in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in September of 2018, the State will assume 100 percent of the operation and maintenance and long-term monitoring costs.

Eastern Surplus – The State recorded a liability for pollution remediation activities of approximately $30.1 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. Beginning in August of 2012, the State will assume 100 percent of the operation and maintenance and monitoring costs. As of June 30, 2009 the State has received $2.2 million in recoveries from the Department of Defense. The State expects to recover additional costs of $12.9 million.

Union Chemical Co., Inc. – The State recorded a liability for pollution remediation activities of approximately $1.2 million related to future response costs. The State expects to recover the $1.2 million.

Callahan Mine – The State recorded a liability for pollution remediation activities of approximately $7.5 million. Currently the State shares the costs with EPA in a cost-sharing ratio of 10 percent State, 90 percent EPA. The State will assume 100 percent of the cost for the operation and maintenance of the site.

The State recorded a liability for pollution remediation activities of approximately $10.6 million related to seven of eight uncontrolled hazardous substance sites. The State expects to recover $10 million in costs. The pollution remediation liability for one of these sites could not be reasonably estimated. The Uncontrolled Hazardous Substance Sites Program was created in response to the threats and potential threats to human health and the environment posed primarily by abandoned hazardous waste sites. The Uncontrolled Hazardous Substance Sites program is the State's equivalent to the Federal Superfund Program.

The State has the knowledge and expertise to estimate the remediation obligation based on prior experience in identifying and funding similar remediation activities. The standard requires the liability to be measured using the expected cash flow technique. The remediation obligation estimates are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statues or regulations and other factors that could result in revisions to these estimates. Prospective recoveries from responsible parties may reduce the State's obligation.

MUNICIPAL SOLID WASTE LANDFILLS

Title 38 MRSA §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 $528 thousand for fiscal year 2009.

During the 2009 fiscal year, no State general funds or bond funds were expended for municipal solid waste landfill closure projects. After January 1, 2000, the State is no longer liable for the costs relating to the closure of municipal solid waste landfills, except the Commissioner may make grants or payments up to 30 percent, 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 2009 fiscal year, the State expended $528 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 percent 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 percent for structures constructed after that date. The DEP recognizes that, in the future, some landfills will require State funds for post closure investigation and remediation activities. The DEP has estimated the amount of these potential future costs could be as much as $3.5 million, based on current site knowledge, the increasing frequency of residential development near closed municipal landfills, the discovery of older abandoned dump sites now occupied by residential homes, and recent issues involving gas migration from two municipal landfills in the state. Approximately $275 thousand remains in the existing municipal landfill bond account. The bond funds currently available are insufficient to fully cover identified obligations. Additional bond funds will be necessary to cover current outstanding obligations as well as potential future remedial actions.

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 $24 million. This consists of approximately $18 million for State-owned facilities and approximately $6 million for the State's share, under a cost sharing arrangement, for municipal facilities.

POLLUTION ABATEMENT PROGRAM

Title 38 MRSA § 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 2009 fiscal year, $4.7 million of general obligation bond funds were expended for pollution abatement projects. As of June 30, 2009, amounts encumbered for pollution abatement projects totaled $9.5 million; and general obligation bonds authorized for these projects, but not yet encumbered or expended, totaled $2.6 million. As of June 30, 2009, DEP estimated the total cost (federal, State, and local) of future projects to be $533 million.

GROUND WATER OIL CLEAN-UP FUND

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

A report to the legislature dated February 15, 2007, submitted by the Maine Department of Environmental Protection (DEP), identified 359 long-term remediation sites as of January 2007 that are covered by the insurance program. As of August 28, 2007 there were 377 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 51.0 percent of the annual payments. As of June 30, 2009, outstanding commitments by municipalities for school bond issues that are eligible for State subsidy totaled $947.3 million.

At June 30, 2009, the Department of Transportation had contractual commitments of approximately $34.4 million for construction of various highway projects. The State's share of that amount is expected to be approximately $8.5 million. Of these amounts, $1.6 million has already been accrued. Federal and State funds plus bond proceeds are expected to fund these future expenditures.

At June 30, 2009, UMS had outstanding commitments on uncompleted construction contracts totaled $9.6 million.

TOBACCO SETTLEMENTS

On November 23, 1998, Maine along with 45 other states and six civil jurisdictions (collectively known under the MSA as the "Settling States"), entered into a Master Settlement Agreement (MSA) with certain Participating

Tobacco Manufacturers (PMs). The MSA is a settlement of lawsuits brought by many States against the four largest tobacco companies alleging multiple counts of misconduct and claiming punitive and compensatory damages, including a claim for all the State's Medicaid costs caused by or related to tobacco use. The MSA includes provisions to annually compensate the State for smoking-related Medicaid costs and to impose marketing and advertising restrictions on PMs to protect public health. In this settlement, the PMs agreed, among other things, to make annual payments to the states and jurisdictions based on their allocable share of the market. In return, the states agreed to relinquish claims to further damages resulting from, among other things, Medicaid costs. Annual payments fluctuate subject to various adjustments and are partially contingent on the passage and enforcement of a State statute imposing economic conditions related to the State's public health claims on the Nonparticipating manufacturers (NPMs) in the form of an annual escrow payment due from each NPM with in-state sales. The NPM Adjustment is set forth in the Master Settlement Agreement (MSA). If the PMs claim an NPM Adjustment for a given year and prove that they lost market share to the NPMs and it is determined that the MSA was a significant factor contributing to that lost market share then an NPM Adjustment 'shall apply' unless a Settling State passed a qualifying statute and 'diligently enforced' that statute. In effect this means that the Allocated Payment to a Settling State that diligently enforced will not be reduced, but a Settling State that did not diligently enforce its qualifying statute will be subject to a reduction in its payment due to the NPM Adjustment. NPM Adjustment Due to the provisions of the MSA, a State that is found not to have diligently enforced its qualifying statute may lose up to its entire annual payment amount due to the NPM Adjustment for a given year.

The NPM Adjustment may be claimed each year and has been claimed for each completed calendar year since 2003. Frequently PMs claim entitlement to the NPM Adjustment and either withhold the amount from their annual payments, or place the amount in what is known as a 'disputed payment account'. Each year beginning in 2003 Maine's annual payments have been lower than calculated because many of the PMs have claimed entitlement to the NPM Adjustment and either withheld money or routed it to the disputed payments account. For the year 2003, the Adjustment claimed by the PMs, and calculated as set forth in the MSA, was approximately 18 percent of the total amount paid by the PMs and distributed among the Settling States. However, the total amount related to the NPM Adjustment to which the PMs are entitled is dependent on the number of non-diligent states.

In addition, in the MSA, the PMs agreed to pay $8.6 billion in Strategic Contribution Payments (SCP) to certain states and jurisdictions as compensation for their contribution to the overall settlement. Maine's share of this total amount is approximately $114 million. Maine will receive this amount through ten annual SCP payments starting in 2008. In April 2009, Maine received a total of $59.2 million including both the annual payment amount and the strategic contribution amount.

ESCHEAT PROPERTY

The State Abandoned Property Statute requires the deposit of certain defined and unclaimed assets into a state-managed Abandoned Property Fund (Private Purpose Trust Fund). The State Statute provides that whenever the cash balance of the fund exceeds $500 thousand at fiscal year-end, the excess must be remitted to the General Fund where it is reported as operating transfers from other funds. At June 30, 2009, the Fund included $4.4 million of securities not yet liquidated that were not subject to transfer to the General Fund. Net collections from inception (1979) to June 30, 2009 of approximately $153.4 million represent a contingent liability to the State since claims for refund may be filed by the owners of such property.

A liability representing the probable amount of escheat property that will be reclaimed and paid to claimants and other third parties is reported in the Fund. To the extent that the assets in the Fund are less than the claimant liability, a receivable (due from other funds) is reported in that Fund and an equal liability (due to other funds) is reported in the General Fund. At June 30, 2009, the amount reported in the Fund for claimant liability is $29.9 million. The General Fund shows a $25 million payable to the Escheat Fund.

NURSING HOME LOANS

In 1994, the Maine Department of Human Services substantially revised the eligibility criteria for Medicaid coverage of nursing facility services, causing a decline in occupancy in nursing facilities. The occupancy decline has not affected each nursing facility equally. In some instances, particularly in proprietary nursing homes, borrowing under the taxable financing reserve fund resolution, which consists primarily of loans to nursing homes, these declines in occupancy created cash flow problems.

MHHEFA advanced approximately $542 thousand from the operating fund as of June 30, 2009 to other financially troubled institutions, with combined loan amounts due the Authority of approximately $9.5 million at June 30, 2009, including loans of $9.1 million reserved at June 30, 2009. These advances were primarily made to assist these institutions in meeting debt service requirements in years prior to fiscal 2009. MHHEFA also has approximately $.4 million of other receivables outstanding with the operating fund at June 30, 2009, primarily related to amounts due from institutions to reimburse the Authority for arbitrage rebate payments made on their behalf. MHHEFA established a $.7 million reserve in its operating fund related to the above loans, advances and other receivables outstanding.

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, 2009, loans outstanding pursuant to these authorizations are $34.1 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, 2009.

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. At June 30, 2009, no bonds were outstanding. The State has not paid, nor does it expect to pay, any amount as a result of this authorization as of June 30, 2009.

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 debt	$ 1,325,015	$107,373	no limit	22 MRSA § 2075
conduit debt	149,080		no limit	22 MRSA § 2075
Finance Authority of Maine	37,403		$ 698,685	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	1,234,930	132,281	no limit	30 A MRSA §6006
Maine Educational Loan Authority *	32,115	1,029	50,000	20 A MRSA §11424
Maine State Housing Authority	1,445,446		2,150,000	30 A MRSA §4906
Total	$ 4,223,989	$240,683		

* Reported in combining non major component unit financial statements.

NOTE 16 - SUBSEQUENT EVENTS

PRIMARY GOVERNMENT

On October 29, 2009 the State issued $14.4 million, of Bond Anticipation Notes that mature on June 15, 2010.

COMPONENT UNITS

On February 24, 2009, the Maine State Housing Authority (MSHA) redeemed at par $23.8 million of its 1997 through 2006 Mortgage Purchase Fund bonds.

On July 22, 2009, the Maine Municipal Bond Bank (MMBB) issued $105 million of Series A Transportation Infrastructure Revenue Bonds. The Bonds mature from 2010 to 2023 and carry an interest rate ranging from 2.5 percent to 5 percent. On August 27, 2009, MMBB issued $21.6 million of its 2009 Series C General Resolution Bonds. The bonds mature from 2010 to 2029 and carry an interest rate ranging from 1.1 percent to 4.25 percent. Also on August 27, 2009 MMBB issued $34.9 million of its 2009 Series D Bonds $4.7 million of Series E Refunding Bonds and $19.1 million of Series F Refunding Bonds. The 2009 Series E Refunding Bonds refunded the 1994 Series D Bonds maturing in 2014 for $4.7 million, and the Series F Refunding Bonds refunded the 1998 Series C and 199 Series C and E Bonds maturing in 2010 to 2012, aggregating $19.4 million.

On September 30, 2009, the Maine Health and Higher Educational Facilities Authority sold all of the assets of Portland Center for Assisted Living to a third-party. The purchase price exceeded the carrying value of the assets sold.

STATE GENERAL FUND REVENUES
Subsequent to year-end, the State's General Fund revenues have not met budgeted estimates based on the revenue reforecast in May, 2009. The October 2009 revenue forecast has estimated that revenues for the fiscal year 2010 and 2011 biennium will be reduced by a total of $383.7 million. The fiscal year 2010 impact of this revenue reduction is expected to be $209.4 million. On November 20, 2009 the Governor signed a curtailment order reducing General Fund allotment by $63.1 million as the first step in addressing the revenue shortfall. A supplemental budget package for the biennium will be submitted to the legislature in January 2010.

TAX RECEIVABLES REDUCTION INITIATIVE
In August 2009, Governor Baldacci and the Legislature authorized the Tax Receivables Reduction Initiative (TRRI). This program is intended to encourage delinquent taxpayers to pay existing tax obligations. TRRI will allow taxpayers with tax liabilities that were assessed as of September 1, 2009 to resolve those liabilities with payment of the tax, the interest and 10 percent of the penalty. By making the payment and signing the TRRI application, the remaining 90 percent of the penalties will be waived.


DIRIGO
MAINE

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
MAJOR GOVERNMENTAL FUNDS

Fiscal Year Ended June 30, 2009
(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	$ 2,993,244	$ 2,721,660	$ 2,682,299	$ (39,361)	$ 234,197	217,243	$ 216,201	$ (1,042)
Assessments and Other	115,806	118,677	120,089	1,412	105,306	98,046	97,744	(302)
Federal Grants	3,091	14,613	14,844	231	400	400	3	(397)
Service Charges	46,312	42,553	44,211	1,658	5,070	4,684	7,587	2,903
Income from Investments	(3,205)	1,028	3,831	2,803	1,000	458	480	22
Miscellaneous Revenue	7,025	9,570	11,132	1,562	2,157	2,111	542	(1,569)
Total Revenues	3,162,273	2,908,101	2,876,406	(31,695)	348,131	322,942	322,557	(385)
Expenditures								
Governmental Support and Operations	262,247	260,779	239,485	21,294	39,249	38,405	36,626	1,779
Economic Development & Workforce Training	41,051	38,986	37,030	1,956	-	-	-	-
Education	1,493,007	1,476,164	1,455,087	21,077	-	-	-	-
Health and Human Services	1,026,428	981,669	929,836	51,833	-	-	-	-
Business Licensing & Regulation	40	38	-	38	-	-	-	-
Natural Resources Development & Protection	71,778	69,055	68,114	941	46	45	38	7
Justice and Protection	265,798	275,133	271,853	3,280	37,988	37,552	36,401	1,151
Arts, Heritage & Cultural Enrichment	8,696	8,108	8,084	24	-	-	-	-
Transportation Safety & Development	-	-	-	-	270,681	280,418	230,279	50,139
Total Expenditures	3,169,045	3,109,932	3,009,489	100,443	347,964	356,420	303,344	53,076
Revenues Over (Under) Expenditures	(6,772)	(201,831)	(133,083)	68,748	167	(33,478)	19,213	52,691
Other Financing Sources (Uses)								
Operating Transfers Net	(66,458)	(53,338)	(57,247)	(3,909)	2,112	2,207	(6,270)	(8,477)
Proceeds from Pledged Future Revenues								
Net Other Financing Sources (Uses)	(66,458)	(53,338)	(57,247)	(3,909)	2,112	2,207	(6,270)	(8,477)
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	$ (73,230)	$ (255,169)	$ (190,330)	$ 64,839	$ 2,279	$ (31,271)	$ 12,943	$ 44,214
Fund Balances at Beginning of Year			321,351				114,914	
Fund Balances at End of Year			$ 131,021				$ 127,857	

Federal Funds				Other Special Revenue Fund			
Original Budget	Final Budget	Actual	Variance with Final Budget	Original Budget	Final Budget	Actual	Variance with Final Budget
$ -	$ -	$ -	$ -	$ 224,627	$ 220,724	$ 207,016	$ (13,708)
7	-	6	6	133,303	132,363	104,035	(28,328)
2,293,825	3,319,643	2,852,181	(467,462)	16,086	17,512	7,527	(9,985)
7	1,007	678	(329)	143,327	161,121	159,807	(1,314)
17	17	211	194	2,355	2,324	1,675	(649)
1,975	2,225	3,078	853	249,336	294,739	170,413	(124,326)
2,295,831	3,322,892	2,856,154	(466,738)	769,034	828,783	650,473	(178,310)
9,039	15,598	6,092	9,506	166,690	170,965	152,218	18,747
117,978	220,890	158,622	62,268	34,463	26,565	17,843	8,722
189,501	255,135	224,307	30,828	7,867	9,922	6,326	3,596
1,901,772	2,384,031	2,132,268	251,763	505,751	516,139	398,219	117,920
972	1,557	817	740	76,547	114,183	64,070	50,113
42,830	62,177	39,237	22,940	120,797	146,540	101,303	45,237
102,256	141,924	66,248	75,676	39,356	43,659	35,910	7,749
3,475	3,556	2,873	683	2,015	2,217	1,179	1,038
194,395	263,835	178,337	85,498	14,866	91,984	80,668	11,316
2,562,218	3,348,703	2,808,801	539,902	968,352	1,122,174	857,736	264,438
(266,387)	(25,811)	47,353	73,164	(199,318)	(293,391)	(207,263)	86,128
258	258	4,334	4,076	145,087	126,136	136,201	10,065
				-	66,000	55,543	(10,457)
258	258	4,334	4,076	145,087	192,136	191,744	(392)
$ (266,129)	$ (25,553)	$ 51,687	$ 77,240	$ (54,231)	$ (101,255)	$ (15,519)	$ 85,736
		2,683				222,117	
		$ 54,370				$ 206,598	

STATE OF MAINE
BUDGETARY COMPARISON SCHEDULE
BUDGET TO GAAP RECONCILIATION

Fiscal Year Ended June 30, 2009
(Expressed in Thousands)

	General Fund	Highway Fund	Federal Funds	Special Revenue Fund
Fund Balances Non GAAP Budgetary Basis	$ 131,021	$ 127,857	$ 54,370	$ 206,598
Basis Differences				
Revenue Accruals/Adjustments:				
Taxes Receivable	207,972	1,433		9,751
Intergovernmental Receivables			643,441	
Other Receivables	4,899	2,134	67,814	66,325
Inventories	1,473		1,387	
Due from Component Units	4		12	1,254
Due from Other Funds	29,336	14,452	2,312	81,635
Other Assets	3,187		436	
Deferred Revenues	(220,452)	(7,005)	(1,387)	(27,564)
Total Revenue Accruals/Adjustments	26,419	11,014	714,015	131,401
Expenditure Accruals/Adjustments:				
Accounts Payable	(210,121)	(13,091)	(588,969)	(24,537)
Due to Component Units	(1,912)	(69)	(6,000)	(337)
Bonds Issued				
Accrued Liabilities	(25,315)	(10,332)	(7,570)	(9,690)
Taxes Payable	(135,124)	(4)		
Intergovernmental Payables			(105,883)	
Due to Other Funds	(58,361)	(80,490)	(32,800)	(3,172)
Total Expenditure Accruals/Adjustments	(430,833)	(103,986)	(741,222)	(37,736)
Fund Balances GAAP Basis	$ (273,393)	$ 34,885	$ 27,163	$ 300,263

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.

Detailed 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, 2009, the legislature deappropriated $217.2 million of original 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 2008-2009, 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 7, 2007, 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 30, 2009 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 Budgetary Comparison Schedules by Agency depict budgeted to actual expenditures at the Department level, which is the legal level of budgetary control for all governmental funds. The schedules provide further detail at the agency level within departments for transparency.

Required Supplementary Information – State Retirement Plan

Schedule of Funding Progress

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 2009	8,383,147,465	12,377,262,461	3,994,114,996	67.7%	1,678,930,948	237.9%
June 30, 2008	8,691,075,704	11,721,271,968	3,030,196,264	74.1%	1,628,421,362	186.1%
June 30, 2007	8,302,466,643	11,209,708,127	2,907,241,484	74.1%	1,595,199,514	182.2%
June 30, 2006	7,556,514,663	10,598,346,071	3,041,831,408	71.3%	1,546,315,522	196.7%
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%

Major changes in actuarial assumptions include the following:

Valuation date	June 30, 2008	June 30, 2006	June 30, 2004
Actuarial assumptions:			
Investment rate of return	7.75%	7.75%	8.00%
Projected salary increases	4.75% - 10.00%	4.75% - 10.00%	5.50% - 9.50%
Includes inflation at	4.50%	4.50%	4.50%
Cost of living adjustments	3.75%	3.75%	4.00%

The Maine Public Retirement System (the System), which is a component unit of the State, is the administrator of an agent, multiple-employer, defined benefit public employee retirement system. The June 30, 2009 report may be obtained from the Maine Public Employees Retirement System, 46 State House Station, Augusta, ME 04333.

The System amortizes 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 contribution rate in effect for 2009 was determined by the 2006 valuation, as revised, and reflects the relengthened amortization period. The unfunded actuarial accrual liability of the judicial plan is amortized over a period of which 8 years remained at June 30, 2009.

Note: Actuarial valuations are performed biennially on even years. Rollforward valuations occur on odd numbered years. The latest actuarial valuation occurred June 30, 2008.

Required Supplementary Information – Other Post-employment Benefit Plans

Schedules of Funding Progress
(Expressed in millions)

State Employees Healthcare Plan

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 2009	82	1,311	1,229	6.25%	595	206.55%
June 30, 2008	98	1,242	1,144	7.89%	568	201.41%

Teachers Healthcare Plan

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 2009	$	994	994	0.00%	1,215	81.81%
June 30, 2008	$	1,044	1,044	0.00%	1,160	90.00%

State Employees Group Life Insurance Plan

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 2009	17.5	67.9	50.4	25.77%	601.1	8.38%
June 30, 2008	21.1	64.9	43.8	32.51%	601.1	7.29%
June 30, 2007	20.8	65.2	44.4	31.90%	521.2	8.52%

Teachers Group Life Insurance Plan

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c) UAAL (as a percentage of covered payroll)
June 30, 2009	17.7	54.7	37.0	32.36%	591.1	6.26%
June 30, 2008	19.9	52.1	32.2	38.20%	591.1	5.45%
June 30, 2007	19.1	54.1	35.0	35.30%	559.1	6.26%

Schedules of Funding Progress

(Expressed in 000's)

First Responders Healthcare Plan

Actuarial Valuation Date	(a) Actuarial Value Of Assets	(b) Actuarial Accrued Liability (AAL) Entry Age	(b-a) Unfunded AAL (UAAL)	(a/b) Funded Ratio	(c) Annual Covered Payroll	(b-a)/c UAAL (as a percentage of covered payroll)
June 30, 2009	$	20,063	20,063	0.00%	51,876	38.67%
June 30, 2008	$	19,806	19,806	0.00%	51,021	38.82%

Schedule of Employer Contributions

(Expressed in 000's)

	Employer Contributions							
	State Employees			Teachers			First Responders	
Fiscal Year Ended June 30,	Annual Required Contribution	Percentage Contributed		Annual Required Contribution	Percentage Contributed		Annual Required Contribution	Percentage Contributed
Healthcare - 2009	77,000	65.43%		60,000	30.65%		1,045	.25%
Healthcare - 2008	111,000	149.90%		46,000	38.38%		1,045	0%
Group Life - 2009	5,700	217.14%					N/A	N/A
Group Life - 2008	5,500	.42%					N/A	N/A

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 8,811 highway miles or 17,921 lane miles of roads and 2,963 bridges having a total deck area of 12 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.

<u>**Highways**</u>

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
2009	75.3	78.0
2008	75.6	79.0
2007	76.0	78.0

Comparison of Estimated-to-Actual Preservation Costs
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).

Actual Preservation Costs
(Amounts in millions)

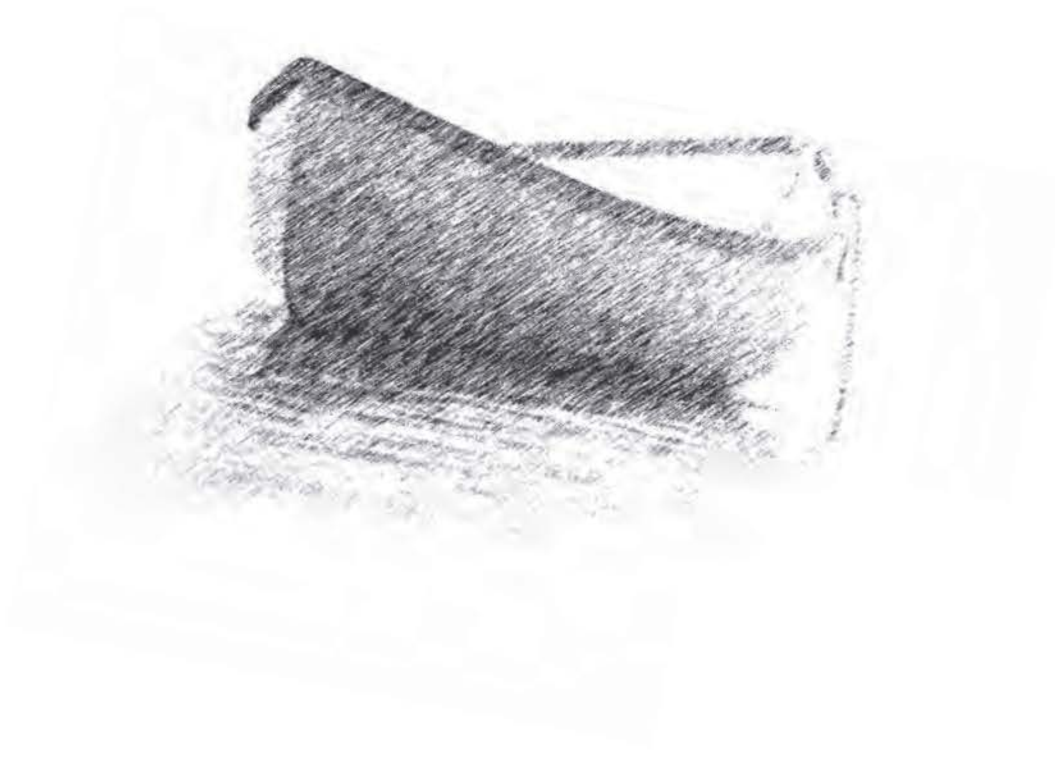
	2009	2008	2007	2006	2005
Highways	$ 74.5	$ 80.0	$ 71.7	$ 46.3	$ 42.1
Bridges	1.6	1.6	1.6	4.8	4.0
Total	**$ 76.1**	**$ 81.6**	**$ 73.3**	**$ 51.1**	**$ 46.1**

Estimated Preservation Costs
(Amounts in millions)

	2009	2008	2007	2006	2005
Highways	$ 52.2	$ 97.7	$ 59.7	$ 47.1	$ 43.8
Bridges	4.3	2.0	1.3	4.9	4.2
Total	**$ 56.5**	**$ 99.7**	**$ 61.0**	**$ 52.0**	**$ 48.0**

Transportation Bonds
Transportation bonds, approved by referendum, are issued to fund improvements to highways and bridges. Of the amount authorized by Chapter 39, PL 2007, $50 million was spent during FY2009.

STATE OF MAINE
REPORTS ON INTERNAL CONTROL AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2009



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS 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, 2009, which collectively comprise the State of Maine's basic financial statements, and have issued our report thereon dated December 23, 2009. Our report was modified to include a reference to 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. Other auditors audited the financial statements of the Child Development Services, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, 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 Public Employees Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, Small Growth Enterprise Fund, and University of Maine System. Also, we did not audit the financial statements of the NextGen College Investing Plan, as described in our report on the State of Maine's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of the Maine Educational Loan Authority, Maine Technology Institute, Northern New England Passenger Rail Authority, and the Small Enterprise Growth Fund were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the State of Maine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State of Maine's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the State of Maine's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 09-0110-01 and 09-0309-01 to be significant deficiencies.

Compliance and Other Matters

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 grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted additional matters which we will report in a separate communication to management.

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

Neria R Douglass

Neria R. Douglass, JD, CIA
State Auditor

December 23, 2009

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

Compliance

We have audited the compliance of the State of Maine with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. 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, Finance Authority of Maine, Maine Educational Center for the Deaf and Hard of Hearing, 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 Public Employees Retirement System, Maine Community College System, Maine Technology Institute, Northern New England Passenger Rail Authority, Small Growth Enterprise Fund, and 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, 2009. 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 of the State of Maine's compliance with those requirements.

As identified below and described in the accompanying Schedule of Findings and Questioned Costs, the State of Maine did not comply with certain compliance requirements that are applicable to certain of its major federal programs. Compliance with such requirements is necessary, in our opinion, for the State of Maine to comply with requirements applicable to the identified major federal programs.

Finding Number	Federal Program Name	Compliance Requirements
09-1200-01	Title I Part A Cluster	Cash Management
09-1200-01	Special Education Cluster (IDEA)	Cash Management
09-1200-01	Improving Teacher Quality State Grants	Cash Management
09-1234-01	State Fiscal Stabilization Fund Cluster	Cash Management
09-1234-02	State Fiscal Stabilization Fund Cluster	Subrecipient Monitoring
09-1234-02	State Fiscal Stabilization Fund Cluster	Special Tests and Provisions
09-1401-01	Highway Planning and Construction Cluster	Davis Bacon Act

In our opinion, except for the noncompliance described in the preceding paragraph, the State of Maine complied, in all material respects, with the requirements that are applicable to each of its major federal programs for the year ended June 30, 2009. 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 09-0111-01, 09-0111-02, 09-1103-01, 09-1106-04, 09-1106-06, 09-1106-10, 09-1109-03, 09-1109-04, 09-1111-02, 09-1128-01, 09-1200-05, and 09-1308-02.

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 the 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, but not for the purpose of expressing an opinion on the effectiveness of the State of Maine's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs according to be significant deficiencies.[1]

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a

[1]

09-0111-01, 09-0111-02, 09-1103-01, 09-1106-02, 09-1106-03, 09-1106-04, 09-1106-05, 09-1106-06, 09-1106-07, 09-1106-08, 09-1106-09, 09-1106-13, 09-1106-14, 09-1109-01, 09-1109-03, 09-1109-04, 09-1109-05, 09-1109-06, 09-1109-07, 09-1110-02, 09-1110-03, 09-1110-04, 09-1111-01, 09-1111-02, 09-1111-03, 09-1111-04, 09-1113-02, 09-1113-03, 09-1113-04, 09-1128-01, 09-1140-01, 09-1140-02, 09-1140-03, 09-1140-04, 09-1200-01, 09-1200-03, 09-1200-04, 09-1200-05, 09-1201-02, 09-1203-01, 09-1203-04, 09-1221-02, 09-1234-01, 09-1234-02, 09-1308-01, 09-1308-02, 09-1308-03, 09-1401-01, 09-1502-01, 09-1503-01, 09-1503-02, 09-1520-01, 09-1520-02, 09-1520-03 federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs, we consider items 09-1109-03, 09-1109-05, 09-1110-02, 09-1200-01, 09-1234-01, 09-1234-02, and 09-1401-01 to be material weaknesses.

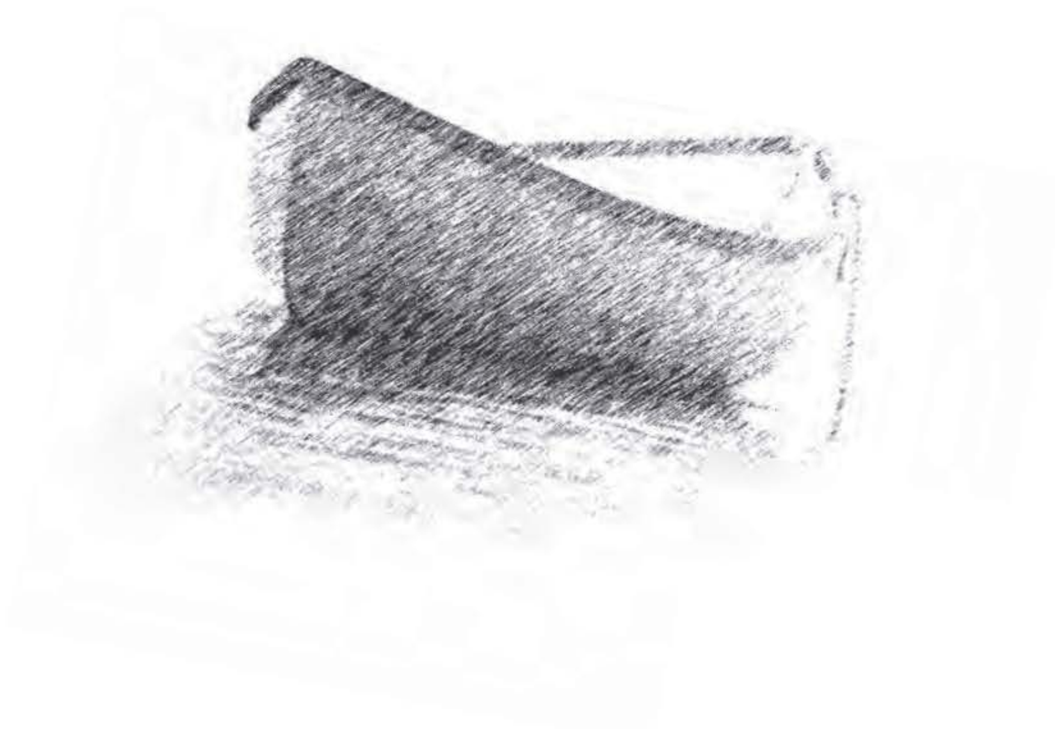
The State of Maine's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the State of Maine's response and, accordingly, we express no opinion on it.

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

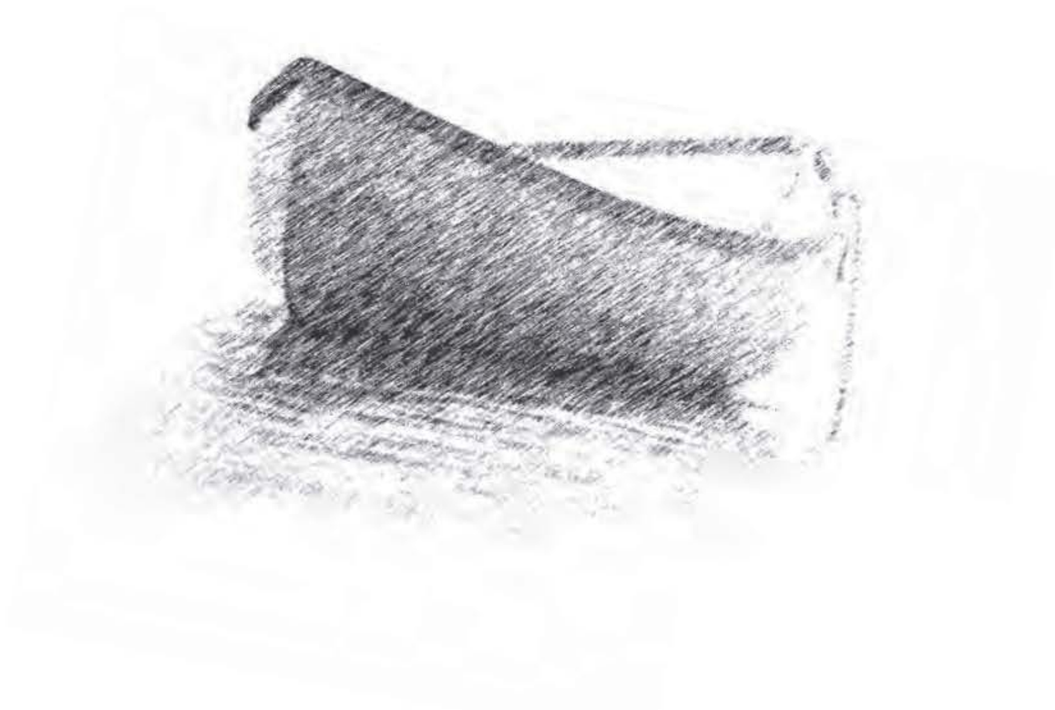
Neria R. Douglass

Neria R. Douglass, JD, CIA
State Auditor

March 19, 2010



STATE OF MAINE
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009



Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency		Expenditures	Total by CFDA #
U.S. Department of Agriculture					
Animal & Plant Health Inspection Service					
10 025	Plant & Animal Disease, Pest Control & Animal Care	Agriculture		412,953	
10 025	Plant & Animal Disease, Pest Control & Animal Care	Conservation		38,692	
10 025	Plant & Animal Disease, Pest Control & Animal Care	Inland Fisheries		109,543	561,188
Agricultural Marketing Service					
10.156	Federal-State Marketing Improvement Program	Agriculture		807,130	807,130
10.162	Inspection Grading & Standardization	Agriculture		852,416	852,416
10.163	Market Protection and Promotion	Agriculture		97,187	97,187
10.169	Specialty Crop Block Grant Program	Agriculture		85,696	85,696
10.170	Specialty Crop Block Grant Program - Farm Bill	Agriculture		26,453	26,453
Farm Service Agency					
10.435	State Mediation Grants	Agriculture		74,096	74,096
Food Safety & Inspection Service					
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	Agriculture		225,380	225,380
Food & Nutrition Service					
10 557	Special Supplemental Nutrition Program for Women, Infants and Children	Human Services	*	17,755,339	17,755,339
10 558	Child and Adult Care Food Program	Education		1,008	
10 558	Child and Adult Care Food Program	Human Services		9,108,440	9,109,448
10 560	State Administrative Expenses for Child Nutrition	Human Services		273,323	273,323
10 572	WIC Farmers' Market Nutrition Program (FMNP)	Human Services		62,311	62,311
10 574	Team Nutrition Grants	Education		599,619	599,619
10 576	Senior Farmers Market Nutrition Program	Agriculture		1,115,338	1,115,338
10 582	Fresh Fruit and Vegetable Program	Education		513,334	513,334
Forest Service					
10 652	Forestry Research	Conservation		477,036	477,036
10 664	Cooperative Forestry Assistance	Conservation		918,682	918,682
10 675	Urban and Community Forestry Program	Conservation		380,970	380,970
10 676	Forest Legacy Program	Conservation		2,600,000	2,600,000
10 677	Forest Land Enhancement Program	Conservation		85,560	85,560
10 678	Forest Stewardship Program	Conservation		523,924	523,924
National Resources Conservation Service					
10 901	Resource Conservation and Development	Conservation		9,000	9,000
10 902	Soil and Water Conservation	Inland Fisheries		78,003	78,003
SNAP Cluster					
Food & Nutrition Service					
10 551	SNAP (Supplemental Nutrition Assistance Program)	Human Services	*	261,946,983	
10 561	State Administrative Matching Grants for the SNAP (Supplemental Nutrition Assistance Program)	Human Services	*	14,431,949	
10.561	**ARRA** - State Administrative Matching Grants for the SNAP (Supplemental Nutrition Assistance Program)	Human Services	*	90,530	
	Total SNAP Cluster		*		276,469,462
Child Nutrition Cluster					
Food & Nutrition Service					
10 553	School Breakfast Program	Corrections	*	114,491	
10 553	School Breakfast Program	Education	*	7,655,766	
10 555	National School Lunch Program	Corrections	*	214,438	
10 555	National School Lunch Program	Education	*	30,143,768	
10 556	Special Milk Program for Children	Education	*	37,283	
10 559	Summer Food Service Program for Children	Education	*	920,491	
	Total Child Nutrition Cluster		*		39,086,237
Emergency Food Assistance Cluster					
Food & Nutrition Service					
10 568	Emergency Food Assistance Program (Administrative Costs)	Agriculture		253,395	
10 568	**ARRA** - Emergency Food Assistance Program (Administrative Costs)	Agriculture		100,771	
10 569	Emergency Food Assistance Program (Food Commodities)	Agriculture		2,397,718	
	Total Emergency Food Assistance Cluster				2,751,884
Total U.S. Department of Agriculture Federal Programs				355,539,016	355,539,016

Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency		Expenditures	Total by CFDA #
U.S. Department of Commerce					
National Oceanic & Atmospheric Administration					
11.405	Anadromous Fish Conservation Act Program	Marine Resource		62,137	62,137
11.407	Interjurisdictional Fisheries Act of 1986	Marine Resource		133,168	133,168
11.419	Coastal Zone Management Administration Awards	Environment		451,998	
11.419	Coastal Zone Management Administration Awards	Marine Resource		424,084	
11.419	Coastal Zone Management Administration Awards	Planning		854,251	1,730,333
11.439	Marine Mammal Data Program	Marine Resource		134,563	134,563
11.452	Unallied Industry Projects	Marine Resource		189,364	189,364
11.454	Unallied Management Projects	Marine Resource		74,641	74,641
11.463	Habitat Conservation	Conservation		23,225	
11.463	Habitat Conservation	Marine Resource		6,193	29,418
11.472	Unallied Science Program	Marine Resource		2,217,166	2,217,166
11.474	Atlantic Coastal Fisheries Cooperative Management Act	Marine Resource		641,510	641,510
11.481	Educational Partnership Program	Marine Resource		55,628	55,628
National Telecommunication & Information Administration					
11 555	Public Safety Interoperable Communications Program	Defense		2,279,719	2,279,719
National Oceanic & Atmospheric Administration					
11 999	Lobster Ventless Trap Survey	Marine Resource		150,714	
11 999	Macro (Letter of Agreement/NMFS)	Marine Resource		11,405	
11 999	Maine New Hampshire Inshore Trawl Survey	Marine Resource		53,366	
11 999	Marine Patrol JEA	Marine Resource		673,631	
11 999	Marine Patrol Regulate for the Protection of Large Whales in Maine	Marine Resource		21,893	
11 999	Biological Sampling, Behavior and Migration Study of Atlantic Halibut in the Gulf of Mair	Marine Resource		47,135	
11 999	NMFS Large Pelagic Intercept Study	Marine Resource		19,219	
11 999	Protected Resources Division	Marine Resource		58,802	
11 999	Recovery of Alewives in Maine	Marine Resource		12,549	1,048,714
Public Works and Economic Development Cluster					
Economic Development Administration					
11 307	Economic Adjustment Assistance	Economic Devel		21,844	
	Total Public Works and Economic Development Cluster				21,844
Total U.S. Department of Commerce Federal Programs				8,618,205	8,618,205
U.S. Department of Defense					
Office of the Chief Engineers					
12.113	State Memo of Agree Prog for the Reimb of Tech Services	Environment		512,431	512,431
National Guard Bureau					
12.401	National Guard Military Operations & Maintenance (O&M) Projects	Defense	*	101,031,167	101,031,167
Department of the Army					
12.404	National Guard Civilian Youth Opportunities	Defense		257,628	257,628
12 999	Cooperative Agreement Dept. of Army Presumpscot River Restoration	Marine Resource		2,966	2,966
Total U.S. Department of Defense Federal Programs				101,804,192	101,804,192
U.S. Department of Housing & Urban Development					
Office of Housing - Federal Housing Commissioner					
14.171	Manufactured Home Construction and Safety Standards	Professional Reg		9,764	9,764
Office of Community Planning & Development					
14 238	Shelter Plus Care	Human Services		5,711,637	5,711,637
Office of Fair Housing and Equal Opportunity					
14.401	Fair Housing Assistance Program: State and Local	Human Rights		209,867	209,867
CDBG - State-Administered Small Cities Program Cluster					
Office of Community Planning & Development					
14 228	Community Development Block Grants / State's Program and Non-Entitlement Grants in Hawaii	Economic Devel	*	13,876,798	13,876,798
	Total - CDBG - State-Administered Small Cities Program Cluster				
Total U.S. Department of Housing & Urban Development Federal Programs				19,808,066	19,808,066

Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency	Expenditures	Total by CFDA #
U.S. Department of the Interior				
U.S. Fish & Wildlife Service				
15 608	Fish and Wildlife Management Assistance	Conservation	113,723	
15 608	Fish and Wildlife Management Assistance	Marine Resource	11,622	125,345
15 614	Coastal Wetlands Planning, Protection and Restoration Act	Inland Fisheries	923,700	923,700
15 615	Cooperative Endangered Species Conservation Fund	Conservation	23,887	
15 615	Cooperative Endangered Species Conservation Fund	Inland Fisheries	259,974	283,861
15 616	Clean Vessel Act	Environment	279,590	279,590
15 622	Sportfishing and Boating Safety Act	Transportation	328,516	328,516
15 623	North American Wetlands Conservation Fund	Conservation	550,000	
15 623	North American Wetlands Conservation Fund	Inland Fisheries	460,000	1,010,000
15 633	Landowner Incentive Program	Inland Fisheries	341,774	341,774
15 630	Coastal Program	Inland Fisheries	15,000	
15 630	Coastal Program	Marine Resource	110,754	125,754
15 634	State Wildlife Grants	Inland Fisheries	631,740	631,740
15 650	Research Grants (Generic)	Marine Resource	1,433	1,433
15 658	Flag Island Cooperative Agreement	Inland Fisheries	(59)	(59)
U.S. Geological Survey				
15 808	U. S. Geological Survey: Research and Data Collection	Conservation	4,649	4,649
15 810	Nat'l Cooperative Geologic Mapping Program	Conservation	77,684	77,684
National Park Service				
15 904	Historic Preservation Fund Grants-in-Aid	Historic Preserve	646,085	646,085
15 916	Outdoor Recreation: Acquisition, Development, & Planning	Conservation	672,681	672,681
15 921	Rivers, Trails and Conservation Assistance	Transportation	3,212,670	3,212,670
Fish & Wildlife Service				
15 999	Sebasticook River Resporation Project	Marine Resource	501	
15 999	Webber Pond - 7 Mile Stream Fish Passage	Marine Resource	80,388	
15 999	Atlantic Salmon Management Project	Marine Resource	43,106	123,995
Fish and Wildlife Cluster				
U.S. Fish & Wildlife Service				
15 605	Sport Fish Restoration Program	Inland Fisheries	2,374,744	
15 605	Sport Fish Restoration Program	Marine Resource	966,817	
15 611	Wildlife Restoration	Inland Fisheries	2,729,528	
	Total Fish and Wildlife Cluster			6,071,089
Total U.S. Department of the Interior Federal Programs			14,860,507	14,860,507
U.S. Department of Justice				
Drug Enforcement Administration				
16 005	Public Education on Drug Abuse: Information	Public Safety	41,277	41,277
Bureau of Justice Assistance				
16 202	Prisoner Reentry Initiative Demonstration (Offender Reentry)	Corrections	259,436	259,436
Office of Juvenile Justice and Delinquency Prevention				
16 523	Juvenile Accountability Block Grants (JABG)	Corrections	312,616	312,616
16 540	Juvenile Justice & Delinquency Prevention_Allocation to States (State Formula Grants)	Corrections	685,574	685,574
16 541	Developing, Testing and Demonstrating Promising New Programs	Corrections	101,439	101,439
16 543	Missing Children's Assistance	Public Safety	110,149	110,149
16 548	Title V_Delinquency Prevention Program	Corrections	63,014	63,014
Bureau of Justice Statistics				
16 550	State Justice Statistics Program for Statistical Analysis Centers	Corrections	44,642	44,642
16 554	National Criminal History Improvement Program	Public Safety	211,824	211,824
National Institute of Justice				
16 560	Nat'l Inst of Justice Research Evaluation and Development Project Grants	Public Safety	181,524	181,524
16 564	Crime Lab Improvement: Comb. Offender DNA Index System Backlog Reduction	Public Safety	9,577	9,577
Office of Victims of Crime				
16 575	Crime Victim Assistance	Human Services	2,090,583	2,090,583
16 576	Crime Victim Compensation	Attorney General	222,993	222,993
Bureau of Justice Assistance				
16 579	Edward Byrne Memorial Formula Grant Program	Attorney General	508,806	
16 579	Edward Byrne Memorial Formula Grant Program	Corrections	35,896	544,702
16 580	Edward Byrne Memorial State And Local Law Enforcement Assistance Discretionary Grants Program	Human Services	136,584	
16 580	Edward Byrne Memorial State And Local Law Enforcement Assistance Discretionary Grants Program	Public Safety	62,102	198,686
16 585	Drug Court Discretionary Grant Program	Judicial	128,644	128,644
Violence Against Women Office				
16 588	Violence Against Women Formula Grants	Attorney General	55,279	
16 588	Violence Against Women Formula Grants	Judicial	5,986	
16 588	Violence Against Women Formula Grants	Public Safety	813,415	874,680

Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency		Expenditures	Total by CFDA #
Office of Justice Programs					
16 590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Judicial		352,705	352,705
Bureau of Justice Assistance					
16 593	Residential Substance Abuse Treatment for State Prisoners	Corrections		38,599	
16 593	Residential Substance Abuse Treatment for State Prisoners	Public Safety		25,765	64,364
16 606	State Criminal Alien Assistance Program	Corrections		146,273	146,273
16 609	Community Prosecution and Project Safe Neighborhoods	Public Safety		126,652	126,652
Office of Community Oriented Policing Services					
16.710	Public Safety Partnership and Community Policing Grants	Inland Fisheries		244,279	
16.710	Public Safety Partnership and Community Policing Grants	Public Safety		154,648	398,927
Office of Juvenile Justice & Delinquency Prevention					
16.726	Juvenile Mentoring Program	Corrections		49,409	49,409
16.727	Enforcing Underage Drinking Laws Program	Human Services		432,455	432,455
Bureau of Justice Assistance					
16.738	Edward Byrne Memorial Justice Assistance Grant Program	Public Safety		1,141,993	1,141,993
National Institute of Justice					
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	Human Services		4,559	
16.742	Paul Coverdell Forensic Sciences Improvement Grant Program	Public Safety		36,617	41,176
Office of Juvenile Justice and Delinquency Prevention					
16.744	Anti-Gang Initiative	Public Safety		34,558	34,558
Bureau of Justice Assistance					
16.745	Criminal and Juvenile Justice and Mental Health Collaboration Program	Corrections		27,390	27,390
Pass Through Federal Programs					
Violence Against Women Office					
16 590	Grants to Encourage Arrest Policies and Enforcement of Protection Orders	Corrections		150,648	150,648
(through Cumberland County, Maine)					
Total U.S. Department of Justice Federal Programs				9,047,910	9,047,910
U.S. Department of Labor					
Bureau of Labor Statistics					
17 002	Labor Force Statistics	Labor		1,132,545	1,132,545
17 005	Compensation and Working Conditions	Labor		110,377	110,377
Employment & Training Administration					
17 225	Unemployment Insurance	Labor	*	295,139,408	
17 225 RR	**ARRA** - Unemployment Insurance	Labor	*	28,198,689	323,338,097
17 235	Senior Community Service Employment Program	Human Services		618,116	618,116
17 245	Trade Adjustment Assistance	Labor		3,483,533	3,483,533
17 266	Work Incentive Grants	Labor		417,646	417,646
17 268	H-1B Job Training Grants	Economic Devel		1,761,990	
17 268	H-1B Job Training Grants	Governor		154,312	
17 268	H-1B Job Training Grants	Labor		2,473,389	4,389,691
17 270	Reintegration of Ex-Offenders	Corrections		68,674	68,674
17 271	Work Opportunity Tax Credit Program (WOTC)	Labor		64,592	64,592
17 999	Employment & Training Assistance Dislocated Workers	Labor		336,849	336,849
Occupational Safety & Health Administration					
17 504	Consultation Agreements	Labor		474,875	474,875
Mine Safety & Health Administration					
17 600	Mine Health and Safety Grants	Labor		15,425	15,425
Employment Service Cluster					
Employment & Training Administration					
17 207	Employment Service/Wagner-Peyser Funded Activities	Labor		4,507,759	
Veteran's Employment and Training Service					
17 801	Disabled Veterans' Outreach Program (DVOP)	Labor		423,402	
17 804	Local Veterans' Employment Representative Program	Labor		317,030	
	Total Employment Service Cluster				5,248,191

Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency		Expenditures	Total by CFDA #
WIA Cluster					
Employment & Training Administration					
17 258	WIA Adult Program	Labor	*	2,819,229	
17 258 RR	**ARRA** - WIA Adult Program	Labor	*	548	
17 259	WIA Youth Activities	Labor	*	3,036,834	
17 259 RR	**ARRA** - WIA Youth Activities	Labor	*	1,302	
17 260	WIA Dislocated Workers	Governor	*	134,031	
17 260	WIA Dislocated Workers	Labor	*	6,274,212	
17 260 RR	**ARRA** - WIA Dislocated Workers	Labor	*	20,571	
	Total WIA Cluster		*		12,286,727
Total U.S. Department of Labor Federal Programs				351,985,338	351,985,338
U.S. Department of Transportation					
Federal Aviation Administration					
20.106	Airport Improvement Program	Transportation		287,732	287,732
Federal Motor Carrier Safety Administration					
20 217	Motor Carrier Safety	State		92,846	92,846
20 218	National Motor Carrier Safety	Public Safety		662,721	662,721
20 233	Border Enforcement Grants	Public Safety		936,051	936,051
20 237	Commercial Vehicle Information Systems and Networks	Transportation		348,573	348,573
Federal Transit Administration					
20 505	Federal Transit: Metropolitan Planning Grants	Transportation		89,046	89,046
20 509	Formula Grants for Other Than Urbanized Areas	Transportation		4,819,251	4,819,251
20 520	Alternative Transportation in Parks and Public Lands	Transportation		103,125	103,125
Pipeline and Hazardous Materials Safety Administration					
20.700	Pipeline Safety	Public Utilities		112,757	112,757
20.703	Interagency Hazardous Materials Pub Sector Train & Plan Gr	Defense		181,732	181,732
20.721	PHMSA Pipeline Safety Program One Call Grant	Public Utilities		15,497	15,497
Highway Planning and Construction Cluster					
Federal Highway Administration					
20 205	Highway Planning and Construction	Transportation	*	157,618,773	
20 205	**ARRA** - Highway Planning and Construction	Transportation	*	21,489,395	
20 219	Recreational Trails Program	Conservation	*	844,658	
	Total Highway Planning and Construction Cluster		*		179,952,826
Federal Transit Cluster					
Federal Transit Administration					
20 500	Federal Transit: Capital Investment Grants	Transportation		1,145,368	
20 507	Federal Transit: Formula Grants	Transportation		2,574,247	
	Total Federal Transit Cluster				3,719,615
Transit Services Programs Cluster					
Federal Transit Administration					
20 513	Capital Assistance Program for Elderly Persons & Persons w/Disabilities	Transportation		331,458	
20 516	Job Access_Reverse Commute	Transportation		906,264	
	Total Transit Services Programs Cluster				1,237,722
Highway Safety Cluster					
National Highway Traffic Safety Administration					
20 600	State and Community Highway Safety	Human Services		151,662	
20 600	State and Community Highway Safety	Public Safety		1,205,627	
20 601	Alcohol Impaired Driving Countermeasures Incentive Grants	Public Safety		467,290	
20 602	Occupant Protection	Public Safety		101,372	
20 609	Safety Belt Performance Grants	Public Safety		1,130,341	
20 610	State Traffic Safety Information System Improvement Grants	Public Safety		284,356	
20 612	Incentive Grant Program to Increase Motorcyclist Safety	Public Safety		703	
20 613	Child Safety and Child Booster Seats Incentive Grants	Human Services		37,248	
20 613	Child Safety and Child Booster Seats Incentive Grants	Public Safety		34,132	
	Total Highway Safety Cluster				3,412,731
Total U.S. Department of Transportation Federal Programs				195,972,225	195,972,225

Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency		Expenditures	Total by CFDA #
Equal Employment Opportunity Commission					
Equal Employment Opportunity Commission					
30 002	Empl Discr - St & Loc - Fair Empl Pract Agcy Contracts	Human Rights		199,419	199,419
Total Equal Employment Opportunity Commission Federal Programs				199,419	199,419
General Services Administration					
39 003	Donation of Federal Surplus Personal Property	Financial Serv		1,427,015	1,427,015
Total General Service Administration Federal Programs				1,427,015	1,427,015
National Foundation on the Arts & the Humanities					
National Endowment for the Arts					
45 025	Promotion of the Arts: Partnership Agreements	Arts		882,073	882,073
National Endowment for the Humanities					
45.164	Promotion of the Humanities: Public Programs	Museum		243,346	243,346
Institute of Museum and Library Services					
45 301	Museum for America	Museum		57,466	57,466
45 310	Grants to States	Library		1,043,558	1,043,558
Total National Foundation on the Arts & the Humanities Federal Programs				2,226,443	2,226,443
U.S. Department of Veterans Affairs					
Veterans Benefits Administration					
64.101	Burial Expenses Allowance for Veterans	Defense		140,605	140,605
National Cemetery System					
64 203	National Cemetery Administration	Defense		1,894,396	1,894,396
Total U.S. Department of Veterans Affairs Federal Programs				2,035,001	2,035,001
U.S. Environmental Protection Agency					
Office of Air & Radiation					
66 032	State Indoor Radon Grants	Human Services		210,616	210,616
66 034	Surveys, Studies, Invest., Demo. and Spec. Purp. Activ. Relating to Clean Air Act	Environment		30,979	30,979
66 036	Clean School Bus USA	Environment		55,822	55,822
66 040	State Clean Diesel Grant Program (B)	Environment		180,000	180,000
Office of the Chief Financial Officer					
66 202	Congressionally Mandated Projects	Environment		303,658	303,658
Office of Water					
66.432	State Public Water System Supervision	Human Services		862,040	862,040
66.436	Surveys, Studies, Investig., Demo. and Training Gr. and Coop. Agreements - Sec. 104(b)(3) of the Clean Water Act	Environment		122,447	122,447
66.454	Water Quality Management Planning	Environment		113,548	113,548
66.461	Regional Wetland Program Grants	Conservation		62,939	62,939
66.467	Wastewater Operator Training Grant Program (Technical Assistance)	Environment		1,641	1,641
66.468	Capitalization Grants For Drinking Water State Revolving Funds	Human Services		1,473,390	1,473,390
66.471	State Grants to Reim. Operators of Sm. Water Sys. For Trng/Cert. Costs	Human Services		188,234	188,234
66.472	Beach Monitoring & Notification Program Implementation Grants	Environment		55,126	
66.472	Beach Monitoring & Notification Program Implementation Grants	Planning		262,045	317,171
66.474	Water Protection Grants to States	Human Services		39,483	39,483
Office of Research and Development					
66 509	Science to Achieve Results (STAR)	Inland Fisheries		50,798	50,798
Office of the Administrator					
66 605	Performance Partnership Grants	Agriculture	*	459,712	
66 605	Performance Partnership Grants	Environment	*	7,450,967	7,910,679
Office of Environmental Information					
66 608	Environmental Info Exchange Network Grant Program & Rel Assist	Environment		459,236	
66 608	Environmental Info Exchange Network Grant Program & Rel Assist	Human Services		205,971	665,207

Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency	Expenditures	Total by CFDA #
Office of Enforcement and Compliance Assurance				
66.709	Multi-Media Capacity Bldg. Grants for States & Tribes	Environment	163,108	163,108
Office of Pollution Prevention and Toxics Substances				
66.717	Source Reduction Assistance	Environment	11,546	11,546
Office of Solid Waste & Emergency Response				
66 802	Superfund State, Political Subdivision, and Indian Tribe-Site: Specific Cooperative Agreements	Environment	111,842	111,842
66 804	State and Tribal Underground Storage Tanks Program	Environment	264,697	264,697
66 805	Leaking Underground Storage Tank Trust Fund Program	Environment	749,644	749,644
66 809	Superfund State and Indian Tribe Core Program Cooperative Agreements	Environment	204,374	204,374
66 817	State and Tribal Response Program Grants	Environment	1,370,563	1,370,563
Office of the Administrator				
66 940	Environmental Policy and State Innovation Grants	Environment	76,831	76,831
Total U.S. Environmental Protection Agency Federal Programs			15,541,257	15,541,257
U.S. Department of Energy				
Office of Energy Efficiency & Renewable Energy				
81 041	State Energy Program	Public Utilities	526,267	526,267
81.119	State Energy Program Special Projects	Planning	2,357	
81.119	State Energy Program Special Projects	Public Utilities	263,549	265,906
Total U.S. Department of Energy Federal Programs			792,173	792,173
U.S. Department of Education				
Office of Vocational & Adult Education				
84 002	Adult Education- Basic Grants to States	Corrections	28,738	
84 002	Adult Education- Basic Grants to States	Education	2,163,985	2,192,723
Office of Elementary & Secondary Education				
84 011	Migrant Education: State Grant Program	Education	464,410	464,410
84 013	Title I Program for Neglected and Delinquent Children	Corrections	187,454	187,454
Office of Vocational and Adult Education				
84 048	Vocational Education_Basic Grants to States	Corrections	63,350	
84 048	Vocational Education_Basic Grants to States	Education	6,374,446	6,437,796
Office of Special Education & Rehabilitative Services				
84.161	Rehabilitation Services: Client Assistance Program	Labor	153,073	153,073
84.169	Independent Living: State Grants	Labor	244,728	244,728
84.177	Rehab Services: Independent Living Serv for Older Individuals Who are Blind	Labor	294,986	294,986
Office of Postsecondary Education				
84.185	Byrd Honors Scholarships	Education	151,500	151,500
Office of Elementary & Secondary Education				
84.186	Safe and Drug-Free Schools and Community: State Grants	Corrections	1,709	
84.186	Safe and Drug-Free Schools and Community: State Grants	Human Services	1,435,645	1,437,354
Office of Special Education & Rehabilitative Services				
84.187	Supported Employment Services for Individuals with Significant Disabilities	Labor	471,172	471,172
Office of Elementary & Secondary Education				
84.196	Education for Homeless Children and Youth	Education	208,848	208,848
84 213	Even Start: State Educational Agencies	Education	447,876	447,876
Office of Innovation and Improvement				
84 215	Fund for the Improvement of Education	Education	149,989	149,989
Office of Special Education and Rehabilitative Services				
84 224	Assistive Technology	Education	689,205	689,205
Office of Special Education & Rehabilitative Services				
84 265	Rehabilitation Training: State Vocational Rehabilitation Unit In-Service Training	Labor	73,505	73,505
Office of Educational Research and Improvement				
84 287	Twenty First Century Community Learning Centers	Education	5,310,813	5,310,813
84 298	State Grants for Innovative Programs	Education	64,906	64,906
Office of Elementary & Secondary Education				
84 318	Education Technology State Grants	Corrections	1,182	
84 318	Education Technology State Grants	Education	1,328,168	1,329,350
Office of Special Education & Rehabilitative Services				
84 323	Special Ed: State Personnel Development	Education	610,064	610,064
84 326	Special Ed: Tech. Asst. & Dissem. To Imp Sve. & Results for Child. w/Disabilities	Education	(403)	(403)
Office of Elementary & Secondary Education				
84 330	Advanced Placement Program	Education	751,852	751,852

Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency		Expenditures	Total by CFDA #
Office of Vocational & Adult Education					
84 331	Grants to States for Incarcerated Youth Offenders	Corrections		17,878	17,878
Office of Elementary & Secondary Education					
84 334	Gaining Early Awareness and Readiness for Undergraduate Programs	Education		2,832,534	2,832,534
Office of Innovation and Improvement					
84 336	Teacher Quality Enhancement Grants	Education		22,355	22,355
Office of Elementary & Secondary Education					
84 357	Reading First State Grants	Education		3,053,138	3,053,138
84 358	Rural Education (REAP)	Corrections		10,142	
84 358	Rural Education (REAP)	Education		1,997,276	2,007,418
Office of English Language Acquisition					
84 365	English Language Acquisition Grants	Education		913,166	913,166
Office of Elementary & Secondary Education					
84 366	Mathematics & Science Partnerships	Education		1,783,127	1,783,127
84 367	Improving Teacher Quality State Grants	Corrections	*	21,195	
84 367	Improving Teacher Quality State Grants	Education	*	13,984,063	14,005,258
84 369	Grants for State Assessments and Related Activities	Education		5,707,077	5,707,077
Institute of Education Sciences					
84 372	Statewide Data Systems	Education		374,115	374,115
Office of Elementary & Secondary Education					
84 377	School Improvement Grants	Education		379,257	379,257
Title I, Part A Cluster					
Office of Elementary & Secondary Education					
84 010	Title I Grants to Local Educational Agencies	Education	*	49,515,938	
	Total Title I, Part A Cluster		*		49,515,938
Special Education Cluster (IDEA)					
Office of Special Education & Rehabilitative Services					
84 027	Special Education : Grants to States	Corrections	*	45,827	
84 027	Special Education: Grants to States	Education	*	50,655,539	
84.173	Special Education: Preschool Grants	Education	*	2,130,635	
	Total Special Education Cluster (IDEA)		*		52,832,001
Vocational Rehabilitation Cluster					
Office of Special Education & Rehabilitative Services					
84.126	Rehabilitation Services: Vocational Rehabilitation Grants to States	Labor	*	16,724,735	
	Total Vocational Rehabilitation Cluster		*		16,724,735
Early Intervention Services (IDEA) Cluster					
Office of Special Education & Rehabilitative Services					
84.181	Special Educuation: Grants for Infants and Families	Education		2,133,056	
	Total Early Intervention Services (IDEA) Cluster				2,133,056
State Fiscal Stabilization Fund Cluster					
84.394	**ARRA** - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act	Education	*	32,902,815	
84.397	**ARRA** - State Fiscal Stabilization Fund (SFSF) - Government Services, Recovery Act	Human Services	*	458,970	
	Total State Fiscal Stabilization Fund Cluster		*		33,361,785
Total U.S. Department of Education Federal Programs				207,334,039	207,334,039
National Archives & Records Administration					
National Archives & Records Administration					
89 005	Cooperative Agreements to Support the Programs of the NARA	State		37,515	37,515
Total National Archives & Records Administration				37,515	37,515
Election Assistance Commission					
Election Assistance Commission					
90.401	Help America Vote Act Requirements Payments	State		1,874,746	1,874,746
Total Election Assistance Commission				1,874,746	1,874,746

Federal Department / Major Sub-Division / CFDA Number / Program Title	State Agency		Expenditures	Total by CFDA #
U.S. Department of Health & Human Services				
Office of the Secretary				
93 003 Administration on Aging	Public Safety		81,797	81,797
Office of Minority Health				
93 006 State & Terr. & Tech. Assist. Cap. Dev. Minority HIV/AIDS Demo. Prog.	Human Services		190,073	190,073
Administration on Aging				
93 041 Spc Prg/Agng-Ttl VII, Ch 3-Pro /Prev of Eld Abu, Neg & Expl	Human Services		16,497	16,497
93 042 Spc Prg/Agng-Ttl VII, Ch 2-Long Term Ombudsman	Human Services		77,043	77,043
93 043 Spc Prg/Agng-Ttl III, Part D-Disease Prev & Hlth Prom Ser	Human Services		97,632	97,632
93 048 Spc Prg /Agng-Ttl IV & II, Discretionary Projects	Human Services		516,190	516,190
93 051 Alzheimer's Disease Demonstration Grants to States	Human Services		239,420	239,420
93 052 National Family Caregiver Support	Human Services		660,751	660,751
Centers for Disease Control & Prevention				
93 069 Public Health Emergency Preparedness	Human Services		5,866,658	5,866,658
Substance Abuse & Mental Health Service Adm				
93.104 Comprehensive Community Mental Health Svcs for Children with SED	Human Services		1,117,054	1,117,054
Health Resources & Services Adm				
93.110 Maternal and Child Health Federal Consolidated Programs	Human Services		1,099,595	1,099,595
Centers for Disease Control & Prevention				
93.116 Project Grants and Coop. Ag. for Tuberculosis Control Programs	Human Services		195,573	195,573
Health Resources & Services Adm				
93.127 Emergency Medical Services for Children	Public Safety		129,322	129,322
93.130 Primary Care Services: Resource Coord & Development	Human Services		199,733	199,733
Centers for Disease Control & Prevention				
93.136 Injury Prevention and Control Research and State and Comm Based Progs	Human Services		430,914	430,914
Substance Abuse & Mental Health Service Adm				
93.150 Projects for Assistance in Transition from Homelessness	Human Services		292,082	292,082
Centers for Disease Control & Prevention				
93.197 Childhood Lead Poisoning Prevention Project (CLPPP)	Human Services		396,299	396,299
Health Resources & Services Administration				
93 234 Traumatic Brain Injury State Demonstration Grant Program	Human Services		82,066	82,066
93 236 Grants for Dental Public Health Residency Training	Human Services		372,831	372,831
93 241 State Rural Hospital Flexibility Program	Human Services		360,695	360,695
Substance Abuse & Mental Health Service Adm				
93 243 Substance Abuse & Mental Hlth Svs: Projects of Regional & Nat'l Significance	Human Services		4,889,890	4,889,890
Health Resources & Services Administration				
93 251 Universal Newborn Hearing Screening	Human Services		81,172	81,172
Centers for Disease Control & Prevention				
93 283 Centers for Disease Control and Prevention: Investigations and Tech Assistance	Human Services		6,929,046	6,929,046
Health Resources & Services Administration				
93 301 Small Rural Hospital Improvement Grant Program	Human Services		157,944	157,944
Administration for Children & Families				
93 556 Promoting Safe and Stable Families	Human Services		1,698,705	1,698,705
93 563 Child Support Enforcement	Human Services	*	18,456,173	18,456,173
93 566 Refugee and Entrant Asstistance: State Administered Programs	Human Services		557,544	557,544
93 576 Refugee and Entrant Assistance: Discretionary Grants	Education		132,727	
93 576 Refugee and Entrant Assistance: Discretionary Grants	Human Services		406,227	538,954
93 586 State Court Improvement Program	Judicial		270,524	270,524
93 597 Grants to States for Access and Visitation Programs	Judicial		136,139	136,139
93 599 Chafee Education & Training Vouchers Program (ETV)	Human Services		148,492	148,492
93 617 Voting Access for Individuals with Disabilities_Grants to States	State		5,608	5,608
93 630 Development Disabilities Basic Support and Advocacy Grants	Financial Serv		551,250	551,250
93 643 Children's Justice Grants to States	Human Services		17,289	17,289
93 645 Child Welfare Services: State Grants	Human Services		942,964	942,964
93 647 Social Services Research and Demonstration	Human Services		49,882	49,882
93 652 Adoption Opportunities	Human Services		188,349	188,349
93 658 Foster Care: Title IV-E	Human Services	*	14,024,526	
93 658 **ARRA** Foster Care: Title IV-E	Human Services	*	435,543	14,460,069
93 659 Adoption Assistance	Human Services	*	13,670,971	
93 659 **ARRA** Adoption Assistance	Human Services	*	736,847	14,407,818
93 667 Social Services Block Grant	Human Services		9,667,861	9,667,861
93 669 Child Abuse and Neglect State Grants	Human Services		123,769	123,769
93 671 Family Violence Prev & Service: Grants for Battered Women's Shelters to St & Indian Tribes	Human Services		855,094	855,094
93 674 Chafee Foster Care Independence Program	Human Services		604,612	604,612

Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency		Expenditures	Total by CFDA #
Centers for Medicare and Medicaid Services					
93.767	Children's Health Insurance Program (CH P)	Human Services	*	37,990,525	37,990,525
93.768	Medicaid Infrastructure Grants To Support the Competitive Employment of People with Disabilities	Human Services		742,132	742,132
93.779	CMS Research, Demonstrations and Evaluations	Human Services		1,234,305	1,234,305
Office of the Secretary					
93 889	National Bioterrorism Hospital Preparedness Program	Human Services		2,325,955	2,325,955
Health Resources and Services Administration					
93 913	Grants to States for Operation of Offices of Rural Health	Human Services		149,542	
93 913	Grants to States for Operation of Offices of Rural Health	Public Safety		9,645	159,187
93 917	HIV Care Formula Grants	Human Services		1,415,522	1,415,522
Centers for Disease Control & Prevention					
93 938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb	Corrections		(87)	
93 938	Coop Ag-Sch Hlth Prg/Pvt the Spd of HIV & Oth Imp Hlth Prb	Education		625,757	625,670
93 940	HIV Prevention Activities: Health Department Based	Human Services		1,713,964	1,713,964
93 944	HIV/AIDS Surveillance	Human Services		121,365	121,365
93 946	Cooperative Agreements to Support State-Based Safe Motherhood and Infant Health Initiative Programs	Human Services		105,105	105,105
Substance Abuse & Mental Health Service Adm					
93 958	Block Grants for Community Mental Health Services	Human Services		1,469,830	1,469,830
93 959	Block Grants for Prevention and Treatment of Substance Abuse	Human Services		6,773,708	6,773,708
Centers for Disease Control & Prevention					
93 977	Prevention Health Svcs: Sexually Transmitted Diseases Control Grants	Human Services		342,122	342,122
93 988	Coop Agrmnt for St Based Diabetes Control Progs & Eval of Surveil. Systems	Human Services		326,543	326,543
93 991	Preventive Health and Health Services Block Grant	Human Services		1,488,868	1,488,868
Health Resources & Services Adm					
93 994	Maternal and Child Health Services Block Grant to the States	Education		215,793	
93 994	Maternal and Child Health Services Block Grant to the States	Human Services		2,666,055	2,881,848
93 999	MIS: Implementation of Uniform Alcohol & Drug Abuse Data Collection System	Human Services		100,679	100,679
Aging Cluster					
Administration on Aging					
93 044	Spc Prg/Agng-Ttl III, Part B-Grnt for Supt Service & Sen Ctrs	Human Services		2,326,828	
93 045	Spc Prg/Agng-Ttl III, Part C-Nutrition Services	Human Services		2,700,487	
93 053	Nutrition Services Incentive Program	Human Services		612,344	
	Total Aging Cluster				5,639,659
Immunization Cluster					
Centers for Disease Control & Prevention					
93 268	Immunization Grants	Human Services		11,952,431	
	Total Immunization Cluster				11,952,431
TANF Cluster					
Administration for Children & Families					
93 558	Temporary Assistance for Needy Families	Human Services	*	82,330,799	
	Total TANF Cluster		*		82,330,799
CSBG Cluster					
Administration for Children & Families					
93 569	Community Services Block Grant	Human Services		3,392,856	
	Total CSBG Cluster				3,392,856
CCDF Cluster					
Administration for Children & Families					
93 575	Child Care & Development Block Grant	Human Services	*	5,335,452	
93 596	Child Care Mandatory & Match. Funds of Child Care/Dev Fund	Human Services	*	7,516,711	
	Total CCDF Cluster		*		12,852,163
Head Start Cluster					
Administration for Children & Families					
93 600	Head Start	Human Services		142,051	
	Total Head Start Cluster				142,051
Medicaid Cluster					
Office of the Secretary					
93.775	State Medicaid Fraud Control Units	Attorney General	*	567,755	
Centers for Medicare and Medicaid Services					
93.777	State Survey and Certification of Health Care Providers and Suppliers	Human Services	*	3,549,941	
93.778	Medical Assistance Program (Medicaid)	Financial Serv	*	57,150	
93.778	Medical Assistance Program (Medicaid)	Governor	*	67,195	
93.778	Medical Assistance Program (Medicaid)	Human Services	*	1,623,915,309	
93.778	**ARRA** - Medical Assistance Program (Medicaid)	Human Services	*	170,962,258	
	Total Medicaid Cluster		*		1,799,119,608
Total U.S. Department of Health & Human Services Federal Programs				2,063,408,268	2,063,408,268

Federal Department / Major Sub-Division / CFDA Number / Program Title		State Agency		Expenditures	Total by CFDA #
Corporation for National & Community Service					
94 003	State Commissions	Planning		188,885	188,885
94 004	Learn and Serve America: School and Community Based Programs	Education		286,172	286,172
94 006	AmeriCorps	Conservation		286,876	
94 006	AmeriCorps	Planning		687,356	974,232
94 007	Planning and Program Development Grants	Planning		106,286	106,286
94 009	Training and Technical Assistance	Planning		67,281	67,281
94 013	Volunteers in Service to America (VISTA)	Planning		397,304	397,304
Total Corporation for National & Community Service Federal Programs				2,020,160	2,020,160
Social Security Administration					
Disability Insurance/SSI Cluster					
Social Security					
96 001	Social Security: Disability Insurance	Human Services		8,015,470	8,015,470
Total Social Security Administration Federal Programs				8,015,470	8,015,470
U.S. Department of Homeland Security					
97 012	Boating Safety Financial Assistance	Inland Fisheries		598,104	
97 012	Boating Safety Financial Assistance	Marine Resource		383,609	981,713
97 017	Pre-Disaster Mitigation Program Grant Agreement Articles	Defense		191,661	191,661
97 023	Community Assistance Program - State Support Services Element (CAP-SSSE)	Planning		159,224	159,224
97 036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Conservation	*	38,042	
97 036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Defense	*	14,733,560	
97 036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Inland Fisheries	*	42,191	
97 036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Marine Resource	*	47,225	
97 036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Public Safety	*	10,723	
97 036	Disaster Grants-Public Assistance (Pres. Decl. Disasters)	Transportation	*	3,246,346	18,118,087
97 039	Hazard Mitigation Grant	Defense		921,980	921,980
97 041	National Dam Safety Program	Defense		32,493	32,493
97 042	Emergency Management Performance Grants	Defense		2,245,746	2,245,746
97 044	Assistance to Firefighters Grant	Public Safety		81,371	81,371
97 070	MAP Modernization Management Support (MMMS)	Planning		121,442	121,442
97 078	Buffer Zone Protection Program	Defense		115,769	
97 078	Buffer Zone Protection Program	Public Safety		17,751	133,520
Homeland Security Cluster					
Department of Homeland Security					
97 067	Homeland Security Grant Program	Defense		6,732,433	
97 067	Homeland Security Grant Program	Inland Fisheries		605,039	
97 067	Homeland Security Grant Program	Public Safety		396,803	
	Total Homeland Security Cluster				7,734,275
Total U.S. Department of Homeland Security				30,721,512	30,721,512
Total State Expenditures of Federal Awards				3,393,268,477	3,393,268,477

State of Maine
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2009

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
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
Planning	State Planning Office
Public Safety	Department of Public Safety
Public Utilities	Maine Public Utilities Commission
State	Department of Secretary of State
Transportation	Department of Transportation

STATE OF MAINE
Notes to the Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2009

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, 2009, 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) ARRA Reporting – To maximize the transparency and accountability of the American Recovery and Reinvestment Act spending required by Congress and in accordance with 2 CFR 215, section___. 21 "Uniform Administrative Requirements for Grants and Agreements" and the A-102 Common Rule provisions, recipients agree to maintain records that identify adequately the source and application of ARRA funds. For recipients covered by the Single Audit Act Amendments of 1996 and OMB Circular A-133, recipients agree to separately identify the expenditures for Federal awards under the ARRA on the Schedule of Expenditures of Federal Awards (SEFA) and the Data Collection Form (SF-SAC) required by OMB Circular A-133. This shall be accomplished by identifying expenditures for Federal awards made under the ARRA separately on the SEFA, and as separate rows under Item 9 of Part III on the SF-SAC by CFDA number,

and inclusion of the prefix “ARRA-” in identifying the name of the Federal program on the SEFA and as the first characters in Item 9d of Part III on the SF-SAC.

3) ARRA Reporting Exception – The reported expenditures for benefits under the Supplemental Nutrition Assistance Program (SNAP) (CFDA No. 10.551) are supported by both regularly appropriated funds and incremental funding made available under section 101 of the American Recovery and Reinvestment Act of 2009. The mechanism used by USDA to make these funds available to States does not enable a State to validly disaggregate the regular and Recovery Act components of this figure. At the national aggregate level, however, Recovery Act funds account for approximately 15 percent of USDA’s total expenditures for SNAP benefits in the Federal fiscal year ended September 30, 2009.

4) 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 $10.2 million in expenditures, distributions, or issuances for the year ended June 30, 2009. 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.

3. Unemployment Insurance Program

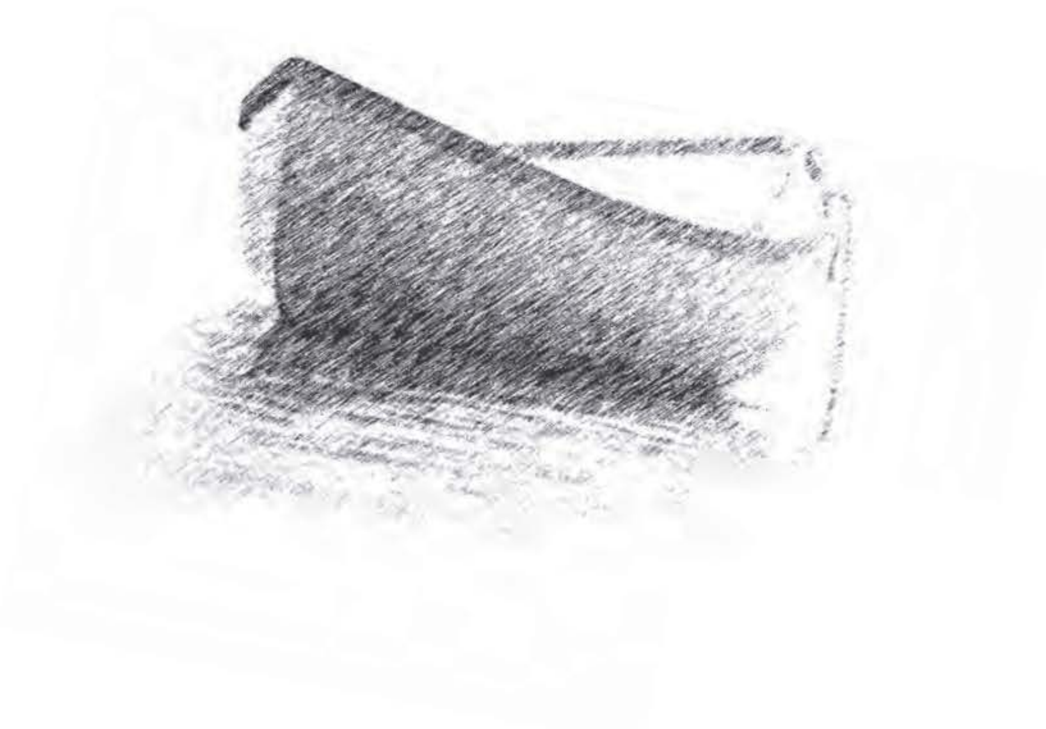
The expenditures reported on the Schedule for Unemployment Insurance (CFDA 17.225) include:

State Funds	$225,181,000
Federal Funds	98,157,097
Total	$323,338,097

4. **NonCash Awards-**The State of Maine is the recipient of federal financial assistance programs that do not result in cash receipts or disbursements. Noncash awards received by the State are included in the Schedule of Expenditures of Federal Awards as follows:

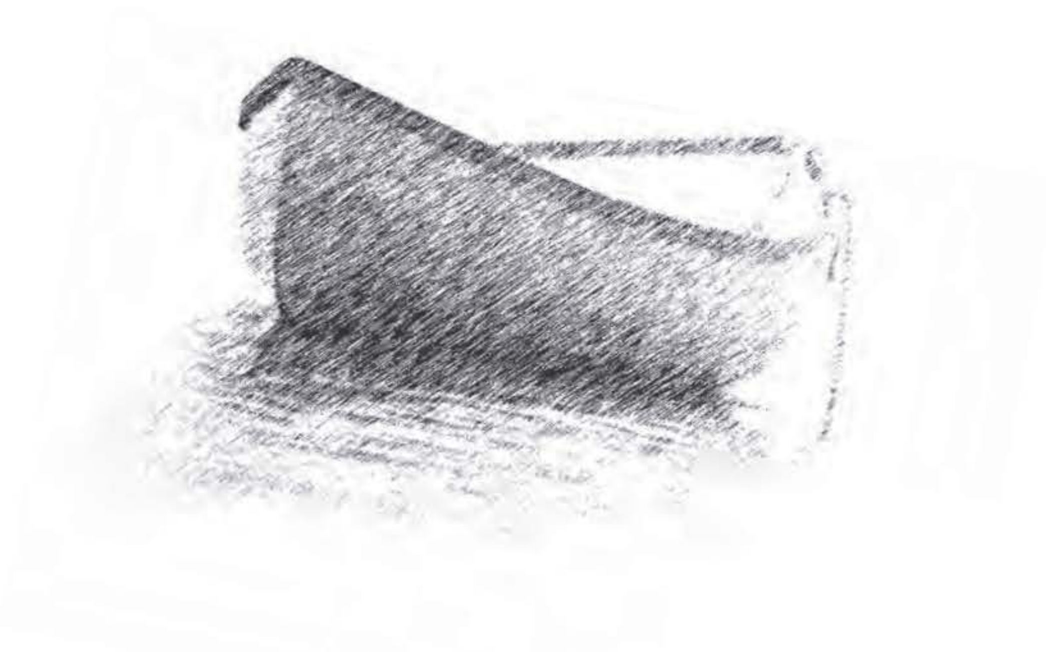
CFDA Number	Program Title	Noncash Awards	Commodities on hand at June 30, 2009
SNAP Cluster			
10.551*	SNAP (Supplemental Nutrition Assistance Program)	$ 261,946,983	$ -
Child Nutrition Cluster			
10.553*	School Breakfast Program	114,491	57,425
10.555*	National School Lunch Program	3,822,525	-
10.559*	Summer Food Service Program for Children	10,811	-
	Total Child Nutrition Cluster	3,947,827	-
10.558	Child and Adult Care Food Program	1,008	-
Emergency Food Assistance Cluster			
10.569	Emergency Food Assistance Program	2,397,718	530,721
12.401*	National Guard Military Operations & Maint. Proj.	1,268,121	-
12.401*	Readiness Sustainment Maint. Center (formerly CFDA 12.999)	9,427,031	-
17.005	Compensation and Working Conditions	759	-
17.225*	Unemployment Insurance	705,170	-
17.245	Trade Adjustment Assistance	1,052	-
17.271	Work Opportunity Tax Credit Program (WOTC)	885	-
WIA Cluster			
17.260*	WIA Dislocated Workers	529	-
Employment Service Cluster			
17.207	Employment Service/Wagner-Peyser Funded Activities	62,763	-
17.801	Disabled Veterans' Outreach Program (DVOP)	49	-
17.804	Local Veterans' Employment Representative Program	680	-
	Total Employment Service Cluster	63,492	-
17.504	Consultation Agreements	3,353	-
39.003	Donation of federal surplus property	1,427,015	798,999
Vocational Rehabilitation Cluster			
84.126*	Rehabilitation Services: Vocational Rehabilitation Grants to States	38,615	-
Immunization Cluster			
93.268	Immunization Grants	8,075,130	-

*Asterisks indicate audited programs



STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

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 ☑
• Significant deficiencies 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 ☐
• Significant deficiencies identified that were not considered to be material weaknesses?	YES ☑	NO ☐

Type of auditor's report issued on compliance for major programs:

Unqualified
SNAP Cluster
Child Nutrition Cluster
Special Supplemental Nutrition Program for Women, Infants, and Children
National Guard Military Operations and Maintenance (O&M) Projects
CDBG-State-Administered Small Cities Program Cluster
Unemployment Insurance
WIA Cluster
Performance Partnership Grants
Vocational Rehabilitation Cluster
TANF Cluster
Child Support Enforcement
CCDF Cluster
Foster Care – Title IV-E
Adoption Assistance
Children's Health Insurance Program
Medicaid Cluster
Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Qualified
Highway Planning and Construction Cluster
Title I Part A Cluster
Special Education Cluster (IDEA)
State Fiscal Stabilization Fund Cluster
Improving Teacher Quality State Grants

Any audit findings that are required to be reported in accordance with Circular A-133, Section .510(a)?	YES ☑	NO ☐

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Identification of Major Programs:

CFDA #	Name of Federal Program or Cluster
SNAP Cluster	
10.551	Supplemental Nutrition Assistance Program
10.561	State Administrative Matching Grants for the Supplemental Nutrition Assistance Program
Child Nutrition Cluster	
10.553	School Breakfast Program
10.555	National School Lunch Program
10.556	Special Milk Program for Children
10.559	Summer Food Service Program for Children
CDBG - State-Administered Small Cities Program Cluster	
14.228	Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii
WIA Cluster	
17.258	WIA Adult Program
17.259	WIA Youth Activities
17.260	WIA Dislocated Workers
Highway Planning and Construction Cluster	
20.205	Highway Planning and Construction
20.219	Recreational Trails Program
Title I Part A Cluster	
84.010	Title I Grants to Local Educational Agencies
Special Education Cluster (IDEA)	
84.027	Special Education - Grants to States
84.173	Special Education - Preschool Grants
Vocational Rehabilitation Cluster	
84.126	Rehabilitation Services - Vocational Rehabilitation Grants to States
State Fiscal Stabilization Fund Cluster	
84.394	State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act (Education Stabilization Fund)
84.397	State Fiscal Stabilization Fund (SFSF) – Government Services, Recovery Act
TANF Cluster	
93.558	Temporary Assistance for Needy Families

SECTION I – SUMMARY OF AUDITOR'S RESULTS

CCDF Cluster

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

Medicaid Cluster

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

Other Programs

10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
12.401	National Guard Military Operations and Maintenance (O&M) Projects
17.225	Unemployment Insurance
66.605	Performance Partnership Grants
84.367	Improving Teacher Quality State Grants
93.563	Child Support Enforcement
93.658	Foster Care — Title IV-E
93.659	Adoption Assistance
93.767	Children's Health Insurance Program
97.036	Disaster Grants-Public Assistance (Presidentially Declared Disasters)

Dollar threshold used to distinguish between type A and type B programs: $10,179,805

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

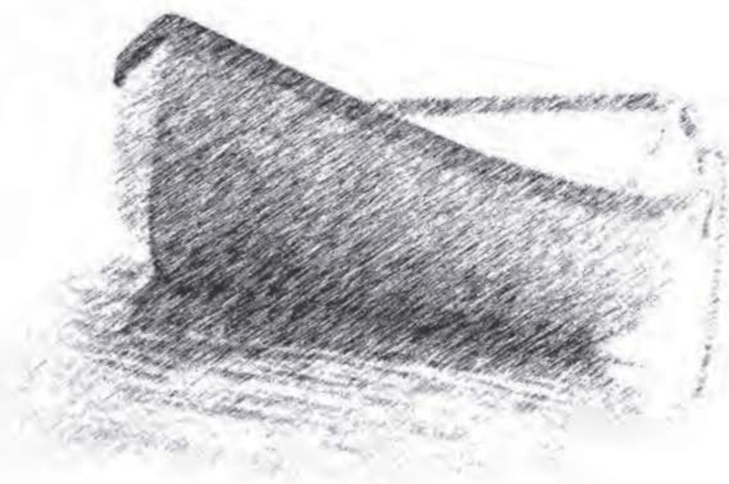
SECTION I – SUMMARY OF AUDITOR'S RESULTS

Summary of Questioned Costs:

Federal Agency	**Federal Program**	**Known Questioned Costs**	**Finding Number**
U.S. Department of Health and Human Services	Medicaid Cluster	$104,310 290,487 15,822 71,921 94,886	09-0111-01 09-0111-02 09-1106-04 09-1106-06 09-1106-10
	TANF Cluster	119,060 93,828	09-1103-01 09-1111-02
	Foster Care – Title IV-E	261,841 7,045	09-1103-01 09-1109-04
	Adoption Assistance	29,507 301,318	09-1103-01 09-1109-03
	Children's Health Insurance Program	1,732	09-1106-10
	Child Support Enforcement	207,370	09-1128-01
U.S. Department of Education	Special Education Cluster (IDEA)	12,339	09-1200-05
	Child Nutrition Cluster	226,573	09-1200-05
U.S. Department of Labor	Vocational Rehabilitation Cluster	9,050	09-1308-02
	Total Known Questioned Costs	**$1,847,089**	

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Section II – Financial Statement Findings



FINANCIAL STATEMENT FINDINGS

(09-0110-01)

Title: Procedures not adequate to ensure Highway Fund expenditures are properly stated

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Office of the State Controller

Type of Finding: Significant deficiency

Criteria: GASB 34 paragraph 112, Reporting Interfund Activity

Condition: Highway Fund expenditures for fiscal year 2009 were incorrectly reduced by approximately $31 million.

Context: The Highway Fund is reported as a major fund in the state's financial statements; fund materiality is low relative to other opinion units because the major fund designation is based on qualitative rather than quantitative criteria.

Cause: Interpretation of accounting standards

Effect: The State's draft financial statements were misstated prior to the audit adjustment.

Recommendation: We recommend that the Department perform additional analysis relative to the Highway Fund to ensure that the financial statements are free of misstatement.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services disagrees that this issue represents a control deficiency in our financial reporting process.*

We believe the issue was a lack of clarity in the GASB guidance as admitted by GASB staff in a conference call that included the auditors. It is common for GASB to issue statements and later issue implementation guides and/or interpretations when the intent of the standard is unclear. The Controller's Office believes our procedures are adequate and that reanalyzing Highway Fund financial statements is unnecessary.

Contact: *Heidi McDonald, Principal Financial Management Coordinator, 626-8437*

Auditor's conclusion: We believe that a significant deficiency in the internal controls over financial reporting did exist because a misstatement that was more than inconsequential was not prevented or detected by the OSC's internal control system. Our finding and recommendation remain as stated.

FINANCIAL STATEMENT FINDINGS

(09-0309-01)

Title: Controls over non-routine accounting for Dirigo Health inadequate

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Office of the State Controller

Type of Finding: Significant deficiency

Criteria: GASB 34 paragraph 112, Reporting Interfund Activity

Condition: The Department did not properly account for the transfer of funds between Dirigo Health Enterprise Fund and the Fund for a Healthy Maine. This activity was accounted for as a reduction of expenses (reimbursement) rather than a transfer (non-operating revenue).

Context: An audit adjustment totaling $5 million was proposed to ensure the financial statements were reasonably stated. The adjustment, however, was not posted to the financial statements.

Cause: A management decision was made to account for the transaction as a reimbursement.

Effect: Understatement of both non-operating revenues and operating expenses within the Enterprise fund set up to account for the activity of the Dirigo Health Program.

Recommendation: We recommend that the Department provide appropriate oversight to ensure that non-routine accounting transactions are properly recorded.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services disagrees that this issue represents a control deficiency in our financial reporting process.*

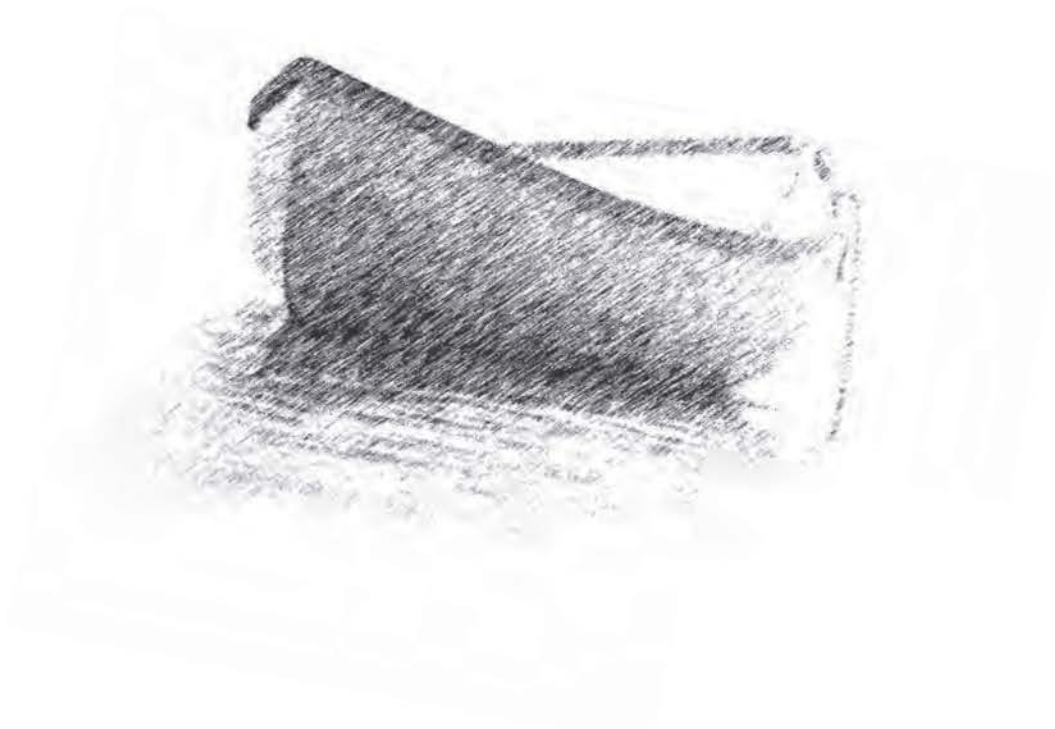
The Office of the State Controller has procedures in place to analyze and review non-recurring, significant and unusual transaction activity for proper presentation in our financial statements. We were aware of these transactions and we believe they were properly reported as a reimbursement within the operating activities of our Proprietary Fund financial statements.

Contact: *Heidi McDonald, Principal Financial Management Coordinator, 626-8437*

Auditor's Conclusion: We disagree that this accounting treatment resulted in proper presentation in the Dirigo Health Enterprise Fund. Our finding remains as stated.

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Indexes to Federal Program Findings



INDEX TO FEDERAL FINDINGS
BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Dept	Page
SNAP Cluster CFDA# 10.551, 10.561			
09-1111-01	Income and Eligibility Verification System procedures not followed	DHHS	E-27
Child Nutrition Cluster CFDA# 10.553, 10.555, 10.556, 10.559			
09-1200-03	Federal cash management procedures not followed	DAFS	E-29
09-1200-04	Federal cash management procedures inadequate	DAFS	E-30
09-1200-05	Ineffective internal controls over Period of Availability of federal funds	DAFS	E-31
09-1203-01	Inadequate controls over monitoring of subrecipient net cash resources	DOE	E-33
09-1203-04	Inadequate procedures for providing award information to subrecipients	DOE	E-34
Special Supplemental Nutrition Program for Women, Infants, and Children CFDA# 10.557			
09-1113-02	Inadequate procedures for providing award information to subrecipients	DHHS	E-36
09-1113-03	Inadequate procedures for federal cash management	DHHS	E-37
09-1113-04	Compliance investigation procedures not adequate	DHHS	E-38
National Guard Military Operations and Maintenance (O&M) Projects CFDA# 12.401			
09-1503-01	Procurement and suspension and debarment procedures inadequate	DVEM	E-40
09-1503-02	Federal cash management procedures inadequate	DVEM	E-41
CDBG - State-Administered Small Cities Program Cluster CFDA# 14.228			
none			
Unemployment Insurance CFDA# 17.225			
none			

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BY FEDERAL PROGRAM

Program / Finding #	Brief Summary of Finding	State Dept	Page
WIA Cluster CFDA# 17.258, 17.259, 17.260			
none			
Highway Planning and Construction Cluster CFDA# 20.205, 20.219			
09-1401-01	Davis-Bacon Act requirements not followed	DOT	E-44
Performance Partnership Grants CFDA# 66.605			
09-1520-01	Procedures not adequate for subrecipient federal cash management	DEP	E-46
09-1520-02	Inadequate procedures to ensure payroll costs are supported in accordance with federal regulations	DEP	E-47
09-1520-03	Federal cash management procedures inadequate	DAFS	E-48
Title I, Part A Cluster CFDA# 84.010			
09-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-50
09-1200-03	Federal cash management procedures not followed	DAFS	E-29
Special Education Cluster (IDEA) CFDA# 84.027, 84.173			
09-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-50
09-1200-03	Federal cash management procedures not followed	DAFS	E-29
09-1200-04	Federal cash management procedures inadequate	DAFS	E-30
09-1200-05	Ineffective internal controls over Period of Availability of federal funds	DAFS	E-31
09-1201-02	Procedures not adequate to ensure timely site visits	DOE	E-52

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Program / Finding #	Brief Summary of Finding	State Dept	Page
Vocational Rehabilitation Cluster CFDA# 84.126			
09-1308-01	Procedures not adequate to ensure timely eligibility decisions	DOL	E-54
09-1308-02	Client services payments not adequately monitored	DOL	E-55
09-1308-03	Procedures not adequate to ensure accurate quarterly financial reports	DAFS	E-57
Improving Teacher Quality State Grants CFDA# 84.367			
09-1200-01	Noncompliance with subrecipient cash management requirements	DAFS	E-50
09-1200-04	Federal cash management procedures inadequate	DAFS	E-30
09-1221-02	Inadequate procedures for maintaining subrecipient award information	DOE	E-59
State Fiscal Stabilization Fund Cluster CFDA# 84.394, 84.397			
09-1234-01	Noncompliance and inadequate controls over federal cash management procedures	DAFS	E-61
09-1234-02	Noncompliance with subrecipient monitoring and special tests and provisions for awards with ARRA funding requirements	DAFS DOE	E-63
TANF Cluster CFDA# 93.558			
09-1103-01	Procedures not adequate to ensure costs are properly allocated in accordance with cost allocation plans	DAFS	E-66
09-1111-01	Income and Eligibility Verification System procedures not followed	DHHS	E-27
09-1111-02	Controls inadequate to prevent payment of unallowable transitional transportation benefits	DHHS	E-68
09-1111-03	Eligibility determinations are not adequately supported	DHHS	E-69
09-1111-04	Controls inadequate to ensure accurate financial reporting	DAFS	E-71
Child Support Enforcement CFDA# 93.563			
09-1128-01	Controls inadequate to ensure proper allocation of costs in accordance with approved plan	DAFS	E-73

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Program / Finding #	Brief Summary of Finding	State Dept	Page
<u>CCDF Cluster</u> CFDA# 93.575, 93.596			
none			
<u>Foster Care – Title IV-E</u> CFDA# 93.658			
09-1103-01	Procedures not adequate to ensure costs are properly allocated in accordance with cost allocation plans	DAFS	E-66
09-1109-01	Controls over State and federal procurement requirements not followed	DHHS	E-75
09-1109-03	Inadequate procedures to ensure costs are properly charged or allocated	DAFS	E-82
09-1109-04	Procedures not adequate to ensure payments are made only for allowable activities	DHHS	E-76
09-1109-05	Procedures not adequate to ensure accurate quarterly financial reports	DAFS	E-77
09-1109-06	Lack of procedures to ensure records were maintained that identified adequately the source and application of American Reinvestment and Recovery Act (ARRA) funds	DAFS	E-79
09-1109-07	Federal cash management procedures inadequate	DAFS	E-80
<u>Adoption Assistance</u> CFDA# 93.659			
09-1103-01	Procedures not adequate to ensure costs are properly allocated in accordance with cost allocation plans	DAFS	E-66
09-1109-03	Inadequate procedures to ensure costs are properly charged or allocated	DAFS	E-82
09-1110-02	Procedures not adequate to ensure accurate quarterly financial reports	DAFS	E-84
09-1110-03	Procedures not in place to ensure cash management requirements are met	DAFS	E-85
09-1110-04	Lack of procedures to ensure records were maintained that identified adequately the source and application of American Reinvestment and Recovery Act (ARRA) funds	DAFS	E-86

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Program / Finding #	Brief Summary of Finding	State Dept	Page
Children's Health Insurance Program CFDA# 93.767			
09-1106-07	Inadequate procedures over Third Party Liability, cost avoidance and recovery	DHHS	E-104
09-1106-10	Reimbursement rate not adequately supported/incorrect reimbursement rate paid to providers	DHHS	E-110
09-1106-14	Procedures not adequate to ensure proper client eligibility	DHHS	E-114
09-1140-01	Maine Claims Management System (MECMS) procedures not adequate to ensure local match (certified seed) is met	DHHS	E-89
09-1140-02	Controls over billing service contracts not adequate	DHHS DOE	E-90
09-1140-03	School Based Rehabilitation Services billing and payment policy procedures not adequate	DHHS	E-91
09-1140-04	Procedures needed to ensure better accountability of certified public expenditures (certified seed)	DHHS	E-93
Medicaid Cluster CFDA# 93.775, 93.777, 93.778			
09-0111-01	Controls over payroll rates charged to Medicaid not adequate	DAFS	E-95
09-0111-02	Procedures not adequate to ensure indirect payroll costs are properly charged	DAFS	E-96
09-1106-02	Procedures for crediting and accounting for federal share of overpayments not adequate	DAFS DHHS	E-97
09-1106-03	Inadequate controls over verification of services provided	DHHS	E-98
09-1106-04	Claims processing and information retrieval system lacking required functionalities	DAFS DHHS	E-99
09-1106-05	Inadequate procedures over surveillance and utilization review of Medicaid services	DHHS	E-102
09-1106-06	Inadequate procedures to ensure proper crediting of federal share of cost of care recoupments	DHHS	E-103
09-1106-07	Inadequate procedures over Third Party Liability, cost avoidance and recovery	DHHS	E-104
09-1106-08	Controls not adequate to ensure provider eligibility requirements are met	DHHS	E-106

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Legend of State Agency Abbreviations:

DAFS	Department of Administrative and Financial Services
DEP	Department of Environmental Protection
DOE	Department of Education
DOT	Department of Transportation
DHHS	Department of Health and Human Services
DVEM	Department of Defense, Veterans, and Emergency Management

INDEX TO FEDERAL FINDINGS
BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Administrative and Financial Services																
09-0111-01	Medicaid Cluster		✓													E-95
09-0111-02	Medicaid Cluster		✓													E-96
09-1103-01	Multiple Programs		✓													E-66
09-1106-02	Medicaid Cluster														✓	E-97
09-1106-04	Medicaid Cluster														✓	E-99
09-1106-09	Medicaid Cluster	✓														E-108
09-1106-13	Medicaid Cluster	✓														E-112
09-1109-03	Multiple Programs		✓													E-82
09-1109-05	Foster Care – Title IV-E												✓			E-77
09-1109-06	Foster Care – Title IV-E														✓	E-79
09-1109-07	Foster Care – Title IV-E			✓												E-80
09-1110-02	Adoption Assistance												✓			E-84
09-1110-03	Adoption Assistance			✓												E-85
09-1110-04	Adoption Assistance														✓	E-86
09-1111-04	TANF Cluster												✓			E-71
09-1128-01	Child Support Enforcement		✓													E-73
09-1200-01	Multiple Programs			✓												E-50
09-1200-03	Multiple Programs			✓												E-29
09-1200-04	Multiple Programs			✓												E-30
09-1200-05	Multiple Programs								✓							E-31
09-1234-01	State Fiscal Stabilization Fund Cluster			✓												E-61
09-1234-02	State Fiscal Stabilization Fund Cluster													✓	✓	E-63
09-1308-03	Vocational Rehabilitation Cluster												✓			E-57
09-1520-03	Performance Partnership Grants			✓												E-48

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BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Defense, Veterans and Emergency Services																
09-1502-01	Disaster Grants – Public Assistance (Presidentially Declared Disasters)													✓		E-117
09-1503-01	National Guard Military Operations and Maintenance (O&M) Projects									✓						E-40
09-1503-02	National Guard Military Operations and Maintenance (O&M) Projects			✓												E-41
Department of Environmental Protection																
09-1520-01	Performance Partnership Grants			✓												E-46
09-1520-02	Performance Partnership Grants	✓														E-47
Department of Education																
09-1140-02	Multiple Programs	✓														E-90
09-1201-02	Special Education Cluster (IDEA)													✓		E-52
09-1203-01	Child Nutrition Cluster													✓		E-33
09-1203-04	Child Nutrition Cluster													✓		E-34
09-1221-02	Improving Teacher Quality State Grants													✓		E-59
09-1234-02	State Fiscal Stabilization Fund Cluster													✓	✓	E-63

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Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Health and Human Services																
09-1106-02	Medicaid Cluster														✓	E-97
09-1106-03	Medicaid Cluster														✓	E-98
09-1106-04	Medicaid Cluster														✓	E-99
09-1106-05	Medicaid Cluster														✓	E-102
09-1106-06	Medicaid Cluster		✓													E-103
09-1106-07	Multiple Programs	✓	✓													E-104
09-1106-08	Medicaid Cluster														✓	E-107
09-1106-09	Medicaid Cluster	✓														E-108
09-1106-10	Multiple Programs	✓	✓													E-110
09-1106-13	Medicaid Cluster	✓														E-112
09-1106-14	Multiple Programs					✓										E-114
09-1109-01	Foster Care – Title IV-E									✓						E-75
09-1109-04	Foster Care – Title IV-E	✓														E-76
09-1111-01	Multiple Programs														✓	E-27
09-1111-02	TANF Cluster	✓														E-68
09-1111-03	TANF Cluster					✓										E-69
09-1113-02	Special Supplemental Nutrition Program for Women, Infants, and Children													✓		E-36
09-1113-03	Special Supplemental Nutrition Program for Women, Infants, and Children			✓												E-37
09-1113-04	Special Supplemental Nutrition Program for Women, Infants, and Children														✓	E-38

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BY STATE AGENCY AND FEDERAL COMPLIANCE AREA

Finding #	Program Name	Activities Allowed	Allowable Costs	Cash Management	Davis-Bacon Act	Eligibility	Equipment and Real Property Management	Matching, Level of Effort, Earmarking	Period of Availability	Procurement and Suspension and Debarment	Program Income	Real Property Acquisition	Reporting	Subrecipient Monitoring	Special Tests	Page
Department of Health and Human Services (continued from previous page)																
09-1140-01	Children's Health Insurance Program							✓								E-89
09-1140-02	Multiple Programs	✓														E-90
09-1140-03	Multiple Programs	✓														E-91
09-1140-04	Multiple Programs							✓								E-93
Department of Labor																
09-1308-01	Vocational Rehabilitation Cluster					✓										E-54
09-1308-02	Vocational Rehabilitation Cluster		✓													E-55
Department of Transportation																
09-1401-01	Highway Planning and Construction Cluster				✓											E-44

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Finding # *	Page	Compliance Area	Finding Type				Questioned Costs
			Noncompliance		Internal Control		
			Material	Other	Material Weakness	Significant Deficiency	
09-0111-01	E-95	Allowable Costs		✓		✓	$104,310
09-0111-02	E-96	Allowable Costs		✓		✓	290,487
09-1103-01	E-66	Allowable Costs		✓		✓	410,408
09-1106-02	E-97	Special Tests				✓	
09-1106-03	E-98	Special Tests				✓	
09-1106-04	E-99	Special Tests		✓		✓	15,822
09-1106-05	E-102	Special Tests				✓	
09-1106-06	E-103	Allowable Costs		✓		✓	71,921
09-1106-07	E-104	Activities Allowed/Allowable Costs				✓	
09-1106-08	E-106	Special Tests				✓	
09-1106-09	E-108	Activities Allowed/Allowable Costs				✓	
09-1106-10	E-110	Activities Allowed/Allowable Costs		✓			96,618
09-1106-13	E-112	Activities Allowed				✓	
09-1106-14	E-114	Eligibility				✓	
09-1109-01	E-75	Procurement and Suspension and Debarment				✓	
09-1109-03	E-82	Allowable Costs		✓	✓		301,318
09-1109-04	E-76	Activities Allowed		✓		✓	7,045
09-1109-05	E-77	Reporting			✓		
09-1109-06	E-79	Special Tests				✓	
09-1109-07	E-80	Cash Management				✓	
09-1110-02	E-84	Reporting			✓		
09-1110-03	E-85	Cash Management				✓	
09-1110-04	E-86	Special Tests				✓	
09-1111-01	E-27	Special Tests				✓	
09-1111-02	E-68	Activities Allowed		✓		✓	93,828
09-1111-03	E-69	Eligibility				✓	
09-1111-04	E-71	Reporting				✓	
09-1113-02	E-36	Subrecipient Monitoring				✓	
09-1113-03	E-37	Cash Management				✓	
09-1113-04	E-38	Special Tests				✓	
09-1128-01	E-73	Allowable Costs		✓		✓	207,370

** Gaps in the sequence of finding numbers result from reclassifications of matters that are not required to be reported in accordance with OMB Circular A-133.*

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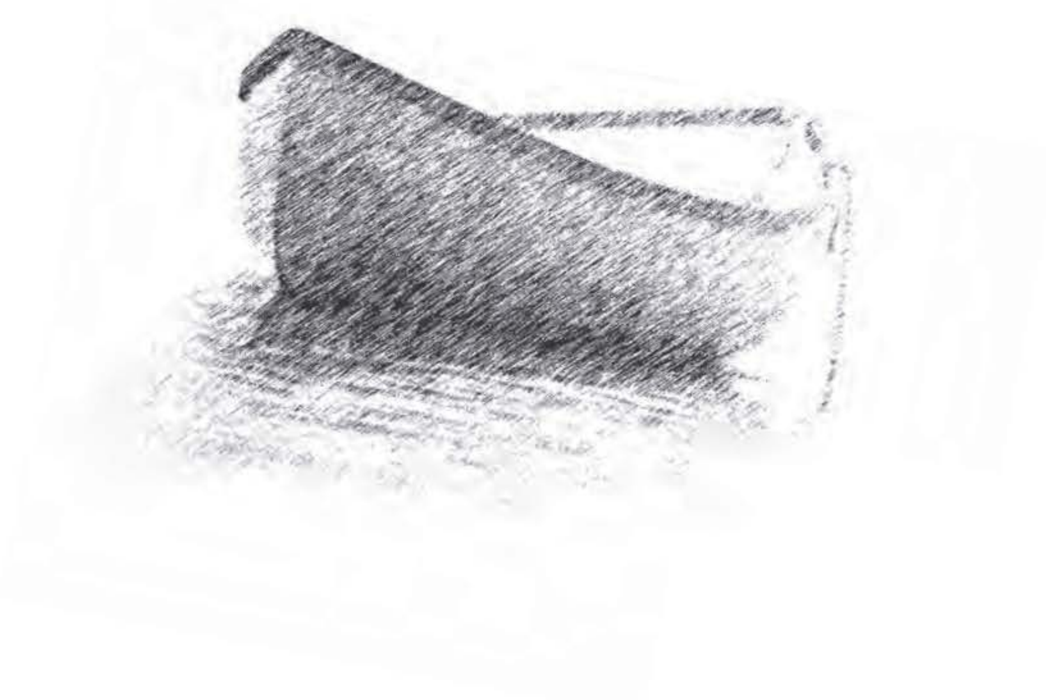
Finding # *	Page	Compliance Area	Finding Type				Known Questioned Costs
			Noncompliance		Internal Control		
			Material	Other	Material Weakness	Significant Deficiency	
09-1140-01	E-89	Matching, Level of Effort, Earmarking				✓	
09-1140-02	E-90	Activities Allowed				✓	
09-1140-03	E-91	Activities Allowed				✓	
09-1140-04	E-93	Matching, Level of Effort, Earmarking				✓	
09-1200-01	E-50	Cash Management	✓		✓		
09-1200-03	E-29	Cash Management				✓	
09-1200-04	E-30	Cash Management				✓	
09-1200-05	E-31	Period of Availability		✓		✓	238,912
09-1201-02	E-52	Subrecipient Monitoring				✓	
09-1203-01	E-33	Subrecipient Monitoring				✓	
09-1203-04	E-34	Subrecipient Monitoring				✓	
09-1221-02	E-59	Subrecipient Monitoring				✓	
09-1234-01	E-61	Cash Management	✓		✓		
09-1234-02	E-63	Subrecipient Monitoring & Special Tests	✓		✓		
09-1308-01	E-54	Eligibility				✓	
09-1308-02	E-55	Allowable Costs		✓		✓	9,050
09-1308-03	E-57	Reporting				✓	
09-1401-01	E-44	Davis-Bacon Act	✓		✓		
09-1502-01	E-117	Subrecipient Monitoring				✓	
09-1503-01	E-40	Procurement and Suspension and Debarment				✓	
09-1503-02	E-41	Cash Management				✓	
09-1520-01	E-46	Cash Management				✓	
09-1520-02	E-47	Activities Allowed				✓	
09-1520-03	E-48	Cash Management				✓	

** Gaps in the sequence of finding numbers result from reclassifications of matters that are not required to be reported in accordance with OMB Circular A-133.*

STATE OF MAINE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

Section III – Federal Findings, Questioned Costs and Corrective Action Plan



(09-1111-01)

Title: Income and Eligibility Verification System procedures not followed

Prior Year Finding: 08-05
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: TANF Cluster
SNAP Cluster
Medicaid Cluster
CFDA #: 10.551; 10.561; 93.558; 93.775; 93.777; 93.778
Federal Award #: METANF09; 4ME400401; 0905ME5028; 0905ME5048

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Income and Eligibility Verification System (42 USC 1320b-7); Requirements Governing the Use of Income and Eligibility Information (45 CFR §205.56); Maine Public Assistance Manual; Maine Medicaid Manual; Maine Food Stamp Certification Manual

Condition: The Department did not always utilize Income and Eligibility Verification System (IEVS) information when determining client eligibility. We noted the following:

- The Department failed to verify alien registration documentation from the U.S. Citizenship and Immigration Services through a designated automated system.
- The Department did not document that information obtained from the IEVS data matching was considered in determining eligibility and level of benefits.

Context:

- The Department did not document that non-U.S. citizen alien registration information was verified for any of the 25 non-U.S. citizen clients tested.
- Twenty-eight clients who were included on IEVS data matching reports were tested. The Department did not document in the case files that action had been taken or that action was not necessary for 22 of these clients.

Cause:

- Unfamiliarity with program regulations
- Procedures not followed

Effect: Potential disallowed costs resulting from ineligible clients

Recommendation: We recommend that the Department implement procedures to ensure that case action regarding IEVS information is documented. We further recommend that the Department implement procedures to ensure that non-U.S. citizen alien registration documentation is verified through a designated automated system.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

As of June 26, 2009, the Office of Integrated Access and Support instructed staff to confirm the legality of a non-U.S. Citizens alien admission number or alien file number by using the Systematic Alien Verification for Entitlements (SAVE) Program. Also, the staff is to document the use of the SAVE system in the Automated Client Eligibility System.

Contact**:** *Dawn Mulcahey, TANF Program Manager, 287-6426*.

CHILD NUTRITION CLUSTER

(09-1200-03)

Title: Federal cash management procedures not followed

Prior Year Finding: 08-06
State Department: Administrative and Financial Services
State Bureau: General Government Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Child Nutrition Cluster
Title I, Part A Cluster
Special Education Cluster (IDEA)
CFDA #: 10.555; 84.010; 84.027
Federal Award #: 4ME300301; S010A080019A; H027A080109A

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement (31 CFR Subpart A §205)

Condition: The Department did not follow requirements outlined in the Treasury-State Agreement (TSA) on cash management.

Context: Federal cash was not consistently drawn down in programs covered by the Treasury-State Agreement. Cash drawdowns ranged from three days earlier than allowed to 22 days later than allowed for Local Educational Agencies.

Cause: The Department was unaware that the established issuance date per the TSA had changed from being the record date to the record date plus one day upon implementation of the new accounting system.

Effect:

- Potential interest liability to the federal government
- Loss of cash pool interest when funds are drawn down later than allowed

Recommendation: We recommend that the Department follow established procedures to ensure that federal funds are drawn in compliance with cash management requirements. We further recommend that the Department use the correct issuance date per the TSA.

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

The General Government Service Center (GGSC) established internal procedures on December 29, 2009 to ensure that federal funds are drawn in compliance with cash management requirements. GGSC staff have been informed that the issuance date has changed from being the record date to the record date plus one day (per the TSA). A chart has been developed that reflects when draws should occur. All future draws will adhere to these requirements. This change has also been incorporated into GGSC procedure manuals.

Contact: *Elaine Babb, GG/NR Service Center Director, 624-7385*

(09-1200-04)

Title: Federal cash management procedures inadequate

Prior Year Finding: 08-18
State Department: Administrative and Financial Services
State Bureau: Division of Financial and Personnel Services
Federal Agency: U.S. Department of Education
CFDA Title: Child Nutrition Cluster
Special Education Cluster (IDEA)
Improving Teacher Quality State Grants
CFDA #: 10.553; 10.556; 10.559; 84.173; 84.367
Federal Award #: 4ME300301; H173A080115; S367A080018A; S367B080044A

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Post-Award Requirements, Standards for Financial Management Systems (34 CFR Subpart C §80); Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR Subpart B §205)

Condition: The Department did not minimize the time between receipt and disbursement of federal funds for programs not subject to the Treasury-State Agreement.

Context: In our review we noted the following:
- CFDA #10.553 – negative cash balances in 11 of 12 months
- CFDA #10.556 – excess cash balances in all 12 months
- CFDA #10.559 – excess cash balances in 7 of 12 months; negative cash balances in four of 12 months
- CFDA #84.173 – excess cash balances in 9 of 12 months
- CFDA #84.367 – excess cash balance in 1 of 12 months

Cause:
- Staff turnover
- Inadequate monitoring

Effect:
- Negative cash balances may result in money being "temporarily loaned" to the federal program thereby resulting in an unnecessary interest cost to the State
- The possibility that the federal government could impose more stringent cash management requirements on the State for programs that held excess cash

Recommendation: We recommend that the Department establish procedures to monitor receipts and disbursements to ensure that grant funds are drawn down on a timely basis and spent within the allowable time frames.

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

The General Government Service Center (GGSC) will establish internal procedures to be effective on March 1, 2010 to ensure that federal funds are drawn in compliance with cash management requirements. GGSC staff has been informed that cash balances must be monitored on a weekly basis. Data warehouse queries will be developed and utilized to monitor the balances. All future draws will adhere to these requirements. This change has also been incorporated into GGSC procedure manuals.

Contact: *Elaine Babb, GG/NR Service Center Director, 624-7413*

(09-1200-05)

Title: Ineffective internal controls over Period of Availability of federal funds

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Division of Financial and Personnel Services
Federal Agency: U.S. Department of Education
CFDA Title: Child Nutrition Cluster
Special Education Cluster (IDEA)
CFDA #: 10.553, 10.555, 10.556, 10.559, 84.027, 84.173
Federal Award #: H027A080109A, 4ME300301

Compliance Area: Period of Availability

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $238,912 (Special Education Cluster $12,339; Child Nutrition Cluster, $226, 573)

Likely Questioned Costs: $238,912

CHILD NUTRITION CLUSTER

Criteria: §421 of GEPA (20 USC §1225(b)); 34 CFR §76.703 through §76.710; 7 CFR §3016

Condition: The Department expended funds that were not obligated within the allowable timeframe. In addition, properly obligated funds were expended outside the liquidation period.

Context: We reviewed all 247 transactions charged to grants that ended during State fiscal year 2009 to determine whether payments were obligated and/or liquidated during the period of availability. We noted the following exceptions:

- Grant funds were used to pay for five transactions where services were rendered after the obligation deadline.
- Grant funds were also used to pay for four transactions after the liquidation period had expired.
- In addition, we found an accounting system adjustment of approximately $200,000 to charge the 2008 Child Nutrition grant for expenditures obligated during the 2009 grant year. This adjustment also occurred after the liquidation period had expired.

Cause: Misinterpretation of period of availability requirements and staff turnover

Effect: Potential disallowances

Recommendation: We recommend that the Department follow established procedures to ensure compliance with period of availability of federal funds requirements.

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

The General Government Service Center (GGSC) has established more procedures to be implemented by March 1, 2010 to ensure compliance with period of availability of federal fund requirements. The findings appear to be mostly related to meter postage charges. Because meter postage charges can include obligations for before and after the deadline, current procedures have been revised to include specific instructions to review these type of charges more carefully.

The $200,000 charge to the 2008 Child Nutrition grant occurred because staff was unaware of the requirements for this type of transaction. This was a one-time occurrence and was addressed prior to the audit. Staff has been made aware of the correct procedure but in order to avoid future occurrence, the GGSC updated procedures on July 1, 2009 for the School Nutrition program. These procedures include written instructions on the requirements of the school lunch program. Regularly scheduled meetings also occur with School Nutrition program staff to ensure grant requirements are being met.

These changes have also been incorporated into GGSC procedure manuals.

Contact: *Elaine Babb, GG/NR Service Center Director, 624-7413*

CHILD NUTRITION CLUSTER

(09-1203-01)

Title: Inadequate controls over monitoring of subrecipient net cash resources

Prior Year Finding: No
State Department: Education
State Bureau: Child Nutrition Services
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child Nutrition Cluster
CFDA #: 10.553; 10.555; 10.556; 10.559
Federal Award #: 4ME300301

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Excess net cash resources by school food authorities (7 CFR §210.14, §210.19, §210.20)

Condition: The Department does not have adequate procedures in place to ensure that subrecipients are not maintaining excess net cash resources.

Context:
- Excess net cash resources were incorrectly calculated. In addition, the Department monitored excess net cash resources for the end of the school year only, rather than throughout the school year.
- Of 13 subrecipients that were identified as having excess net cash resources in the prior fiscal year, documentation supporting corrective actions taken was misplaced.

Cause:
- Lack of adequate procedures
- Misplaced documentation

Effect: The program cannot rely on incorrectly calculated reports to determine if subrecipients have excess net cash resources. In addition, we were unable to determine if corrective action was taken for those subrecipients with excess net cash resources identified in the prior fiscal year.

Recommendation: We recommend that the Department implement procedures to ensure excess net cash resources are properly calculated and monitored throughout the school year. Furthermore, we recommend that documentation of the corrective action plan be maintained.

Management's Response/Corrective Action Plan: *The Department disagrees with the finding of "not adequate procedures in place." The same procedure has been used for over ten years with no changes. It has been acceptable before and approved by USDA. The Department does have adequate procedures in place and complies with the 7 CFR 245 regulations. The monitoring of year end cash balance is standard procedure and is the best point in time to get the best picture. Net Cash Resources talks about "a given point in time". The calculation procedure is correct therefore no changes are needed.*

The Department will agree paperwork was misplaced. Going forward, internal changes have been made to prevent this from happening again. The Department demonstrated that documentation is kept and corrective action plans are reviewed from prior years. The filing method has been changed to ensure records are not misplaced. During this period of time School District reorganization and consolation was under way and contributed to Excess Cash Balance issues.

Contact: *Walter Beesley, Education Specialist, 624-6875*

Auditor's Conclusion: We have reviewed the applicable federal regulations again and have determined that the finding and recommendation remain as stated.

(09-1203-04)

Title: Inadequate procedures for providing award information to subrecipients

Prior Year Finding: No
State Department: Education
State Bureau: Child Nutrition Services
Federal Agency: U.S. Department of Agriculture
CFDA Title: Child Nutrition Cluster
CFDA #: 10.553, 10.555, 10.556, 10.559
Federal Award #: 4ME300301

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d) Pass-through entity responsibilities

Condition: Subrecipients were not made aware of CFDA title and number, award name and number, and related regulations.

Context: The program awarded funds to 270 subrecipients.

Cause: Lack of knowledge on information required to be communicated to subrecipients

Effect: Subrecipients may not be aware of the source of funds, which could result in noncompliance with applicable federal regulations.

Recommendation: We recommend that the Department communicate the federal award information and the applicable regulations to program subrecipients.

Management's Response/Corrective Action Plan: *The Department will communicate the federal award information to superintendents in the informational letter at the beginning of the school year. This policy change will take effect at the beginning of school year 2011.*

Contact: *Walter Beesley, Education Specialist, 624-6875*

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

(09-1113-02)

Title: Inadequate procedures for providing award information to subrecipients

Prior Year Finding: 08-09
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #: 10.557
Federal Award #: 4ME700701, 4ME700752

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d) Pass-through entity responsibilities

Condition: The Department did not include all the required information when awarding funds to subrecipients. None of the award letters issued to the subrecipients included the Catalog of Federal Domestic Assistance title and number, award name, name of federal awarding agency, award year, and applicable regulations.

Context: The program awarded funds to eight subrecipients.

Cause: Lack of knowledge on information required to be included in award documentation

Effect: Subrecipients may not be aware of the source of funds, which could result in non-compliance with applicable federal regulations.

Recommendation: We recommend that the Department include the federal award information and the applicable regulations in the award letters to the local agencies.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

As of July 1, 2009, the Special Supplemental Nutrition Program for Women, Infants, and Children program has added federal award information and applicable regulations to their current sub recipient award letter. Sub recipient award letters include the CFDA title and number, award name, name of federal awarding agency, award year, and the applicable regulations.

Contact*: *Dena Darveau, Financial Manager, 287-1469

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

(09-1113-03)

Title: Inadequate procedures for federal cash management

Prior Year Finding: 08-08
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #: 10.557
Federal Award #: 4ME700701; 4ME700752

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments-Payment (7 CFR §3016.21)

Condition: Cash held by the Program's fiscal agent is in excess of immediate cash needs. During the 12 months of the fiscal year, the daily balance ranged from $48,258 to $651,187. Program personnel transfer $300,000 to the bank when the cash balance falls below $250,000.

Context: We reviewed the fiscal agent's 12 monthly bank statements and noted excess cash during each month.

Cause: Amount of cash drawn is a standard amount that is not adjusted based on anticipated need

Effect: Potential interest liability to the federal government

Recommendation: We recommend that the Department draw cash based on anticipated needs.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

As of July 1, 2009, cash draws will be based upon an analysis of the weekly cash needs. Also, rebate checks are now being deposited electronically and will be factored into the cash needs analysis.

Contact: *Dena Darveau, Financial Manager, 287-1469*

SPECIAL SUPPLEMENTAL NUTRITION PROGRAM FOR WOMEN, INFANTS, AND CHILDREN

(09-1113-04)

Title: Compliance investigation procedures not adequate

Prior Year Finding: 08-10
State Department: Health and Human Services
State Bureau: Center for Disease Control and Prevention
Federal Agency: U.S. Department of Agriculture
CFDA Title: Special Supplemental Nutrition Program for Women, Infants, and Children
CFDA #: 10.557
Federal Award #: 4ME700701; 4ME700752

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Agency Provisions, Food delivery systems (7 CFR §246.12 (j) (4))

Condition: The Department did not complete vendor investigations on five percent of the high risk vendors.

Context:

- Approximately twenty-three percent of vendors were considered high risk
- Fifteen completed vendor investigations were required; only five high risk vendor investigations were completed

Cause: Misinterpretation of federal regulations

Effect: Vendor violations could go undetected and increase the chances of non-compliance with applicable federal regulations.

Recommendation: We recommend the Department implement procedures to ensure investigations are completed.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

As of July 1, 2009, the Vendor Manager has run a report of high risk vendors who were determined to be high risk in accordance with the seven criteria identified in the Vendor Manual. Vendors are prioritized by comparing the report to the recorded complaints that have been received. Vendors will be chosen for compliance monitoring based on risk. In accordance with program regulations, a minimum of 5% of vendors will be selected for investigations. The *investigations will be completed within the Federal fiscal year. This corrected procedure will be included in the Vendor Manual version effective October 1, 2010 and be reviewed will all Vendor Staff immediately effective March 1, 2010.*

Contact: *Dena Darveau, Financial Manager, 287-1469*

NATIONAL GUARD MILITARY OPERATIONS AND MAINTENANCE (O&M) PROJECTS

(09-1503-01)

Title: Procurement and suspension and debarment procedures inadequate

Prior Year Finding: No
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Military Authority
Federal Agency: U.S. Department of Defense
CFDA Title: National Guard Military Operation and Maintenance (O&M) Projects
CFDA #: 12.401
Federal Award #: W912JD-09-2-3053

Compliance Area: Procurement and suspension and debarment

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Government-wide Suspension and Debarment (2 CFR part 180)

Condition: The Department did not maintain documentation ensuring that payments were not made to parties who had been suspended or debarred. Furthermore, the Department did not maintain documentation for all procurements.

Context:

- A copy of the suspension and debarment certifications for one of the 19 contracts tested could not be provided
- Eleven of the 19 suspension and debarment forms did not have dates or the dates included on the form did not support the date of the contract
- Support was not maintained to document that the Excluded Parties List System was reviewed
- One of 19 procurements was not adequately documented

Cause: Lack of oversight

Effect: Potential payments to suspended or debarred parties, resulting in potential disallowances

Recommendation: We recommend that the Department implement procedures to ensure that contracts are not entered into with suspended or debarred parties.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

MMA does request suspension and debarment certifications from vendors when a contract is awarded or when the total amount of purchases will exceed $25,000.00. In addition, we check the Extended Parties List System (EPLS). In the past, we have only retained a copy of the database search results if the vendor was suspended or debarred.

Since this finding we have revised our procedures to include the following:

1. *The suspension and debarment certificate now includes the date.*
2. *These certificates are going out with the bid and must be signed and returned by the winning vendor prior to awarding the contract.*
3. *We are printing and retaining a copy of the search results from the EPLS database.*

We believe these procedures will ensure our compliance with the Federal regulations.

Contact: *Karen Roderick, Director of Finance, MMA, 430-5710*

(09-1503-02)

Title: Federal cash management procedures inadequate

Prior Year Finding: No
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Military Authority
Air National Guard
Army National Guard
Federal Agency: U.S. Department of Defense
CFDA Title: National Guard Military Operation and Maintenance (O&M) Projects
CFDA #: 12.401
Federal Award #: W912JD-09-2-3053; W912JD-09-2-1001; W912JD-09-2-1002; W912JD-09-2-1003; W912JD-09-2-1004; W912JD-09-2-1007; W912JD-09-2-1010; W912JD-09-2-1021; W912JD-09-2-1022; W912JD-09-2-1023; W912JD-09-2-1024; W912JD-09-2-1040; W912JD-09-2-1041

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement (31 CFR §205 Subpart A)

NATIONAL GUARD MILITARY OPERATIONS AND MAINTENANCE (O&M) PROJECTS

Condition: The Department did not implement procedures to ensure compliance with the terms of the Treasury-State Agreement.

Context: Federal cash was not consistently drawn down in programs covered by the Treasury-State Agreement. Lack of proper draw down procedures led to both excess and negative cash balances in the program during the year.

Cause: Inadequate consideration of clearance patterns established by the Treasury-State Agreement

Effect:

- Potential interest liability to the federal government
- Loss of interest earnings when funds are drawn later than allowed

Recommendation: We recommend that procedures be implemented to ensure federal funds are drawn in compliance with the clearance patterns established by the Treasury-State Agreement.

Management's Response/Corrective Action Plan: *The State Military Department and the National Guard Bureau, funded by Department of Defense appropriations, enter into a Master Cooperative Agreement to establish the terms and conditions applicable to the contribution of NGB funds and/or in-kind assistance for the operation and training of the State Army and Air National Guard and Maine Military Authority. This Master Cooperative Agreement is not a 'grant' in the context of what is normally considered a Federal Grant for CMIA purposes.*

Article 5 §501(a)(b) of the Cooperative Agreement stipulates that the State shall provide a certified statement itemizing the amount of funds expended during a period along with the corresponding accounting classification to be charged. Upon verification of the amount the USPFO will execute the necessary documentation for reimbursing the State and forward the documentation to the disbursing officer for payment.

Article 5 §502(a) of the Cooperative Agreement provides a mechanism by which the State may request advance payments in order to sustain its mission. A State may request advance payments if the State cannot provide the funds necessary to support the mission of the National Guard regardless of whether or not the co-operative agreement meets the State's major program threshold.

CFDA # 12.401 includes two appropriations 013-15A-0108-30 (Army/Air) and 066-15A-0108-01 (MMA)

Appropriation 013-15A-0108-30 (Army/Air) – In FY09 this appropriation was correctly included in the CMIA agreement; however, a three day clearance pattern is unobtainable. The co-operative agreement guidelines do not allow the State to simply draw down funds. In order to seek reimbursement a SF270 must be prepared along with documentation to support the reimbursement (Article 5 §501(a)(b). The 270 is routed through a Federal Program Manager who either approves and sends the documents on for further approvals or requests more information from the State Program Manager. This process can take anywhere from three days to two weeks. The standard operating procedures for processing an SF270 make it impossible to *meet the current CMIA agreement. We will work with the Treasurer's Office to pursue an achievable funding technique.*

Appropriation 066-15A-0108-01 (MMA) – In FY09 this appropriation was incorrectly included in the CMIA agreement. The State did not have sufficient cash in order to provide the necessary working capital for MMA to meet its financial obligations. The State allowed MMA 2.7 million from the cash pool for working capital and required MMA to pay interest for the use of these funds. To subsidize the 5 million dollar deficiency, it was necessary to request advances from the USPFO in accordance with §502 of the Cooperative Agreement. We will work with the Treasurer's Office to pursue an achievable funding technique.

Contact: *Karen Roderick, Director of Finance, MMA, 430-710, or Nathalie Schliper, Financial Analyst, DVEM, 686-4493*

(09-1401-01)

Title: Davis-Bacon Act requirements not followed

Prior Year Finding: 08-15
State Department: Transportation
State Bureau: Project Development
Federal Agency: U.S. Department of Transportation
CFDA Title: Highway Planning and Construction Cluster
CFDA #: 20.205, 20.219
Federal Award #: Various

Compliance Area: Davis-Bacon Act

Type of Finding: Material weakness/Material noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Labor Standards Provisions Applicable to Contracts Covering Federally Financed and Assisted Construction (29 CFR Part 5); Award Terms for Assistance Agreements that Include Funds Under the American Recovery and Reinvestment Act of 2009 (2 CFR Part 176.190)

Condition: The procedures used to ensure that contractors and subcontractors were properly classifying and compensating their employees in accordance with the Davis Bacon Act were not being systematically applied.

Context: The Department did not have adequate procedures to ensure compliance with their own record keeping and enforcement responsibilities. This deficiency has been cited as a finding since FY01.

Cause: Competing priorities of field personnel

Effect: Possible federal sanctions for noncompliance with the Davis-Bacon Act

Recommendation: During FY09 the Department began a conscientious effort toward compliance. Web-based Elation software was procured to electronically receive wage and benefit information directly from contractors. This software was used only on a pilot basis during FY09. We recommend that the Department continue to implement procedures to ensure that contractor and subcontractor personnel are paid the required rates for wages and fringe benefits in accordance with Davis-Bacon Act provisions. Procedures should include adequate review and follow-up by field engineering personnel.

Management's Response/Corrective Action Plan: *The Department of Transportation agrees with the finding.*

The Department has implemented a new information system that requires all contractors working on MaineDOT projects to submit their Davis-Bacon payroll and benefit information electronically; automate the MaineDOT processes of submission acknowledgements, reviews, interviews, and reporting; and provide MaineDOT and its auditors access to its records. The Maine Division Office of the Federal Highway Administration has recently praised MaineDOT for the improvements staff have made in regards to interviews. Projects with federal participation will include the requirement to use the payroll system on projects advertised in 2010. We will continue to educate staff on the importance of Davis-Bacon compliance.

***Contact*:** *Joyce Taylor, Acting Director, Bureau of Project Development, 624-3400*

(09-1520-01)

Title: Procedures not adequate for subrecipient federal cash management

Prior Year Finding: 08-16
State Department: Environmental Protection
State Bureau: Land and Water Quality
Remediation and Waste Management
Air Quality
Federal Agency: U.S. Environmental Protection Agency
CFDA Title: Performance Partnership Grants
CFDA #: 66.605
Federal Award #: BG99182902; BG99182901

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Cash Management (40 CFR §31.20(7)) and Payment (§31.21)

Condition: The Department did not adhere to federal regulations pertaining to subrecipient cash management. The Department incorrectly allowed subrecipients to draw, in advance, up to three months of projected cash need.

Context: Fourteen out of 28 subrecipients tested had funds advanced in excess of immediate cash needs.

Cause: Misinterpretation of subrecipient cash management requirements

Effect: The possibility of the federal government imposing more stringent cash management requirements on the program.

Recommendation: We recommend that the Department develop procedures to minimize the time elapsing between the transfer of funds and disbursement by subrecipients.

Management's Response/Corrective Action Plan: *This finding was expected given the change in standards initiated by the Department of Audit late in FY09.*

The "Condition" and "Context" described in this finding relate to State implementation of the federal Clean Water Act non-point source pollution abatement program. In the midst of FY09, Maine's Department of Audit requested that the United States Environmental Protection Agency (D.E.P.'s grantor) make a change in its previously longstanding interpretation of standards *applicable to advance payments under this grant; that request was made as a result of advances Audit identified in the context of its FY08 evaluation. As described in the "Management's Response" to the FY08 audit finding on this issue, D.E.P. agrees with, and has established a system that was reviewed and approved by the Department of Audit for resolution of the issues associated with, this finding. Standards have been established in D.E.P.'s Guidance on Payments & Cash Management for Non-Point Source Grants (effective June 4, 2009)*

Contact: *Jim Dusch, Director of Policy Development and Implementation, 287-8662*

(09-1520-02)

Title: Inadequate procedures to ensure payroll costs are supported in accordance with federal regulations

Prior Year Finding: No
State Department: Environmental Protection
State Bureau: Land and Water Quality
Remediation and Waste Management
Air Quality
Federal Agency: U.S. Environmental Protection Agency
CFDA Title: Performance Partnership Grants (PPG)
CFDA #: 66.605
Federal Award #: BG99182902; BG99182901

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87) – 2 CFR Part 225

Condition: The Department did not ensure that employees who work solely on the PPG Grant were set up on the payroll system (MS-TAMS) appropriately.

Context: Activity reports for three of 40 employees tested did not meet the documentation standards required by federal cost principles.

Cause: Inadequate procedures

Effect: Possible disallowed costs as a result of inadequate documentation

Recommendation: We recommend that the Department improve internal control procedures to ensure that employees are appropriately set up in the MS-TAMS system in order to satisfy federal documentation standards.

Management's Response/Corrective Action Plan: *A standard operating procedure will be immediately implemented within the human resource division of the Natural Resources Service Center that will alert the Financial Analyst assigned to the Department whenever a position action occurs.*

A copy of the documentation of the position action will be electronically forwarded to the Financial Analyst by payroll section personnel as they make changes to the payroll system. This will afford the Financial Analyst the opportunity to establish the correct tracking mechanism within MS-TAMS (the State's payroll system) to properly account for time worked on federal projects to satisfy federal documentation standards.

Contact: *Gilbert M. Bilodeau, Deputy Director, NRSC, 287-5122*

(09-1520-03)

Title: Federal cash management procedures inadequate

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Natural Resource Service Center
Federal Agency: U.S. Environmental Protection Agency
CFDA Title: Performance Partnership Grants
CFDA #: 66.605
Federal Award #: BG99182902; BG99182901

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B)

Condition: The program had excess cash on hand during the fiscal year

Context: In seven out of 12 months reviewed the program had excess cash

Cause: Personnel turnover

Effect: The federal government may impose more stringent cash management requirements on the program.

Recommendation: The agency had identified the noncompliance and returned the excess federal funds prior to our audit. We recommend that the Department ensure that personnel responsible for drawing federal grant funds understand the requirements.

Management's Response/Corrective Action Plan: *The Department of Administrative and Financial Services agrees with the finding.*

The Natural Resources Service Center is responsible for drawing cash for this program at the Department of Environmental Protection. We identified this issue early in calendar year 2009 and immediately implemented more stringent controls on cash management in order to comply with federal requirements. NRSC staff is fully aware of these requirements and the U.S. EPA has been made aware of the changes implemented at the NRSC.

Corrective Action Taken: Trained and/or retrained all existing staff to be sure they are aware of these guidelines and understand how to manage cash balances. On a monthly basis, ASAP (Automated Standard Application for Payments), letter of credit balances are compared to Managing Staff Accountant's monthly federal expense report which includes letter of credit balances and Cash on Hand balances. If any cash on hand amounts differ by $100.00 or more, it's verified that additional expenses were incurred between the closing of the month and the current period.

Contact: *Gilbert M. Bilodeau, NRSC Deputy Director, 287-5122*

TITLE I, PART A CLUSTER

(09-1200-01)

Title: Noncompliance with subrecipient cash management requirements

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Division of Financial and Personnel Services
Federal Agency: U.S. Department of Education
CFDA Title: Title I, Part A Cluster
Special Education Cluster (IDEA)
Improving Teacher Quality State Grants
CFDA #: 84.010; 84.027; 84.173; 84.367
Federal Award #: S010A080019A; H027A080109A;
H173A080115; S367A080018A

Compliance Area: Cash management

Type of Finding: Material weakness/Material noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform administrative requirements for grants and cooperative agreements to state and local governments (34 CFR Subtitle A §80.37 & §80.20)

Condition: The Department does not have adequate procedures in place to monitor cash balances of subrecipients receiving funds prior to disbursement to ensure that they minimize the time between receipt and disbursement of funds.

Context: Of the 40 subrecipients selected, 27 subrecipients reported cash balances in excess of amounts considered reasonable for immediate cash needs.

Cause: Ineffective design of procedures to support proper compliance with cash management requirements

Effect: Noncompliance with federal cash management requirements may result in federal sanctions.

Recommendation: We recommend that the Department modify current procedures to ensure compliance with federal cash management requirements.

Management's Response/Corrective Action Plan: *The Department of Education and the Department of Administrative and Financial Services agree with the finding and recommendation.*

The current process provides for a monthly disbursement of funds as directed by the Department of Education Program Managers. Program Managers for the Title I program will be providing focused technical assistance to the SAU staff on how to address cash management on the SAU level in 2010, including the process of amending the monthly allocations.

The Department of Education is requesting that the Maine Department of Audit consider sending letters to the auditors of the SAUs to articulate the necessity of completing a review of the federal cash management as part of the circular A-133 audits. This will reinforce the focused technical assistance that the Title I staff will be undertaking.

Contact: *Jaci Holmes, Federal State Legislative Liaison, 624-6669*

Please see the following finding for other issues related to this program.

(09-1200-03) ***page E-29***

(09-1201-02)

Title: Procedures not adequate to ensure timely site visits

Prior Year Finding: No
State Department: Education
State Bureau: Division of Special Services
Federal Agency: U.S. Department of Education
CFDA Title: Special Education Cluster (IDEA)
CFDA #: 84.027; 84.173
Federal Award #: H027A080109A; H173A080115

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Monitoring and Enforcement (34 CFR 300.600 (d))

Condition: Local Educational Agency (LEA) site visits are not being performed in a timely manner.

Context: Two hundred eighty-six LEAs receive Special Education funds. In our review of 40 LEAs we noted that site visits for four had not been performed within the last five years.

Cause:
- Staff turnover
- Inadequate site review scheduling procedures

Effect: Potential LEA noncompliance with special education programs regulations

Recommendation: We recommend that the Department strengthen procedures to ensure that LEAs receive timely site visits.

Management's Response/Corrective Action Plan: *The Department of Education does not concur with the finding.*

One Federal citation was provided for the basis of this finding (34.CFR §300.600(d), and our Auditor's indicated that they also use State regulation Title 20A MRSA §7205 to apply a frequency with which site visits should be performed when assessing our compliance with this requirement.

34.CFR §300.600 State Monitoring and Enforcement provisions do not include requirements for visits or frequency of visits. Title 20A MRSA §7205, states "It is the intent of the Legislature *that a representative of the Commissioner visit each Special Education program at least once every five years for the purpose of review and assistance."*

The federal requirements regarding monitoring require the department to use quantifiable indicators and the department collects school administrative unit data annually and reviews the data annually for the purpose of making determinations regarding compliance and determines which schools should receive an on-site monitoring based upon risk.

Between October and December of 2005, the department established teams and conducted visits to all school administrative units, and Special Services personnel joined other department staff and representatives of school administrative units in these team visitations. In response to a directive from the Legislature, the department conducted a review of Title 20A provisions to determine if State provisions exceeded federal requirements. Section 7205 was identified as exceeding the federal requirement and LD 1532, pending before the Legislature, removed the five-year provision.

Contact: *David Stockford, Director of Special Services, 624-6650*

Auditor's Conclusion: We considered the additional information provided by the Department of Education, Division of Special Services and determined that the finding and recommendation remain as stated.

Please see the following findings for other issues related to this program.

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(09-1200-03) ***page E-29***

(09-1200-04) ***page E-30***

(09-1200-05) ***page E-31***

(09-1308-01)

Title: Procedures not adequate to ensure timely eligibility decisions

Prior Year Finding: 08-21
State Department: Labor
State Bureau: Bureau of Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Vocational Rehabilitation Cluster
CFDA #: 84.126
Federal Award #: H126A090085; H126A090026

Compliance Area: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Vocational Rehabilitation Services Program – Processing referrals and applications (34 CFR §361.41)

Condition: Eligibility decisions were not completed in the timeframe required by federal regulations.

Context: In 15 out of 60 cases examined eligibility decisions were made, on average, 67 days later than required.

Cause: Lack of controls within automated system (ORSIS)

Effect: Eligible participants may not receive services in a timely manner

Recommendation: We recommend that the Department develop procedures that will improve the timeliness of eligibility decisions.

Management's Response/Corrective Action Plan: *Management agrees with this finding.*

It should be noted that in 12 of the 15 instances cited, the eligibility determinations were completed before December 2008 (and 7 of these 12 were completed between 2003 and 2005).

The timing of the eligibility determinations is important because pursuant to findings from a prior audit, the Bureau completed a management action plan design to address the timeliness of eligibility determinations. December 2008 is when management fully implemented an ORSIS procedures system to track and monitor eligibility determinations. Since December '08, we have also put into place a more robust case management system that outlines how often and when supervisors will complete formal case reviews on counselor caseloads. One of several check *points to achieve program compliance is the review of open cases by supervisors in the local offices and review of closed cases by a team led by Central Office personnel.*

The Division has implemented state wide performance expectations that each VR counselor "will complete eligibilities within 60 days or have documented the agreement for an extension in the file, as indicated in ORSIS." This specific performance expectation was added to each counselor's Performance Management Form effective January, 2010.

The ORSIS data management program now includes a flag for supervisors when counselors are getting close to their 60 day eligibility time frame. The ORSIS "time as applicant report" alert, implemented May 2006 notifies rehabilitation counselors of the impending 60 day eligibility determination limit.

Regional staff received training in the use of the new report plus the use of the special indicator to identify individuals who agree to an extension of time. The special indicator generates a case note documenting the agreement on the specific number of days eligibility is extended. We are currently working with OIT to develop an additional screen that will allow counselors to more easily run a report on their eligibility determinations. This tool will be available for use by the end of March, 2010.

In summary, management agrees with the findings. The instances cited occurred during the transition period to a new internal control system which has now been fully implemented. We expect that these protocols will be effective in automating notice regarding approaching eligibility determinations deadlines and result in the virtual elimination of this issue as we move forward.

Contact: *Betsy Hopkins DVR Assistant Director, 623-6745*
Jill Duson, BRS Director, 623-7942

(09-1308-02)

Title: Client services payments not adequately monitored

Prior Year Finding: 08-19
State Department: Labor
State Bureau: Bureau of Rehabilitation Services
Federal Agency: U.S. Department of Education
CFDA Title: Vocational Rehabilitation Cluster
CFDA #: 84.126
Federal Award #: H126A090085; H126A090026

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $9,050

Likely Questioned Costs: $197,350
A sample of 60 payments amounting to $369,841 was selected on a haphazard basis. Likely questioned costs of $197,350 were determined by projecting known questioned costs to the population.

Criteria: 2 CFR Part 225 - Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); 34 CFR §76.702 - State Administered Programs – Fiscal Control and Fund Accounting Procedures

Condition: Client services expenditures were made without adequate support (e.g. invoice, report, paid receipt).

Context: Five of 60 case services expenditures did not have adequate supporting documentation. The federal share of client services payments was $6.3 million in fiscal year 2009.

Causes:
- Insufficient oversight
- Lack of written policies and procedures

Effects: Potential disallowances

Recommendation: We recommend that the Department continue to implement procedures to ensure independent approval of case service expenditures and include adequate support for all expenditures.

Management's Response/Corrective Action Plan: *Management agrees with this finding.*

We have reviewed the 5 cases involved. Where appropriate, we have reviewed case data through ORSIS reports and/or additional cases managed by the same employee or employee group.

As a result of management review, the agency determined the following:

Two instances involved separate employees in the same local office. Central Office management has reviewed program expectations with the local supervisor and approved a correction plan. The local supervisor will re-visit procurement protocol with all employees in this office reminding staff of the second signature requirement and the expectation that receipts/documentation will be retained in client files. The supervisor will follow standard performance management steps with the two individual employees involved ranging from an informal counseling to a written reminder of work expectations.

One finding involved payment of an invoiced amount that was lower then the expenditure amount originally authorized. The actual payment was for the amount documented on the invoice and a copy of the invoice was in the file as evidence of payment. Management has determined that this transaction was executed and documented in compliance with program protocol.

The remaining two situations involved quotes for a service or purchase with no formal invoices reflecting the actual payment amount. Management reviewed these transactions with the employee and is satisfied that the actual transactions were executed as required. Local management has counseled staff re: documentation expectations and internal control protocol.

The agency adopted a revised Procurement Protocol in 2008. There have been a number of new supervisors and staff hired in the two years since the issuance of this protocol. Division leadership will re-issue the protocol and include a review of procurement expectations as an agenda item at its March 2010 lead team meeting. Division supervisors will review the protocol at staff meetings during the month of March. These steps will be completed by the end of March 2010.

Contact: *Betsy Hopkins, Assistant Director, DVR 623-6745*
Jill Duson, Director, BRS 623-7942

(09-1308-03)

Title: Procedures not adequate to ensure accurate quarterly financial reports

Prior Year Finding: 08-23
State Department: Administrative and Financial Services
State Bureau: Security and Employment Service Center
Federal Agency: U.S. Department of Education
CFDA Title: Vocational Rehabilitation Cluster
CFDA #: 84.126
Federal Award #: H126A090085; H126A090026

Compliance Area: Reporting

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 34 CFR §80.41 - Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments – Financial reporting

Condition: The Department reported inaccurate expenditure amounts on the quarterly financial reports. Numerous reports were either not filed or not filed timely.

Context: Thirteen out of 16 reports were amended in the subsequent year. Eight of the 16 original reports were filed late and one was not filed at all.

Causes:

- Lack of written policies and procedures
- No reconciliation of reported amounts
- Staff turnover
- Lack of training

Effects:

- Inaccurate financial information
- Possible federal sanctions

Recommendation: We recommend that the Department reconcile expenditures reported on the federal quarterly reports to the amounts recorded in the State's accounting system.

Management's Response/Corrective Action Plan: *The Department agrees with this finding.*

Staff turnover contributed to this issue. The federal grants were reconciled and were reported correctly in total for the federal fiscal year after the state fiscal year was closed. The late filed reports were due to the change in staff and were mostly comprised of amended reports based on the reconciliations performed.

Going forward, the Department will document the reporting process and will reconcile the federal expenditure reports to Advantage on a quarterly basis. The quarterly reports will be sent to the Bureau of Vocational Rehabilitation staff for review prior to submission.

In addition, the Department has begun issuing a quarterly summary report to the Maine Department of Labor showing all the federal reports due for each grant, the person responsible for completing them, the filing due date; and the date each expenditure report was filed.

Contact: *Marilyn Leimbach, Financial Analyst, 623-6714*

IMPROVING TEACHER QUALITY STATE GRANTS

(09-1221-02)

Title: Inadequate procedures for maintaining subrecipient award information

Prior Year Finding: No
State Department: Education
State Bureau: Learning Systems Team – Title II-A, Teacher Quality
Federal Agency: U.S. Department of Education
CFDA Title: Improving Teacher Quality State Grants
CFDA #: 84.367
Federal Award #: S367A080018A

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (34 CFR §80.37(a)(2)); OMB Circular A-133, Audits of States, Local Governments, and Non-profit Organizations §__.400(d)(1)

Condition: The Department did not maintain evidence of proper award identification to subrecipients. The information was sent to subrecipients via email, but the emails were not always maintained.

Context: For 26 of the 40 subrecipients selected, evidence of communication of the grant award containing the CFDA title and number, award name, name of federal awarding agency, award year, and applicable regulations was not available.

Cause: Lack of procedures to maintain award notifications

Effect: Lack of documentation that the Department complied with requirements

Recommendation: We recommend that the Department implement procedures to maintain award notifications for all subrecipients.

Management's Response/Corrective Action Plan: *The Department of Education agrees with the finding.*

The Department has put procedures in place effective immediately to require all NCLB formula grant award letters to be maintained in LEA files in the ESEA/NCLB Clearinghouse. As the Title IIA project is approved by the Title IIA consultant, a grant award letter is electronically sent to the LEA, all NCLB Title consultants, and the Title I accountant. The Title I accountant prints and files the award letter and processes the LEAs request for funds.

IMPROVING TEACHER QUALITY STATE GRANTS

Contact: *Wanda Monthey, Team Leader, PK-20 Team, DOE, 624-6831*

Please see the following findings for other issues related to this program.

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(09-1200-04) ***page E-30***

STATE FISCAL STABILIZATION FUND CLUSTER

(09-1234-01)

Title: Noncompliance and inadequate controls over federal cash management procedures

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Division of Financial and Personnel Services
Federal Agency: U.S. Department of Education
CFDA Title: State Fiscal Stabilization Fund Cluster
CFDA #: 84.394; 84.397
Federal Award #: S394A090020; S397A090020A

Compliance Area: Cash management

Type of Finding: Material weakness/Material noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B)

Condition: Procedures were not in place to minimize the time between receipt and disbursement of federal funds for the State Fiscal Stabilization Fund Cluster.

Context: Of the $64.6 million federal cash draws recorded in State fiscal year 2009, $33.4 million was spent eight to 14 business days after the drawdown. The remaining $31.2 million was returned to the federal government 19 business days after the drawdown as it was not required to meet immediate cash needs.

Cause:
- Lack of proper procedures
- Uncertainty as to the applicability of federal cash management requirements for American Recovery and Reinvestment Act programs

Effect: The federal government may impose more stringent cash management requirements on the program.

Recommendation: We recommend that the Department implement procedures to ensure compliance with federal cash management requirements.

Management's Response/Corrective Action Plan: *We agree with the finding and recommendation.*

As is mentioned, there were several issues that contributed to the finding. It was unclear until June whether the program would be required to follow cash management requirements. In *addition, a significant amount of the funds ultimately returned to the U.S. Department of Education were designated for transfer to the State Medicaid program to fund a shortfall. These funds ultimately were not needed by the program when the State qualified for a higher match rate due to reaching a higher state unemployment rate. Unfortunately, due to the timing of year end activities the return of funds was delayed an additional week.*

To ensure compliance with cash management requirements going forward, the Department has implemented the following corrective action procedures:

1. *Funds will be drawn on a request basis from the Maine Department of Education, from which monthly disbursements are made following cash management rules.*

2. *Agencies requesting funds must submit a written request to the DAFS/General Government Service Center.*

3. *A Managing Staff Accountant will initiate a request for funds from the USDOE G5 System.*

4. *After the funds are drawn, a cash receipt will be processed but not submitted. Cash Receipts will have backup to show date of request, amount of payment, and invoice submitted. Cash Receipts will be entered on the State Fiscal Stabilization Fund (SFSF) tracking sheet.*

5. *The next business day, Treasury will send an e-mail that the funds have been received. Upon receipt of this notification the cash receipt will be validated, submitted by initiator, and reviewed and approved by a Service Center Manager.*

6. *Once the deposit of funds posts to the segregated State Fiscal Stabilization – Governor's account 020 07A 0165 10, a journal will be processed to transfer funds to the requesting Agency. The journal information will be entered on the State Fiscal Stabilization Fund (SFSF) tracking sheet.*

7. *The Managing Staff Accountant will send an email notification to the Bureau of the Budget and the Office of the State Controller with each draw request to include details on the draw and transfer information.*

8. *Journals will be placed in a designated area to be approved by the Office of the State Controller's Accounting Manager. The Agency request for funds will be available once the journal is final.*

9. *State Fiscal Stabilization account balances will be reconciled monthly using Advantage GQL Warehouse queries. The State Fiscal Stabilization spreadsheet will be sent to the Bureau of the Budget and the Office of the State Controller upon request.*

Contact: *Loretta Baker, Managing Staff Accountant, 624-6867*

STATE FISCAL STABILIZATION FUND CLUSTER

(09-1234-02)

Title: Noncompliance with subrecipient monitoring and special tests and provisions for awards with ARRA funding requirements

Prior Year Finding: No
State Department: Administrative and Financial Services
Education
State Bureau: Commissioner's Office (Administrative and Financial Services)
Commissioner's Office (Education)
Federal Agency: U.S. Department of Education
CFDA Title: State Fiscal Stabilization Fund Cluster
CFDA #: 84.394; 84.397
Federal Award #: S394A090020

Compliance Area: Subrecipient monitoring
Special tests and provisions

Type of Finding: Material weakness/Material noncompliance

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations §__.400(d); American Recovery and Reinvestment Act of 2009 (ARRA) §1512(h); Award term—Recovery Act Transactions listed in Schedule of Expenditures of Federal Awards and Recipient Responsibilities for Informing Subrecipients (2 CFR §176.210)

Condition: The Maine Department of Education awards funds to Local Educational Agencies (LEAs), and the Department of Administrative and Financial Services awards funds to public institutions of higher education (IHEs). The Departments did not:

- Identify the Catalog of Federal Domestic Assistance (CFDA) number and title, award name and number, name of federal awarding agency, and applicable regulations to subrecipients at the time of the subaward.
- Inform subrecipients of the requirement to register in the Central Contractor Registration (CCR) and to maintain the currency of that information prior to making subawards. No review was performed by the Departments to ensure subrecipients had current CCR registrations and were updating information, as necessary.
- Separately identify to each subrecipient, and document at the time of the subaward and disbursement of funds, the federal award number, CFDA number, and the amount of American Recovery and Reinvestment Act (ARRA) funds.
- Inform subrecipients of the requirement to provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC).

STATE FISCAL STABILIZATION FUND CLUSTER

Context: The program awarded funds to 236 subrecipients. Only four of the 41 subrecipients tested were registered in the CCR. None were provided with required award information (CFDA number and title, award name and number, name of federal awarding agency, amount of ARRA funds, and applicable regulations) at the time of the award or disbursement.

Cause: Lack of knowledge of specific subrecipient monitoring and special tests and provisions for awards with ARRA funding requirements

Effect: Subrecipients may not be aware of the source of funds, which could result in noncompliance with applicable federal regulations

Recommendation: We recommend the Departments include federal award information, the amount of funds awarded, and applicable regulations in award letters and with the disbursement of funds to subrecipients. We further recommend the Departments notify subrecipients of the requirement to have current CCR registrations, prior to making subawards, and perform periodic checks to ensure subrecipients are updating information, as necessary. Finally, we recommend the Departments notify subrecipients of the requirement to provide identification of ARRA awards in their SEFA and SF-SAC.

Management's Response/Corrective Action Plan: *The Department of Education and the Department of Administrative and Financial Services agrees that no formal award document was issued to subrecipients that provided the award information, requirements to register with CCR, and the notice to provide ARRA awards in their SEFA and SF-SAC. However, this information was communicated through numerous other channels. The award title, CFDA number and statutory provisions applicable to a sub-awardees' responsibilities were referenced in the ARRA application process, webinars, email correspondence and conference call training sessions. LEA and IHE staff responsible for handling ARRA awards were instructed to review the applicable federal and state regulations. IHE staff participated in training sessions and weekly conference calls on the 1512 reporting process.*

Upon receiving notification of this finding, the Departments of Education and Administrative and Financial Services took immediate corrective action measures to notify the LEA's and IHE's of the ARRA requirements for sub-recipients in writing.

On February 24, 2010, the Department of Education sent out a letter to all school administrative units informing them of the responsibility to maintain an active registration in CCR and the requirement to provide identification of ARRA awards in their Schedule of Expenditures of Federal Awards (SEFA) and Data Collection Form (SF-SAC).

The School administrative units have been instructed to fax a copy of the completed CCR registration to the Department of Education Federal State Legislative Liaison.

Compliance with maintaining the CCR registration will be reviewed quarterly by obtaining the current CCR registration for the State of Maine and reviewing to ensure all LEAs and IHEs are listed.

Additionally, the Department has modified the SFSF Phase three application to address:

- *Inclusion of the federal award information, the amount of funds awarded, and applicable regulations in award letters and with the disbursement of funds to subrecipients.*
- *Notification of subrecipients of the requirement to have current CCR registrations, prior to the Department making subawards, and*
- *Notification of subrecipients of the requirement to provide identification of ARRA awards in their SEFA and SF-SAC.*

The Department will inform the SAUs in their ED 279 the individual SFSF amount. The award letters that will be sent when the SFSF application has been approved will include the individual award information in bullet #1 immediately above.

On March 11, 2010, the Office of the State Controller issued a Controller's Bulletin requiring all State agencies to take immediate action to include the federal award number, CFDA #, and the amount of ARRA funds on the check description field of all ARRA disbursements to sub-recipients. This will ensure the sub-recipients have the information needed on the addenda or EFT advice to appropriately account for ARRA funds.

Contact: *Jaci Holmes, Federal State Legislative Liaison, 624-6660*
Lance Boucher, Director of Recovery Act Initiatives, 624-7817

TANF CLUSTER

(09-1103-01)

Title: Procedures not adequate to ensure costs are properly allocated in accordance with cost allocation plans

Prior Year Finding: 08-38, 08-70
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: TANF Cluster
Foster Care – Title IV-E
Adoption Assistance
CFDA #: 93.558; 93.658; 93.659

Federal Award #: METANF09, 0901ME1401, 0901ME1407

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $119,060 (TANF)
$261,841 (Foster Care – Title IV-E)
$29,507 (Adoption Assistance)

Likely Questioned Costs: $119,060 (TANF)
$268,867 (Foster Care – Title IV-E)
$21,315 (Adoption Assistance)

Criteria: General Administration – Cost Allocation Plans (45 CFR §95.507, §95.519)

Condition: The Department did not allocate all costs in compliance with the Department of Health and Human Services' and Office of Child and Family Services' revised cost allocation plans. We noted the following issues:

- Incorrect allocation methods were assigned to some accounts
- Some allocated costs were incorrectly charged to federal programs
- Journals are not processed to reclassify expenditures between the Foster Care program and the Adoption Assistance program for some allocated costs, resulting in a commingled accounting record

Context: We tested the costs allocated for one quarter of the fiscal year. As part of this testing, we compared expenditure data to the State accounting records, recalculated allocations based on the underlying statistics, determined reasonableness of the statistics used for the costs being allocated, and agreed the calculations to the final receiver report. The following errors were noted:

- TANF, Foster Care, and Adoption Assistance over reported allocated costs by $119,060, $261,445, and $29,968 respectively because incorrect allocation methods were assigned to some accounts.

- In a sample of 60 invoices tested, four were unallowable to Title IV-E (Foster Care and Adoption Assistance) and three were unallowable to Foster Care but allowable to Adoption Assistance who underclaimed these costs. These errors resulted in known and likely questioned costs of $396 and $7,422 respectively for Foster Care and known and likely underreporting of costs of $461 and $8,653 respectively for Adoption Assistance. All seven of these invoices' costs were allocated between both Title IV-E programs.

Cause:

- Incorrect allocation methods assigned in the cost allocation plan
- Lack of communication and training
- Failure to reconcile final receiver report expenditures to the State's accounting records

Effect: Not properly allocating costs could result in the following issues with federal assistance programs:

- Inaccurate financial reports
- Cash shortages or overages
- Unallowable costs claimed

Recommendation: We recommend that the Department continue in its efforts to develop a revised cost allocation plan that more accurately reflects current operations, ensure costs are recorded to the correct accounts, and complete a review of allocated cost accounts to ensure the proper allocation methods are assigned.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding:*

Allocation methods assigned to TANF accounts were corrected in state fiscal year 2010. The Service Center intends to correct allocation methods for certain Foster Care and Adoption Assistance accounts, and will continue its review of all cost allocated accounts to ensure proper allocation methods are assigned.

The Service Center will make the adjustments for the questioned costs in the fourth quarter of State fiscal year 2010.

The Office of Child and Family Services (OCFS) conducted training on proper invoice coding and allowable activities for Foster Care and Adoptive Assistance programs in State fiscal year 2010.

Contact: *Heidi Sherburne, Financial Analyst, 287-6406*

(09-1111-02)

Title: Controls inadequate to prevent payment of unallowable transitional transportation benefits

Prior Year Finding: 08-27
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: TANF Cluster
CFDA #: 93.558
Federal Award #: METANF09

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $93,828

Likely Questioned Costs: $93,828

Criteria: Maine Public Assistance Manual, Chapter V

Condition: When Temporary Assistance for Needy Families (TANF) clients become employed and no longer qualify for TANF basic assistance, they may be eligible for Transitional Transportation (TT) benefits. The Department paid some clients both basic assistance and TT benefits for the same time period.

Context:
- The Department paid both TANF basic assistance and TT benefits to 200 clients.
- TT benefits were paid for both the client and the client's child(ren).

Cause:
- Computer system logic errors
- Data entry errors
- Inadequate training

Effect: Potential disallowance of questioned costs

Recommendation: We recommend that the Department provide additional training to staff to ensure that requests for TT are entered correctly into Automated Client Eligibility System (ACES) and to ensure that TT benefits are not processed by ACES more than once. We further recommend that ACES be programmed to retain the data entered when requesting TT benefits for tracking purposes.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

Transitional Transportation (TT) payments made to both the client and her children resulting in duplicate benefits – September 10, 2008, a training program was implemented by the TANF Program Manager to ensure that the staff understands how to correctly enter requests for Transitional Transportation into ACES thus eliminating the duplicate benefit issues.

TT and TANF basic assistance benefits made for the same time period - During the fall of 2008, Information Technology staff deployed changes to the ACES system to ensure that staff would adjust TT payments made to clients who had lost their job and were re-applying for TANF. A pop-up box was created that alerts a worker when a TANF applicant has an open TT benefit. The worker closes the TT, researches eligibility for the benefit period and if necessary creates a TT overpayment before issuing the TANF benefit. TT payments are made quarterly for an earlier period.

In the spring of 2009, discrepancy reports listing overlapping TANF and TT payments were created for analysis by the TANF Program Manager and her staff. Reports are currently analyzed on a monthly basis and discrepancies are addressed both in the ACES system and with the individual eligibility worker.

Contact*: *Dawn Mulcahey, TANF Program Manager, 287-6426

(09-1111-03)

Title: Eligibility determinations are not adequately supported

Prior Year Finding: 08-28
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: TANF Cluster
CFDA #: 93.558
Federal Award #: METANF09

Compliance Area: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Prohibitions; requirements (42 USC 608(a)(8) and 42 USC 608(a)(9))

Condition: The Department is not consistently documenting that clients meet all eligibility requirements in case files.

Context:

- Three of 60 case files reviewed did not contain documentation supporting that "the recipient has not been convicted of making fraudulent statements or representation with respect to place of residence in order to obtain assistance in two or more States at one time" and "the recipient is not fleeing to avoid prosecution, or custody or confinement after conviction or violating a condition of probation or parole imposed under Federal or State law."
- Additionally, three of 60 case files reviewed did not have the required signed annual review in their paper case file.

Cause:

- The Department utilizes a printout from the Department's Automated Client Eligibility System (ACES) as the client's application. This printout did not include the criminal activities statements as required.
- Misplaced client files

Effect: Potential questioned costs resulting from ineligible clients

Recommendation: We recommend that the Department maintain proper documentation in the case files to support eligibility determinations.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

Criminal Activities Statement – This was a finding from a previous year and the following actions were taken to correct the problem:

ACES screens were updated in December 2008 to capture all of the questions concerning misrepresentation of residence, violation of probation and/or parole, and fleeing felons. These questions are required fields in ACES and eligibility cannot be granted without the correct input.

Dawn Mulcahey, TANF Program Manager provided the following formal instructions to Regional Staff:

Staff was instructed to ask all of the questions on the ACES Criminal Activity Screen of all applicants and of recipients as they called in a change or came in for a review. The Department estimates that over the course of a year (by February 2010), every open case will have been reviewed and the Criminal Activity Screen updated.

Absence of signed annual review in case file – The three case files in question have been misplaced in the Regions. Regional processes for ensuring the security of case files is on the agenda for the March 2010 Program Administrator and OIAS Supervisor meetings. There is an ongoing effort to locate the three files in relation to this audit.

***Contact**: Dawn M. Mulcahey, TANF Program Manager, 287-6426*

TANF CLUSTER

(09-1111-04)

Title: Controls inadequate to ensure accurate financial reporting

Prior Year Finding: 08-29
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: TANF Cluster
CFDA #: 93.558
Federal Award #: METANF08; METANF09

Compliance Area: Reporting

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Data collection and reporting requirements (45 CFR §265)

Condition:

- The State's ACF-196 quarterly financial reports contained cost allocation errors for federal fiscal year 2009.
- The State's ACF-196 quarterly financial reports for 2008 contain two errors identified in our prior audit that were not revised. The Department is aware of these two errors but had not submitted revised reports as of the end of State fiscal year 2009.

Context:

- Reported TANF cost allocation expenditures were understated by $960,787 in State fiscal year 2009
- Reporting errors from federal fiscal year 2008 include a reclassification of expenditures of $2.7 million and an understatement of cost allocation expenditures of $132,150

Cause:

- Final receiver reports used to allocate costs were not available when the ACF-196 reports were due; preliminary data that was utilized in compiling allocated costs was understated as of the end of State fiscal year 2009
- The Department made the decision not to revise the federal fiscal year 2008 reports until all known errors could be amended

Effect:

- The Department's utilization of federal resources is not accurately reflected in the financial reporting for the TANF grant
- Possible sanctions by the federal government

Recommendation: We recommend that the Department continue to give priority to the review and revision of prior year reports as necessary. We also recommend that the Department prepare timely final receiver reports to enable the accurate reporting of allocated expenditures.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

As a result of revisions to the cost allocated amounts provided to the TANF accounting staff in January, 2010, the revised amounts were entered onto the ACF-196 TANF Report for federal fiscal year 2009 on March 26, 2010. The reporting error from fiscal year 2008 which included a reclassification of expenditures and an understatement of the quarterly cost allocation amount also provided to the TANF accounting staff in January, 2010, was also completed March 26, 2010.

Contact: *Mark Fisher, Managing Staff Accountant, 287-3160*

Please see the following finding for other issues related to this program.

(09-1111-01) ***page E-27***

(09-1128-01)

Title: Controls inadequate to ensure proper allocation of costs in accordance with approved plan

Prior Year Finding: 08-70
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Child Support Enforcement
CFDA #: 93.563
Federal Award #: 0904ME4004

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $207,370

Likely Questioned Costs: $207,370

Criteria: General Administration – Cost Allocation Plans (45 CFR §95.507, §95.519)

Condition: The Department did not allocate all costs in compliance with the Department of Health and Human Services' approved cost allocation plan.

Context: We tested the costs allocated for all four quarters of the fiscal year for the program. We compared the final receiver reports to the State accounting records and found that the program was overcharged approximately $207,000.

Cause:
- Untimely issuance of final receiver reports
- Failure to reconcile final receiver report expenditures to the State's accounting records

Effect: Funding issue with some of the cost allocation accounts resulted in cash shortages or overages during FY2009

Recommendation: We recommend that the Department continue in its efforts to develop cost allocation plan procedures. We further recommend that the account managers review the allocated costs for their program to ensure that the cost allocation journals are processed timely.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

Estimated journals are done bi-weekly and reconciled quarterly. Once the reconciliation is completed, corrected journals are done to either draw down additional funds or return over draws. As of March 1, 2010, a journal for the 0196 allocated account in the amount of $112,134 is being processed (JVC 10A81019609Q4RDA). Due to incorrect budget issues within the Z038 *account, the remaining $95,236 has not been paid back. A budget initiative has been submitted to allocate monies to over drawn accounts.*

Contact: *John Mower, Deputy Director, DHHS Service Center, 287-1869*

FOSTER CARE – TITLE IV-E

(09-1109-01)

Title: Controls over State and federal procurement requirements not followed

Prior Year Finding: 08-42
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care – Title IV-E
CFDA #: 93.658
Federal Award #: 0901ME1401

Compliance Area: Procurement and suspension and debarment

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR §92.36); State of Maine, Division of Purchased Services Policy Manual

Condition: The Department did not follow State procurement procedures as required by federal regulations.

Context: Nine of the 24 contracts reviewed did not follow State procurement procedures.

Cause:
- Outdated contracts
- Staff turnover

Effect: Potential future questioned costs

Recommendation: We recommend that the Department continue its efforts to update outdated contracts using State procurement policies.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

As of June 2009, the Office of Child and Family Services has updated half of their treatment, therapy and residential contracts to comply with State procurement procedures. The contracts will comply completely with State procurement procedures in fiscal year ended 2010.

New contracts with Children's Residential PNMI providers have been created and effective January 1, 2010. In addition, OCFS Residential Services has a new database to track data, *including tracking when an ELPS check has been completed for each foster care, transitional living, and residential PNMI provider receiving more than $25,000 in federal funds. Since contracts may span more than one year, the DLPS website will be checked on a yearly basis by the Residential Program Specialist.*

Contact: *Christa Elwell, Director, Public Service Manager, Child and Family Services, 624-7921.*

(09-1109-04)

Title: Procedures not adequate to ensure payments are made only for allowable activities

Prior Year Finding: 08-36
State Department: Health and Human Services
State Bureau: Office of Child and Family Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care – Title IV-E
CFDA #: 93.658
Federal Award #: 0901ME1401

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $7,045

Likely Questioned Costs: $60,816
Likely questioned costs were computed by applying the dollar error rate in the sample (approximately 90%) to the total population of expenditures coded to these expense categories ($111,088). The result was then multiplied by the blended federal medical assistance percentage (68.79%).

Criteria: 42 USC §675 Definitions and 45 CFR §1356.60 Fiscal requirements (IV-E)

Condition: The Department did not ensure that maintenance payments were made for allowable activities.

Context: Sixty payments for miscellaneous expenditures coded to accounts designated for Foster Care – Title IV-E maintenance payments were tested. Forty-one of the 60 tested were for unallowable activities.

Cause:
- Unfamiliarity with program requirements
- Lack of training

Effect:
- Payments made for unallowable activities
- Current and potential future questioned costs
- Noncompliance with program requirements

Recommendation: We recommend that the Department provide adequate training regarding invoice coding and allowable activities.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The Office of Child and Family Services (OCFS) completed a training program for proper invoice coding and allowable activities for Foster Care and Adoptive Assistance programs in the third quarter of state fiscal year 2010. In June 2009, MACWIS was changed so that IV-E unit codes can no longer be used for non-IV-E eligible children.

Supervisory reviews will reinforce the proper coding of invoices and that activities are allowed.

Contact*: *Dan Despard, Director Child Welfare Policy, OCFS, 624-7950

(09-1109-05)

Title: Procedures not adequate to ensure accurate quarterly financial reports

Prior Year Finding: 08-43
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care – Title IV-E
CFDA #: 93.658
Federal Award #: 0901ME1401

Compliance Area: Reporting

Type of Finding: Material weakness

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR §92.20)

FOSTER CARE – TITLE IV-E

Condition: The Department did not submit accurate and complete expenditure reports for the Foster Care – Title-IV-E program.

Context: We reviewed one of the quarterly reports submitted for the fiscal year.

Cause:
- Inadequate written policies and procedures regarding reporting of expenditures
- Failure to reconcile reported expenditures to the accounting system
- Complex and outdated template used to prepare the federal report
- Improper application of population factors in supporting schedules
- Lack of communication between program and financial personnel

Effect:
- Inaccurate financial information
- Potential disallowances

Recommendation: We recommend that the Department:
- Improve written procedures to enable the preparation of accurate financial reports
- Simplify the report template
- Reconcile the reports to the accounting system

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

In the third quarter of fiscal year 2009, written policies and procedures regarding reporting of expenditures for the Title IV-E programs were completed. In addition, formulas in supporting schedules were corrected in the second quarter of fiscal year 2009.

DHHS Service Center personnel are working to update the template used to prepare the federal report. It is anticipated that the updated template will be completed by June, 2010. In addition, Service Center personnel are working with the Maine Automated Child Welfare Information System (MACWIS) Program Manager to establish a complete adjustment report. The complete adjustment report will enable an accurate reconciliation of the federal report to the accounting system. This adjustment to the reconciliation process should be completed by June 2010.

Contact: *Diane Williamson, Managing Staff Accountant, 287-6390*

(09-1109-06)

Title: Lack of procedures to ensure records were maintained that identified adequately the source and application of American Reinvestment and Recovery Act (ARRA) funds

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care – Title IV-E
CFDA #: 93.658
Federal Award #: 0901ME1401

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: 2 CFR §176.210– Award term – Recovery Act transactions listed in SEFA and Recipient Responsibility for Informing Subrecipients

Condition: The Department's accounting records did not separately identify and account for ARRA expenditures.

Context: ARRA funds totaling $435,543 were expended during the State fiscal year. None of the expenditures were accounted for separately from expenditures of non-ARRA funds.

Cause:

- Inadequate policies and procedures
- Failure to draw ARRA revenue timely
- Lack of communication between program and financial personnel

Effect:

- Lack of transparency
- Possible disallowances/federal sanctions

Recommendation: We recommend that the Department implement procedures to ensure that the State's designated fund is utilized in accounting for ARRA awards and activity.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

The State of Maine's Office of the State Controller and the Budget Office established two new federal funds within our budget and accounting systems (020 and 021) to account for all ARRA activity. Each ARRA award is required to be in a separate account within these two new funds.

ARRA financial order requests to establish spending authority in these accounts are subject to a rigorous approval process. With regards to the Foster Care ARRA award number 0901ME1401, the enhanced FMAP rate generated a State General Fund resource which needed to be appropriated by the State Legislature before the financial order could be approved. Unfortunately, this did not happen before the close of the SFY 2009 Legislative session.

Because this ARRA funding was related to an enhanced FMAP of existing entitlement programs, and not a situation where we could postpone spending the ARRA portion of the award, measures were implemented to track the ARRA portion of the benefit manually on a spreadsheet until the proper accounts could be established in our budget and accounting systems. The spreadsheet provides a cumulative listing of the ARRA portion of each quarter's maintenance of assistance payments as reported on the quarterly federal expenditure reports, which are developed from detailed queries of our accounting system. Going forward, until such time as the ARRA account is established for this award, we will include additional information in the spreadsheet to identify how the totals are derived and attach the queries supporting the totals and a copy of the quarterly report.

The initiative for spending the general fund resources created from the enhanced FMAP is expected to be approved by the Legislature by May 15, 2010.

Contact*: *Diane Williamson, Managing Staff Accountant, 287-6390

(09-1109-07)

Title: Federal cash management procedures inadequate

Prior Year Finding: 08-39
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Foster Care – Title IV-E
CFDA #: 93.658
Federal Award #: 0901ME1401

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Included in a Treasury-State Agreement (31 CFR §205 Subpart A)

FOSTER CARE – TITLE IV-E

Condition: The Department did not have procedures in place to ensure that cash draws were made on an as needed basis. Revenue is drawn without taking the cash balance into consideration because the program's cash balance is not known.

Context: Cash is not tracked by program

Cause:
- Cash balance is not taken into consideration when cash draws are processed because individual program balances are not known
- The grants are reconciled after the end of the grant year, so excess cash would be returned if warranted, but the Department does not monitor the cash balance throughout the year at the program level
- Use of shared accounts

Effect: Potential interest liability to the federal government

Recommendation: We recommend that the Department:
- Determine the amount of cash balance for each account within the appropriation and ask the Office of the State Controller to adjust the amount to actual on the State's accounting system
- Utilize account coding specific to individual programs when possible

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

Beginning in the third quarter of State fiscal year 2010, DHHS Service Center personnel will make an adjustment to allocate foster care and adoption assistance cash balances. Subsequently, this adjustment will be made on a quarterly basis.

In addition, commencing with the fiscal year 2010, contract codes in all contracts have been expanded to allow for more specific coding to the individual programs.

Contact**:** *Diane Williamson, Managing Staff Accountant, 287-6390*

Please see the following findings for other issues related to this program.

(09-1103-01) ***page E-66***

(09-1109-03) ***page E-82***

ADOPTION ASSISTANCE

(09-1109-03)

Title: Inadequate procedures to ensure costs are properly charged or allocated

Prior Year Finding: 08-37
State Department: Administrative and Financial Service
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Adoption Assistance
Foster Care – Title IV-E
CFDA #: 93.658; 93.659
Federal Award #: 0901ME1401; 0901ME1407

Compliance Area: Allowable costs/cost principles

Type of Finding: Material weakness/Questioned costs

Known Questioned Costs: $301,318 (Adoption Assistance)

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (OMB Circular A-87); Cost Allocation Plans (45 CFR §95.517); Requirements Applicable to Title IV-E (45 CFR §r1356.60); Payments to States (42 USC 674)

Condition: The Department did not allocate expenditures relating to direct training and administration in relation to the benefit received. We noted the following:

- Unallowable costs were claimed
- Costs were incorrectly allocated between to the two IV-E programs and costs were claimed at the incorrect Federal Financial Participation rate
- Allowable costs were not claimed

Context:

- The Department claimed maintenance payments to providers that were later adjusted. This resulted in Adoption Assistance being overcharged by $11,778 and Foster Care being overcharged by $16,454.
- Training costs were incorrectly allocated between the two programs and claimed at the incorrect Federal Financial Participation rate. Adoption Assistance was overcharged by $289,540 and Foster Care was undercharged by $223,479.
- The Foster Care program failed to claim $41,127 in training expenditures and $1,335 in maintenance payments.

Cause:

- Lack of communication between program and finance personnel
- Lack of training
- Improper account coding
- Incorrect allocation of expenditures between two programs

- Incorrect application of factors used for allocating costs
- Commingling of expenditures within one account

Effect:
- Costs claimed incorrectly
- Potential disallowed costs

Recommendation: We recommend that the Department:
- Enter all financial data into the accounting system
- Utilize account coding specific to individual programs
- Provide adequate training about account coding and the effects of miscoding

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

The data not recorded on the State's books is comprised of items from the Maine Automated Child Welfare Information System (MACWIS). The Service Center is working with the MACWIS Program Manager to obtain complete adjustment reports in order to reconcile federal reports with the accounting records.

When expenditures can not be definitively allocated between Foster Care and Adoption Assistance, the training contract should reflect the objectives of the training course. In addition, the contract should reflect the course content, if possible, in relation to Foster Care and Adoption Assistance.

Commencing with the fiscal year 2010, contract codes in all contracts have been expanded to allow for more specific coding to the individual programs. In addition, the Office of Child and Family Services is currently working on an extensive coding guide for Foster Care and Adoption Assistance Programs. This guide is expected to be complete in the fourth quarter of fiscal year 2010.

In the first quarter of fiscal year 2010, the Service Center did a prior quarter adjustment to claim the $41,127 training expenditures and $1,335 maintenance payments for the Foster Care program. In addition, an adjustment of the incorrect allocation of Foster Care and Adoption Assistance training costs will be done in the third quarter of state fiscal year 2010.

Contact: *Diane Williamson, Managing Staff Accountant, 287-6390*

ADOPTION ASSISTANCE

(09-1110-02)

Title: Procedures not adequate to ensure accurate quarterly financial reports

Prior Year Finding: 08-43
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Adoption Assistance
CFDA #: 93.659
Federal Award #: 0901ME1407

Compliance Area: Reporting

Type of Finding: Material weakness

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Uniform Administrative Requirements for Grants and Cooperative Agreements with State and Local Governments (45 CFR §92.20)

Condition: The Department did not submit accurate and complete expenditure reports for the Adoption Assistance program.

Context: We reviewed one of the quarterly reports submitted for the fiscal year.

Cause:
- Inadequate written policies and procedures regarding reporting of expenditures
- Failure to reconcile reported expenditures to the accounting system
- Complex and outdated template used to prepare the federal report
- Improper application of population factors in supporting schedules
- Lack of communication between program and financial personnel

Effect:
- Inaccurate financial information
- Potential disallowances

Recommendation: We recommend that the Department:
- Improve written procedures to enable the preparation of accurate financial reports
- Simplify the report template
- Reconcile the reports to the accounting system

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

In the third quarter of fiscal year 2009, written policies and procedures regarding reporting of expenditures for the Title IV-E programs were completed. In addition, formulas in supporting schedules were corrected in the second quarter of fiscal year 2009.

DHHS Service Center personnel are working to update the template used to prepare the federal report. It is anticipated that the updated template will be completed by June, 2010. In addition, Service Center personnel are working with the Maine Automated Child Welfare Information System (MACWIS) Program Manager to establish a complete adjustment report. The complete adjustment report will enable an accurate reconciliation of the federal report to the accounting system. This adjustment to the reconciliation process should be completed by June 2010.

Contact: *Diane Williamson, Managing Staff Accountant, 287-6390*

(09-1110-03)

Title: Procedures not in place to ensure cash management requirements are met

Prior Year Finding: 08-39
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Adoption Assistance
CFDA #: 93.659
Federal Award #: 0901ME1407

Compliance Area: Cash management

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Rules Applicable to Federal Assistance Programs Not Included in a Treasury-State Agreement (31 CFR §205 Subpart B)

Condition: The Department did not have adequate procedures in place to ensure that cash draws were made on an as needed basis. Revenue is drawn without taking the cash balance into consideration because the program's cash balance is not known.

Context: Cash is not tracked by program

Cause:

- Cash balance is not taken into consideration when draws are processed because individual program balances are not known
- The grants are reconciled after the end of the grant year, so excess cash would be returned if warranted, but the Department does not monitor the cash balance throughout the year at the program level
- Use of shared accounts

Effect: Potential interest liability to the federal government

Recommendation: We recommend that the Department:

- Determine the amount of cash balance for each account within the appropriation and ask the Office of the State Controller to adjust the amount to actual on the State's accounting system
- Utilize account coding specific to individual programs when possible

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

Beginning in the third quarter of State fiscal year 2010, DHHS Service Center personnel will make an adjustment to allocate foster care and adoption assistance cash balances. Subsequently, this adjustment will be made on a quarterly basis.

In addition, commencing with the fiscal year 2010, contract codes in all contracts have been expanded to allow for more specific coding to the individual programs.

Contact*: *Diane Williamson, Managing Staff Accountant, 287-6390

(09-1110-04)

Title: Lack of procedures to ensure records were maintained that identified adequately the source and application of American Reinvestment and Recovery Act (ARRA) funds

Prior Year Finding: No
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Adoption Assistance
CFDA #: 93.659
Federal Award #: 0901ME1407

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

ADOPTION ASSISTANCE

Likely Questioned Costs: None

Criteria: 2 CFR §176.210 – Award term – Recovery Act transactions listed in SEFA and Recipient Responsibility for Informing Subrecipients

Condition: The Department's accounting records did not separately identify and account for ARRA expenditures.

Context: ARRA funds totaling $736,847 were expended during the State fiscal year. None of the expenditures were accounted for separately from expenditures of non-ARRA funds.

Cause:
- Inadequate policies and procedures
- Failure to draw ARRA revenue timely
- Lack of communication between program and financial personnel

Effect: Lack of transparency; possible disallowances/federal sanctions

Recommendation: We recommend that the Department implement procedures to ensure that the State's designated fund is utilized in accounting for ARRA awards and activity.

Management's Response/Corrective Action Plan: *The Department agrees with the finding.*

The State of Maine's Office of the State Controller and the Budget Office established two new federal funds within our budget and accounting systems (020 and 021) to account for all ARRA activity. Each ARRA award is required to be in a separate account within these two new funds. ARRA financial order requests to establish spending authority in these accounts are subject to a rigorous approval process. With regards to the Adoption Assistance ARRA award number 0901ME1407, the enhanced FMAP rate generated a State General Fund resource which needed to be appropriated by the State Legislature before the financial order could be approved. Unfortunately, this did not happen before the close of the SFY 2009 Legislative session.

Because this ARRA funding was related to an enhanced FMAP of existing entitlement programs, and not a situation where we could postpone spending the ARRA portion of the award, measures were implemented to track the ARRA portion of the benefit manually on a spreadsheet until the proper accounts could be established in our budget and accounting systems. The spreadsheet provides a cumulative listing of the ARRA portion of each quarter's maintenance of assistance payments as reported on the quarterly federal expenditure reports, which are developed from detailed queries of our accounting system. Going forward, until such time as the ARRA account is established for this award, we will include additional information in the spreadsheet to identify how the totals are derived and attach the queries supporting the totals and a copy of the quarterly report.

The initiative for spending the general fund resources created from the enhanced FMAP is expected to be approved by the Legislature by May 15, 2010.

ADOPTION ASSISTANCE

Contact*: *Diane Williamson, Managing Staff Accountant, 287-6390

Please see the following finding for other issues related to this program.

(09-1103-01) *page E-66*

CHILDREN'S HEALTH INSURANCE PROGRAM

(09-1140-01)

Title: Maine Claims Management System (MECMS) procedures not adequate to ensure local match (certified seed) is met

Prior Year Finding: 08-46, 07-61
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Children's Health Insurance Program (CHIP)
CFDA #: 93.767
Federal Award #: 05-0705ME5021; 05-0805ME5021

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Standards for Financial Management system (45 CFR §92.20)

Condition: Budgets for "certified seed" providers were not always appropriately charged. Furthermore, procedures were not in place to ensure that providers would not get paid for claims for which they did not provide the qualifying non-federal share.

Context:

- For payments made on behalf of CHIP clients the amount shown in the certified seed amount field in the claims management system (MECMS) is incorrect.
- The funding allocation process did not appropriately charge the non-federal share (seed) account.
- We determined that the federal share of claims were calculated and paid correctly.

Cause: Errors in MECMS program logic and/or funding allocation process

Effect: When provider seed budgets are not charged as intended, providers can be paid the federal share of claims even after matching funds have been depleted, thus non federal match may not be met.

Recommendation: We recommend that the Department work with the new fiscal agent to ensure effective tracking of certified seed matching amounts upon implementation of the new system.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The DHHS has contracted with Unisys as its fiscal agent. The implementation is expected to be complete in the first quarter of fiscal year 2011. As part of this implementation budgets for certified seed providers will be charged correctly. And the providers will not be paid the federal share of claims after the matching funds have been depleted.

In addition, the Office of MaineCare Services will continue to work with the MECMS developer (CNSI) to resolve the programming issues or funding allocation issues to ensure effective tracking of certified seed matching amounts.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

(09-1140-02)

Title: Controls over billing service contracts not adequate

Prior Year Finding: 08-47
State Department: Health and Human Services
Education
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Children's Health Insurance Program
Medicaid Cluster
CFDA #: 93.767; 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-0705ME5021; 05-0805ME5021

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Prohibition against reassignment of provider claims **(**42 CFR §447.10)

Condition: School systems in Maine and the Maine Department of Education engage in percentage-based service contracts with Maine State Billing of Somersworth, New Hampshire. Payment provisions in the contracts are not in compliance with the Medicaid regulations that state:

> "Payment may be made to a business agent, such as a billing service or an accounting firm that furnishes statements and receives payments in the name of the provider, if the agent's compensation for this service is:
> (1) Related to the cost of processing the billing;
> (2) Not related on a percentage or other basis to the amount that is billed or collected; and
> (3) Not dependent upon the collection of the payment."

Context: With few exceptions, all schools in Maine contract with Maine State Billing (MSB) to electronically submit Medicaid and State Children's Health Insurance Program (CHIP) claims to the Office of MaineCare services. The Department of Education also contracts with MSB to submit claims on behalf of the unorganized territories.

Cause: The Office of MaineCare Services, the Department of Education, and school systems in Maine did not adequately consider the requirements of the regulations.

Effect: Noncompliance could result in disallowance of federal reimbursement

Recommendation: We recommend that the Department of Education and school systems in Maine engage in contracts with MSB that comply with regulations.

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

Title 42 CFR §447.10 implements section 1902(a)(32) of the Social Security Act which prohibits State payments for Medicaid services to anyone other than a provider or recipient, except in specified circumstances. The Office of MaineCare Services (OMS) makes payment for services billed at an approved rate. Checks are made payable to the applicable provider (school system).

However, this finding is immaterial as the Department of Education has contacted Maine State Billing and they have changed their billing method.

***Contact:** Colin Lindley, Director of MaineCare Finance, 287-1855*

Auditor's Conclusion: We considered the agency's response and consulted with the U.S. Department of Health and Human Services, Office of the Inspector General, who recommended that the finding be issued. Our finding and recommendation remain as stated.

(09-1140-03)

Title: School Based Rehabilitation Services billing and payment policy procedures not adequate

Prior Year Finding: 08-49
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Children's Health Insurance Program
Medicaid Cluster
CFDA #: 93.767; 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028
05-0705ME5021; 05-0805ME5021

CHILDREN'S HEALTH INSURANCE PROGRAM

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: MaineCare Benefits Manual §104.8; MaineCare Benefits Manual General Administrative Policies and Procedures §1.02 (D), 1.03 (M) and 1.03 (S)(2).

Condition: An August 2007 MaineCare policy memo allows Maine schools to submit claims for School Based Rehabilitation services for all students with active Individual Education Plans (IEPs) who attended school at least one day during the month regardless of whether they received services during the month. This guidance and billing practice is inconsistent with the MaineCare Benefits Manual, which requires recipients to be present and receive services within the month in order for the provider to be reimbursed a monthly rate. Providers did not always maintain or retain records sufficient to document the nature, scope and detail of the services/products provided to each individual MaineCare member.

Context: The rate setting document produced by Maximus in 1997 states that under the per diem program being implemented that services will be reimbursable if the service is covered under the Medicaid State Plan, is authorized in an IEP, and was provided by an appropriate professional or other qualified staff. Thus, under the per diem or bundled rate setting methodology services must be rendered in order to be reimbursed.

In the fiscal year, the Medicaid and the Children's Health Insurance programs disbursed approximately $25 million in federal funds for School Based Rehabilitation services.

Cause: The Office of MaineCare Services policy did not adequately consider the provisions of the MaineCare Benefits Manual or the federal regulations.

Effect: Payment practices inconsistent with policy and regulations may result in a disallowance of claims.

Recommendation: We recommend that the Department establish payment practices that are consistent with the MaineCare Benefits Manual.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The DHHS is moving School Based Rehabilitation services primarily to MaineCare Benefits Manual sections that include Occupational, Physical, Speech and Hearing services. These services will be paid under fee for service. The rule will be effective as MIHMS go-live in the first quarter of State fiscal year 2011.

Contact: *Patricia Dushuttle, Acting Director, Division of Policy and Performance, 287-9362*

CHILDREN'S HEALTH INSURANCE PROGRAM

(09-1140-04)

Title: Procedures needed to ensure better accountability of certified public expenditures (certified seed)

Prior Year Finding: 08-59
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Children's Health Insurance Program
Medicaid Cluster
CFDA #: 93.767; 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-0705ME5021; 05-0805ME5021

Compliance Area: Matching, level of effort, earmarking

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225); Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Matching or Cost Sharing (45 CFR 92.24); MaineCare Benefits Manual General Administrative Policies and Procedures, 1.03(M)

Condition: The amount of certified public expenditures (certified seed) submitted to the Department on "Certified Seed Rider A" forms is calculated by Maine State Billing (MSB), a service provider that submits claims for School Based Rehabilitation and Day Treatment on behalf of school systems. MSB's derivation of the amount of local funding is based on prior year claims history. Thus, the amount of certified public expenditures (local share of funds to be provided as matching funds) is not based on budgeted expenditures, cost analyses, or prior year actual expenditures. Rather, the amount is imputed based on the amount of federal reimbursement received from the prior year.

For certified seed provider schools that do not use the services of MSB, the Department of Education calculates the amount of certified seed. This amount is the total local share amount of all special education services, rather than an estimate of the local share of the cost of providing services such as school based rehabilitation and day treatment.

Context: Certified Seed Rider A forms serve two purposes. The first purpose is for school superintendents to certify that local matching funds are available and will be spent to provide services that will be reimbursed by the federal government. The second purpose is to provide budget amounts to be entered into the State's accounting systems to cap the amount of federal reimbursement. When certified seed providers have "used" all of the budgeted amounts, claims are suspended. However, the seed providers need only submit additional Rider A forms in order to resume payment for suspended and subsequent claims.

Cause: The Department did not consider whether adequate procedures were in place to ensure that matching requirements are met.

Effect:
- Budgetary controls over reimbursement to certified seed providers will not be effective
- Non federal match may not be met resulting in a disallowance of the federal share of claims

Recommendation: We recommend that the Department, with the cooperation of the Department of Education, implement policies and procedures that will provide better accountability over certified public expenditures. When Maine Integrated Health Management System (MIHMS) is implemented, if MaineCare continues to use certified public expenditures as matching funds for services provided and billed individually by healthcare professionals in a school setting, then certified seed budgets should be based on historical costs supported by provider invoices.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

As of the first quarter of State fiscal year ended 2010, the Office of MaineCare Services has worked with the Department of Education to implement policies and procedures that will provide accountability over certified public expenditures. When MIHMS is implemented, in the first quarter of State fiscal year ended 2011, certified seed budgets will be based on historical costs supported by provider invoices.

Contact: *Colin Lindley, Director of MaineCare Finance, 287-1855*

Please see the following findings for other issues related to this program.

(09-1106-07) ***page E-104***

(09-1106-10) ***page E-110***

(09-1106-14) ***page E-114***

(09-0111-01)

Title: Controls over payroll rates charged to Medicaid not adequate

Prior Year Finding: 08-55
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $104,310

Likely Questioned Costs: $104,310

Criteria: Federal Matching and Administrative Provisions - Rates of FFP Administration (42 CFR §433.15)

Condition: Payroll charges relating primarily to the Division of Policy, the Provider Relations unit, and the Third Party Liability unit were not made in accordance with the federal participation rates (FFP). The federal government was charged 75% of these costs rather than the allowed amount of 50%.

Context: The federal government reimburses administration costs at varying levels of participation depending on the type of administrative activity.

Cause: Inadequate oversight of how employee positions were set up in the budget system

Effect: Possible disallowed costs

Recommendation: We recommend that the Department provide oversight of how employee positions are set up in the budget system.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agrees with the finding.*

During State fiscal year 2010, the employee position corrections will be addressed through the budget and legislative process. There is an initiative in the current legislative session.

In addition, DHHS will establish a final review procedure of the personnel budget by the offices that maintain the appropriation to be charged.

Contact: *Colin Lindley, Director, MaineCare Finance, 287-1855*

(09-0111-02)

Title: Procedures not adequate to ensure indirect payroll costs are properly charged

Prior Year Finding: 08-56
State Department: Administrative and Financial Services
State Bureau: Health and Human Services Service Center
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0705ME5028; 05-0805ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $290,487

Likely Questioned Costs: $290,487

Criteria: Claims for federal financial participation (45 CFR §95.517); Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: Payroll costs of $290,487 charged to the Medicaid program by the Division of Licensing and Regulatory Services were not included in the Cost Allocation Plan as an allocated cost. These costs did not fulfill the cost accounting requirements of a direct cost as defined by federal regulations.

Context: The Division of Licensing and Regulatory Services is responsible for the licensure of facilities serving both Medicaid and non-Medicaid clients.

Cause: The Division of Licensing and Regulatory Services was incorrectly included in the Cost Allocation Plan as a final receiver of allocated costs rather than as an allocator of costs.

Effect: Possible disallowed costs

Recommendation: We recommend that costs incurred by the Division of Licensing and Regulatory Services be accounted for as an allocated cost within the Cost Allocation Plan and in accordance with federal cost principles.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

As of January 1, 2009, the Division of Licensing and Regulatory Services (DLRS) payroll charges were included in the state cost allocation plan. The DLRS payroll charges are required to be approved through the legislative process. There is an initiative in the current legislative *session. Once approved, the payroll charges will be correct for state fiscal years 2010 and 2011.*

Contact: *Catherine Cobb, Director, DLRS, 287-2979*

(09-1106-02)

Title: Procedures for crediting and accounting for federal share of overpayments not adequate

Prior Year Finding: 08-62
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: State Fiscal Administration (42 CFR Part 433); Uniform Administrative Requirements for Grants and Cooperative Agreements for State, Local, and Tribal Governments – Financial Management Systems (45 CFR §92.20)

Condition: Procedures are not adequate to ensure that the federal government has been credited for their share of audit cost settlements and Program Integrity overpayments on a timely basis. The federal share associated with 19 audit cost settlements of $615,520 was not credited to the federal government within the 60 day required timeframe. Additionally, we found that the Federal Fund was not credited for the federal share of $8.1 million in Program Integrity overpayments. Furthermore, no accounts receivable balance was established on the State accounting records for Program Integrity amounts due.

Context: We reviewed 60 audit cost settlements with overpayments to providers identified and amounts reported for Program Integrity recoupments.

Cause:

- Time consuming process to determine the correct accounts to credit the federal share of expenditures
- Lack of established procedures regarding the proper accounting for Program Integrity overpayments

Effect:
- Noncompliance with federal standards for financial management systems
- Ineffective accountability over payment recoveries
- Noncompliance with requirements mandating the timely crediting of the federal share of provider overpayments
- General fund expenditures are understated while Federal fund expenditures are overstated

Recommendation: We recommend that the Department develop procedures for crediting, on a timely basis, the federal share related to all recoupments, including Program Integrity overpayments. We further recommend that the Department record accounts receivable for all Program Integrity related overpayments.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its Service Center agree with the finding.*

As of March 1, 2010, a process has been established to record Program Integrity receivables in AdvantageME. The Finance Recovery Team has procedures in place to track and follow up on all receivables.

In addition, the above process ensures that the federal share of recoupment efforts will be credited the proper accounts in a timely manner.

Contact: *Richard Violette, Management Analyst, 287-4033*

(09-1106-03)

Title: Inadequate controls over verification of services provided

Prior Year Finding: 08-63
State Department: Health and Human Services
State Bureau: Division of Program Integrity/Division of Claims, Third Party Liability and Project Management
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Program Integrity – Basis and Scope (42 CFR §455.1(a)(2))

Condition: The Department does not have a method to verify whether services reimbursed by Medicaid were actually furnished to recipients.

Context: The Department previously achieved compliance with this requirement by sending out Explanation of Medical Benefits (EOMB). The verification of recipient services via EOMBs has not been performed since the new claims processing system came online in January of 2005.

Cause: The Maine Claims Management System (MECMS) currently does not have the capability to generate EOMBs.

Effect: Providers could be reimbursed for services not actually rendered to program participants

Recommendation: We recommend that the Department develop a method to verify whether services reimbursed by Medicaid were actually furnished to program participants.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The Maine DHHS has contracted with Unisys as its fiscal agent. The implementation is expected to be complete in the second quarter of calendar year 2010. The system used by the fiscal agent has the capability to provide monthly explanation of medical benefits. The fiscal agent will issue monthly explanation of benefits beginning in the second quarter of 2010 and will continue to do so on a monthly basis thereafter.

Contact: *Marc Fecteau, Assistant Director of Program Integrity, 287-9280*

(09-1106-04)

Title: Claims processing and information retrieval system lacking required functionalities

Prior Year Finding: 08-64
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Office of Information Technology
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-0805ME5048; 05-0905ME5048

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency/Questioned costs

MEDICAID CLUSTER

Known Questioned Costs: $15,822

Likely Questioned Costs: $15,822

Criteria: State Fiscal Administration (42 CFR §433.10-§433.131). Section 11300 State Medicaid Manual

Condition: The claims processing system (MeCMS) cannot currently perform all of its required functions and objectives. Four of six required subsystems are not fully functional.

The Recipient Subsystem does not contain the data necessary to support Third Party Liability (TPL) recovery activities; however, the Claims Processing Subsystem can identify Third Party Liability and assure that Medicaid is the payor of last resort.

The Surveillance and Utilization Review (SUR) Subsystem cannot:

- Develop a comprehensive statistical profile of health care delivery and utilization patterns established by provider and recipient participants
- Use computerized exception processing techniques to perform analyses and produce reports

The Management and Administrative Reporting Subsystem has limited ability to:

- Report information to assist management in fiscal planning and control. Some reports have been created outside of the Management and Administrative Reporting System by workarounds.
- Produce program data necessary to satisfy federal Medicaid reporting requirements
- Monitor third party avoidances and collections in accordance with State plan requirements

Although some upgrades have been made, examples of Claims Processing Subsystem problems that exist include the following:

- Some claims processed through the Fund Exception Matrix are not assigned an accounting string
- Failed processing system edits and certain edits set to “ignore”
- Fund allocation failures
- Noncompliance with the current Health Insurance Portability and Accountability Act (HIPAA) claims format
- Incomplete history retention for cost of care rate assessments
- Overly complex claims adjustment process

Context: Medicaid is a $2.4 billion federally and State-funded program. MeCMS is essential to its operation. Multiple system edits in place were tested during the year to assess functionality levels and to consider whether alternative controls may exist to adequately compensate for any deficiencies found.

Cause: The Department of Health and Human Services converted to the new Medicaid Management Information System (MMIS) prematurely. The initial system breakdown can be attributed to the following:

- An inadequate system development effort
- Lack of a formal risk management process
- Lack of effective testing before going into production
- Procuring the services of a software vendor unfamiliar with the processing of medical claims

Effect: Improperly designed and implemented system controls and edit functionality creates a potential for the following

- Disallowed costs
- Non-compliance with federal regulations

Recommendation: We recommend that the Department:

- Work with the fiscal agent to implement a new MMIS with all of the required functionalities
- Continue the MeCMS stabilization efforts currently in place
- Implement the full complement of processing system cycle edits
- Obtain the required federal certification upon implementation of the new system
- Make necessary corrections to adjust for improper accounting string and cost allocation failures

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The DHHS has contracted with Unisys as its fiscal agent. The implementation is expected to be complete in the first quarter of State fiscal year 2011. The product Unisys provides is fully certified by the Centers for Medicare and Medicaid Services.

In addition, the Department will continue the MECMS stabilization efforts currently in place, the formal recovery effort to recoup overpayments and to investigate the status of each providers unprocessed and suspended claims and determine their respective overpayment amounts, if any.

The implementation of the fiscal agent will correct improper accounting strings and cost allocation failures.

***Contact*:** *Stefanie Nadeau, Director of Claims, 287- 5875.*
Marc Fecteau, Assistant Director, SURS, 287-9280

(09-1106-05)

Title: Inadequate procedures over surveillance and utilization review of Medicaid services

Prior Year Finding: 08-66
State Department: Health and Human Services
State Bureau: Division of Program Integrity
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Utilization Control (42 CFR Part 456) Subpart B; MaineCare Benefits Manual (§1.18 and §1.19)

Condition: No Medicaid Management Information System (MMIS) subsystem is in place to ensure the ongoing evaluation, on a sample basis, of the need for and the quality and timeliness of Medicaid services. The current system is not adequately designed to accomplish the post-payment review process.

Context: Federal and State Medicaid expenditures were approximately $2.4 billion in fiscal year 2009. Utilization controls are an important safeguard against the unnecessary or inappropriate use of Medicaid services.

Cause: The State's claims processing system is not fully functional and as a result is lacking a surveillance utilization review subsystem (SURS). The State is in the process of contracting with a fiscal agent to develop and operate a claims processing system.

Effect: Potential unnecessary or inappropriate use of Medicaid funds

Recommendation: We recommend that the Department:

- Ensure that a SURS subsystem is incorporated as a required core MMIS subsystem
- Develop a post-payment review process that evaluates recipient utilization and provider service profiles and identify exception criteria
- Procure specialized software to allow the Division of Program Integrity to download and convert claims data for subsequent analytical purposes

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The DHHS has contracted with Unisys as its fiscal agent. The implementation is expected to be complete in the second quarter of calendar year 2010. Included in the contract is a surveillance and utilization review component that has been fully certified by the Centers for Medicare and Medicaid Services. This component will allow for evaluation of recipient utilization, provider service profiles as well as the ability to identify exception criteria and subsequent analysis. The surveillance and utilization review component is expected to be fully operational upon implementation.

Contact: *Marc Fecteau, Assistant Director for Program Integrity, 287-9280*

(09-1106-06)

Title: Inadequate procedures to ensure proper crediting of federal share of cost of care recoupments

Prior Year Finding: 08-54
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028

Compliance Area: Allowable costs/cost principles

Type of Finding: Significant deficiency/Questioned costs

Known Questioned Costs: $71,921 (total cost of care payments received for waiver clients multiplied by the blended federal medical assistance percentage rate [$112,377 x 64%])

Likely Questioned Costs: $71,921

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: The Department did not credit the federal government with a proportionate share of Cost of Care recoupments received in relation to the Home and Community Based Services Waiver program.

Context: Waiver recipients may be responsible for paying a portion of their cost of care. These recoupments which totaled $112,377 were all credited to the General Fund.

Cause: Poor communication

Effect: Potential current and future disallowances

Recommendation: We recommend that the Department credit the federal program accounts for the appropriate share of Home and Community Based Services (HCBS) Waiver program recoupments.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

MaineCare Finance will make the adjustment to credit the federal program accounts for the appropriate share of HCBS Waiver program recoupments by March 31, 2010. Procedures have been established to record the appropriate share of future payments in the federal program accounts which went into effect March 1, 2010.

Contact: *Richard Violette, Management Analyst, 287-4033*

(09-1106-07)

Title: Inadequate procedures over Third Party Liability, cost avoidance and recovery

Prior Year Finding: 08-48
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support (OIAS)
Office of MaineCare Services (OMS)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0705ME5028; 05-0805ME5028;
05-0705ME5021; 05-0805ME5021

Compliance Area: Activities allowed or unallowed
Allowable costs/cost principles

Type of Finding: Significant deficiency

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225); Standards for Program Operations (45 CFR §303); Uniform Administrative Requirements for Grants and Cooperative Agreements to State, Local, and Tribal Governments – Standards for Financial Management Systems (45 CFR §92.20)

Condition: The Department does not fully comply with requirements to ensure Medicaid is the payor of last resort and that claims are net of all credits.

- Payments systems did not have and therefore did not use the Third Party Liability (TPL) data for three of 100 randomly selected Medicaid paid claims examined. Three instances were found in which OIAS records identified another insurer that payment system records did not; one out of the three identified appeared as though cost avoidance for the program could have occurred based on the specific claim type.
- One of 100 instances were found in which OIAS records identified another insurer that payment system records did not for CHIP paid claims examined. Another three selected CHIP paid claims that we examined were instances in which cost avoidance should have occurred. In these instances, OMS records identified group coverage that OIAS records did not. TPL information for those clients should have caused them to be excluded from CHIP participation.

Context: The Department has responsibility to secure medical support information which should be available to the TPL unit for cost avoidance and recovery efforts.

Cause:

- Insufficient OIAS and Office of Child and Family Services' policies and procedures to establish and enforce collection, recording and communication of TPL information within the Department
- The distinct separation of eligibility, payment, accounting and information technology functions within the Department impedes problem recognition and resolution

Effect: Third party liability unit efforts are impaired, resulting in Medicaid and CHIP possibly incurring avoidable costs.

Recommendation: We recommend that the Department establish and enforce policies and procedures to ensure that third party insurance information is adequately collected, recorded and communicated so that insurance information is available for reference when client eligibility is determined or redetermined. We also recommend that the Department share among its own offices more responsibility with regard to the administration of Medicaid and CHIP in the interest of cost avoidance and recovery to ensure that all data is available when claims are paid.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

Currently, the Departments Office of Integrated Access and Support (OIAS) collects TPL information for all applicants on their application form and staff is instructed to enter this information on the eligibility system's (ACES) TPL screen. This data is transferred to the TPL unit for TPL purposes. Currently there is no electronic feed that comes back to OIAS from the TPL unit once TPL information is identified. However TPL is providing a monthly list of individuals with other health insurance so that we can enter this information into ACES if it has not yet been entered.

This problem will be eliminated as the Department transitions to a Fiscal Agent in the first quarter of state fiscal year 2011. The Fiscal Agent's system will provide an electronic feed that comes back to OIAS from the TPL unit once TPL information is identified.

In addition, the Office of Integrated Access and Support will continue to educate staff of the importance of gathering TPL information at both application and annual review.

***Contact*:** *Bethany Hamm, MaineCare Program Manager, 287-4076*
Beth Ketch, Director of Operations, 287-4078

(09-1106-08)

Title: Controls not adequate to ensure provider eligibility requirements are met

Prior Year Finding: No
State Department: Health and Human Services
State Bureau: Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028

Compliance Area: Special tests and provisions

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: Required provider agreement (42 CFR §431.107); Disclosure of Information by Providers and Fiscal Agents (42 CFR §455 Subpart B)

Condition: The Department did not ensure that files contain sufficient records to determine whether providers were appropriately licensed or had provided required disclosures.

Context: Sixty providers' files were selected for review:

- Of the 49 providers required to have a provider agreement and provider enrollment form, 14 were missing provider agreements and three were missing provider enrollment forms.
- Of the 26 providers required to provide ownership disclosures, all were either missing all or parts of the required disclosures.
- Of the 49 providers required to furnish information related to certain business transactions, all were missing parts of the required disclosures.
- Of the 49 providers required to provide criminal offense disclosures, all were either missing all or parts of the required disclosures.

- Of the 49 providers required to have licenses, five licenses on file had expired and one license could not be found.

Cause:
- All of the required disclosures were not requested on provider enrollment forms and provider agreements
- Insufficient follow-up to ensure all providers had complete provider files including current licenses

Effect:
- Noncompliance with required provider documentation requirements
- Potentially ineligible providers being allowed to participate in the program

Recommendation: We recommend that the Department modify provider enrollment forms and provider agreements to meet all disclosure requirements. We further recommend that the Department ensure all documentation required for determining provider eligibility is retained in the provider's file.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

All deficiencies are addressed in the new MIHMS system. All enrollments are done on-line and information is stored in the QNXT database. All providers are required to re-enroll including a new signed Provider Agreement. Each year after re-enrolled, providers must check and validate all information, including Ownership, and new Provider Agreements will be required every 3 yrs with verification of all information concerning the provider that is stored in QNXT.

The MIHMS enrollment form requests the names and address of owners with a 5% interest in the disclosing entity, relationships between any of the 5% owners and if these owners have ownership in any other disclosing entity. Documentation of the disclosing entities attempts to obtain ownership information must be held at the disclosing entity per Title 42 CFR 455.104 (a)(3) and MaineCare Benefits Manual.

Criminal questions are asked in both the Business Questions and also under Legal information. Each person listed on the application is checked by staff against the Federal and State SURS site, and a note is written in the provider file with the findings.

Licenses are required in MIHMS, and are verified and/or stored within the database under the NPI number. An automatic e-mail message will be sent to the provider 45 days before the license is to expire, they will be able to e-mail, fax, or mail their updated license, letter for extension from Licensing, or canceled check to prove they are complying with Licensing.

All documentation will be stored within the QNXT database system and will be indexed under the Providers NPI number.

Unisys is doing the actual provider enrollment work, as of March 1, 2010, with OMS overseeing Quality Assurance. To date the majority of providers have re-enrolled, and have a new Provider Agreement.

Contact: *Beth Ketch, Social Service Program Manager, 287-4078*

(09-1106-09)

Title: Inadequate controls over pharmacy claims processing system

Prior Year Finding: No
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Office of Information Technology
Office of MaineCare Services (OMS)
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-0805ME5048; 05-0905ME5048

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency

Known Questioned Costs: Undeterminable

Likely Questioned Costs: Undeterminable

Criteria: State Fiscal Administration (42 CFR §433.10-§433.131); Section 11300 State Medicaid Manual

Condition: Pharmacy claims processing systems controls are not adequate to ensure compliance with program requirements. We noted the following:

- Manipulation of member eligibility data before transferring to Maine Point of Purchase System (MEPOPS) creates translation errors that impact processing of pharmacy claims. Most errors were due to recipient aid category misclassification. Of the 80 Medicaid and Children's Health Insurance Program (CHIP) claims tested, eight were not assigned coding that was consistent with related eligibility system information.
- Pharmacy costs for two claims were incorrectly charged to Medicaid, rather than to two State funded programs (Drugs for Maine's Elderly (DEL) and MaineRX).
- OMS does not provide adequate oversight to ensure the appropriateness of the override of rejected claims.
- Maine Maximum Allowable Cost (MMAC) prices recorded in the Maine Point of Purchase System (MEPOPS) pharmacy system are not periodically reviewed and verified. We tested 25 MMAC prices and found that documentation to support the unit

pricing was not adequate. In one case, the unit price was entered as $1.68 on August 2006 rather than $ .168. This error remained undetected until February 2008. In other cases, documentation was not adequate or not available.

- The pharmacy claims contractor has not obtained assurance that MEDISPAN price quotes are accurate.
- Business rules in place on how to accept MEPOPS data causes electronic feeds and summary reports of claim detail, provided by the pharmacy system to assist management in fiscal planning and control, not to agree with paid claim detail.

Context: MaineCare charges about $200 million federally and State-funded claims to Medicaid and CHIP each year. About 80% of pharmacy claims processed by the pharmacy claims processor are paid using a MMAC price; the remaining 20% of drug prices are provided by weekly feeds from the vendor, MEDISPAN. Pharmacy system is required to produce program data necessary to satisfy federal Medicaid reporting requirements; monitor third party avoidances and collections in accordance with State plan requirements.

Cause: The Department of Health and Human Services has relied on a contractor to have appropriate controls in place over the processing of pharmacy claims without adequate oversight. In addition, the Department does not always provide complete and accurate information to the contractor that will enable them to fulfill contractual obligations.

Effect:

- The incorrect program may be charged for pharmacy claims
- Payments may be made on behalf of ineligible individuals
- Rejected claims be erroneously approved
- MMAC priced drugs may be paid at a higher rate than necessary
- MEDISPAN priced drugs may be paid at a higher rate than necessary
- Erroneous information may be used in planning and program administration
- Noncompliance with cost avoidance requirements

Recommendation: We recommend that the Department strengthen monitoring activities of, and provide additional guidance to the pharmacy claims contractor to ensure that claims are processed in accordance with State and federal rules and regulations. Furthermore, we recommend that the Department provide complete and accurate information to the pharmacy claims contractor to enable them to appropriately fulfill contractual obligations.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services agrees with the finding.*

The Department of Health and Human Services (DHHS) has contracted with Unisys as its fiscal agent. The implementation is expected to be complete in the first quarter of State fiscal year 2011.

Once successfully implemented, data sharing between MEPOPS and the fiscal agent will eliminate current system flaws. Pharmacy claim reversals will no longer be dropped when loaded into the new DDS so that reporting of pharmacy claims internally will be accurate. With the implementation of MIHMS, ACES will be getting a direct feed from TPL for all individuals *that have other health insurance. This will help to eliminate the possibility of providing benefits to individuals who have other health insurance.*

The current Pharmacy Benefit Manager (PBM) contract is going out to bid in the first quarter of State fiscal year 2011 for an effective date of July 1, 2011.

The Request for Proposal (RFP) will include a matrix that will assist this office in reviewing the work of the PBM. The RFP will require eligibility reconciliation, a SASTO audit, monthly prior authorization review and other controls.

The Department agrees that review of the MMAC pricing has not been adequate and will implement a quarterly review process. This process will be in place by July 1, 2010.

***Contact**: Jennifer Palow, Pharmacy Manager, Office of MaineCare Services, 287-2705*

(09-1106-10)

Title: Reimbursement rate not adequately supported/incorrect reimbursement rate paid to providers

Prior Year Finding: 08-51
State Department: Health and Human Services
State Bureau: Office of MaineCare Services/Rate Setting Unit
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-0805ME5021; 05-0905ME5021

Compliance Area: Allowable costs/cost principles
Activities allowed or unallowed

Type of Finding: Questioned costs

Known Questioned Costs: $94,886 Medicaid
$ 1,732 CHIP

Likely Questioned Costs: $747,000 Medicaid
$ 20,000 CHIP

Criteria: Cost Principles for State, Local, and Indian Tribal Governments (2 CFR Part 225)

Condition: Out of state hospitals paid during fiscal year 2009 have been incorrectly paid at a 52% reimbursement rate, rather than a 50% reimbursement rate for inpatient, outpatient, and ancillary hospital services. In a test of paid claims, documentation provided for the rate paid to one hospital supported a 50% reimbursement rate, while no supporting documentation could be provided for another out of state hospital in our sample.

Context: Approximately $20 million in federal cost reimbursements were made to out of state hospitals for inpatient services. Approximately 50 out of state hospitals have been paid at a 52% reimbursement rate since late 2004. Documentation provided supports a 50% reimbursement rate rather than the 52% paid.

Cause:

- The bases for these rates were determined prior to the establishment of DHHS' Rate Setting Unit
- For unknown reasons, it appears that the incorrect reimbursement rate was loaded into Maine Claims Management System

Effect: Potential disallowed costs

Recommendation: We recommend that the Department ensure:

- That the bases for all reimbursement rates be documented, referenced to the applicable federal/State regulations, and retained for audit purposes
- That OMS and DHHS' Rate Setting Unit make the necessary system correction(s)

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

MaineCare Benefits Manual Chapter III, Section 45.08 states in part that the Department will reimburse out-of-state hospitals for inpatient and outpatient services based on

1. *The MaineCare rate if applicable;*
2. *The lowest negotiated rate with a payer whose rate the hospital provider currently accepts;*
3. *The hospital provider's in-State Medicaid rate;*
4. *A percentage of charges; or*
5. *A rate specified in MaineCare's contract with the hospital provider.*

Except as otherwise specifically provided in the agreement between MaineCare and the out-of-state hospital providers, out-of-state hospital providers must accept MaineCare reimbursement for inpatient services as payment in full for all services necessary to address the illness, injury or condition that led to the admission.

As per item number 4 above, MaineCare pays a default rate of 52% of billed charges when no agreement exists with an out of state hospital. This is supported by an email from Assistant Director Bill Perfetto to Penny Fredette dated 11/21/2002. In this email, Penny was instructed to update the out-of-state hospital rate to 52% of billed charges.

No payment agreement exists between Wentworth-Douglas Hospital and MaineCare. Therefore, claims are reimbursed at 52% of billed charges, as indicated in the audit finding. We assert that the payment to Wentworth-Douglas was correct.

In response to the payment of 52% to Tufts Medical Center, an agreement is in place between MaineCare and Tufts which set reimbursement at 50% of billed charges. Through an error in our MMIS, the rate to Tufts was incorrectly set at 52% of billed charges. This resulted in an overpayment of 2% of billed charges to Tufts Medical Center.

In addition, MaineCare has now negotiated contracts at lower reimbursement rates with out-of-state hospitals in New Hampshire and larger hospitals in Massachusetts.

We are currently in the process of correcting the reimbursement rate in our MMIS system to fix this on an ongoing basis.

Contact**:** *Stefanie Nadeau, Director, Program Management, 287-5875*

Auditor's conclusion: We considered the additional documentation provided by DHHS and determined that the finding and recommendation remain as stated.

(09-1106-13)

Title: Inadequate controls over prompt payment requirements

Prior Year Finding: No
State Department: Administrative and Financial Services
Health and Human Services
State Bureau: Health and Human Services Service Center
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
CFDA #: 93.775; 93.777; 93.778
Federal Award #: 05-0805ME5028; 05-0905ME5028

Compliance Area: Activities allowed or unallowed

Type of Finding: Significant deficiency

Known Questioned Costs: Undeterminable

Likely Questioned Costs: $600,000 (agency estimate)

Criteria: American Recovery and Reinvestment Act of 2009 section 5001(f)(2); Technical guidance provided by Centers for Medicare and Medicaid Services (CMS)

Condition:

- The population of claims used to determine whether prompt payment requirements were met incorrectly included Children's Health Insurance Program's (CHIP) claims as well as other non-Medicaid claims.

- The Department of Health and Human Services did not return American Recovery and Reinvestment Act (ARRA) funds after recognizing one day's noncompliance with prompt payment requirements.

Context:

- For determining compliance with the prompt payment provisions under ARRA only Medicaid claims are to be considered in determining the requirement to pay 90% of claims within 30 days and 99% of claims within 90 days. Per CMS guidance issued July 30, 2009, "Although a State may use the same system to process non-title XIX claims…such claims would not be counted in determining compliance with ARRA provisions."
- The prompt payment report generated by the Office of MaineCare Services recognized on June 29, 2009 that the agency did not meet the requirement to pay 99% of claims in 90 days. Therefore, none of claims received on June 29, 2009 are eligible to be reimbursed at the ARRA enhanced Federal Medical Assistance Percentages (FMAP) rate.

Cause:

- Maine processes claims for multiple state and federal programs. The program under which a particular claim is paid is not readily determinable without obtaining accounting information.
- DHHS did not follow the Prompt Payment Implementation Guidance provided by CMS.

Effect:

- The inclusion of non-Medicaid claims in the agency's self-determination of compliance causes the results to be inaccurate and unreliable
- Potential disallowance of $600,000 of enhanced ARRA funding for days of noncompliance

Recommendation: We recommend that the Department redesign programming code to exclude CHIP and other non-Medicaid claims from the calculations used to determine compliance with prompt payment requirements. We further recommend that the Department reevaluate prompt payment compliance after programming changes are implemented.

Management's Response/Corrective Action Plan: *The Department of Health and Human Services and its' Service Center agree with the finding as it addresses the exclusion of Children's Health Insurance Program (CHIP) and other non-Medicaid claims from the calculation used to determine compliance with prompt payment requirements. However, we disagree that the Department return American Recovery and Reinvestment Act (ARRA) funds.*

As of the fourth quarter of State Fiscal Year 2010, Service center personnel will redesign programming code to exclude CHIP and other non-Medicaid claims from the calculations used to determine compliance with prompt payment requirements.

We believe that there will be no disallowance of ARRA funding, because the Center for Medicare and Medicaid Services has not verified the proper calculation to use for this determination.

Contact*: *Colin Lindley, Director MaineCare Finance, 287-1855

Auditor's Conclusion: The enhanced FMAP rate is only available if prompt pay provisions are met; we believe questioning the costs is appropriate. Whether the costs are ultimately disallowed will be determined during the audit resolution process. Our finding and recommendation remain as stated.

(09-1106-14)

Title: Procedures not adequate to ensure proper client eligibility

Prior Year Finding: 08-57
State Department: Health and Human Services
State Bureau: Office of Integrated Access and Support
Office of MaineCare Services
Federal Agency: U.S. Department of Health and Human Services
CFDA Title: Medicaid Cluster
Children's Health Insurance Program (CHIP)
CFDA #: 93.775; 93.777; 93.778; 93.767
Federal Award #: 05-0805ME5028; 05-0905ME5028;
05-0805ME5021; 05-0905ME5021

Compliance Areas: Eligibility

Type of Finding: Significant deficiency

Known Questioned Costs: None (Medicaid)
Undeterminable (CHIP)

Likely Questioned Costs: None (Medicaid)
Undeterminable (CHIP)

Criteria: MaineCare Eligibility Manual; Single State Agency (42 CFR §431.10); Social Security Act (42 USC 1320b-7(d); Written Application (42 CFR §435.907); Case Documentation (42 CFR §435.913); Use of Social Security Number (42 CFR §435.910(g); Verification of SSNs (42 CFR §435.920); Periodic Redeterminations of Medicaid Eligibility (42 CFR §435.916); State Plan for Medicaid and State Plan for CHIP

Condition: The Department does not have adequate internal controls in place for the Medicaid and CHIP programs to determine individual eligibility, to maintain records relevant to making eligibility determinations, or to charge the appropriate program for the associated costs of eligible individuals.

Context: In a sample of 60 Medicaid clients, we noted the following exceptions:

- A required 12 month re-certification of client eligibility was not performed for one client.

- One transitional Medicaid client, whose household income exceeded the relevant federal poverty threshold at the required review interval, was not appropriately deemed ineligible for the second six months of their transitional status.
- One newborn Medicaid clients' eligibility status was not established until nine months after date of birth. Had an eligibility re-determination been conducted as required, the child would have been deemed eligible for CubCare and not Medicaid.

In a sample 60 CHIP clients, we noted the following exceptions:

- One client deemed eligible for Medicaid Expansion should have instead been placed in transitional Medicaid.
- One CubCare client had no income and therefore should have been deemed eligible for Medicaid and not CHIP.
- One Medicaid Expansion client whose case was closed in the Automated Client Eligibility System (ACES) in August of 2007 was never closed in WELFRE and the claims processing system until September of 2008.

Costs will not be questioned on behalf of the Medicaid program as only eligibility testing by the Medicaid Quality Control Unit can result in disallowance of costs by the federal oversight agency.

Cause:

- The administration of multiple federal and State programs under the umbrella of the MaineCare program does not always foster a clear and readily determinable delineation regarding the categorization of eligible clients for specific federal or State funded benefits.
- The distinct segregation of eligibility, payment, accounting and information technology functions within the same Department creates a division of responsibility which impedes problem recognition and resolution. DHHS uses three interconnected automated systems to determine client eligibility and assign client claims to the appropriate program for payment. Two DHHS offices, the Office of Integrated Access and Support and the Office of MaineCare Services along with Department of Administrative and Financial Services' Office of Information Technology and an outside contractor are responsible for various aspects of the client eligibility determination and associated claims payment processes.
- Complex methods and criteria are used to determine eligibility
- Possible programming logic errors in the Automated Client Eligibility System (ACES)

Effect:

- Costs may be charged to an incorrect State or federal program
- Costs paid on behalf of ineligible individuals reduce funds available for eligible individuals
- Eligibility errors may result in noncompliance with federal regulations
- Current and possible future questioned costs

Recommendation: We recommend that the Department:

- Strengthen procedures to ensure that Medicaid and CHIP client eligibility determinations are appropriately established on the relevant information systems
- Conduct client eligibility re-determinations, as required
- Investigate any suspected programming logic errors on behalf of all eligibility information system activity

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

The Office of Integrated Access and Support (OIAS) administers a multiple of Federal and State programs under the umbrella of MaineCare. The purpose of such is to provide a seamless opportunity for the public of this State to gain access to healthcare.

Eligibility methods and criteria are based on Federal and State regulations OIAS is expected to implement. OIAS does not have control over simplifying the criteria and as a result, the methods. The Automated Client Eligibility System (ACES) assists in correctly administering the required complex criteria.

The Office of MaineCare Services (OMS) expects to implement a new payment system in the first quarter of State fiscal year 2011. A coordinated effort by OIAS and the OMS, Office of Information Technology (OIT) and the fiscal agent is being made to insure correct and timely information be transferred between the ACES eligibility system and the new payment system. In addition, WELFRE will no longer be the conduit to transfer information between ACES and the new payment system. OIAS believes this will significantly improve the transmission of client eligibility with relevant information to draw correct funding. OIAS also believes the work being done to coordinate eligibility with the new payment system is identifying program logic errors that are being resolved with the implementation of the new payment system.

OIAS does conduct eligibility determinations as required under Federal regulations. The single case referred to in these findings is an isolated incident.

OIAS has a process in place to identify, assess, and correct program logic errors in its eligibility system. The process is managed by the Management Information Systems Unit assigned to OIAS.

***Contact*:** *Beth Hamm, Director, Policy and Procedures, 287-4076*

Please see the following findings for other issues related to this program.

(09-1111-01) ***page E-27***

(09-1140-02) ***page E-90***

(09-1140-03) ***page E-91***

(09-1140-04) ***page E-93***

DISASTER GRANTS – PUBLIC ASSISTANCE (PRESIDENTIALLY DECLARED DISASTERS)

(09-1502-01)

Title: Lack of procedures to ensure compliance with subrecipient monitoring requirements

Prior Year Finding: 08-72
State Department: Defense, Veterans, and Emergency Management
State Bureau: Maine Emergency Management Agency
Federal Agency: U.S. Department of Homeland Security
CFDA Title: Disaster Grants- Public Assistance (Presidentially Declared Disasters)
CFDA #: 97.036
Federal Award #: FEMA1591DRME; FEMA1644DRME; FEMA1693DRME; FEMA1716DRME; FEMA1755DRME; FEMA1788DRME; FEMA1815DRME

Compliance Area: Subrecipient monitoring

Type of Finding: Significant deficiency

Known Questioned Costs: None

Likely Questioned Costs: None

Criteria: OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, §__.235(c) and §__.400(d)

Condition: Subrecipient audit reports were not obtained by the Maine Emergency Management Agency (MEMA) in accordance with federal regulations.

Context: Of 40 subrecipients reviewed, only two submitted the required audit report or proof that the audit was not required.

Cause: Sufficient procedures were not in place to ensure that subrecipients submit audit reports

Effect: Audit findings associated with this grant identified in a subrecipient's audit report would not be resolved.

Recommendation: We recommend that the Department continue with the procedures put into place as of August 2008, to ensure that subrecipient Single Audit reports are submitted within the nine month timeframe required by federal regulations. In addition, the audit reports should be reviewed by MEMA staff for adequacy and resolution of any audit findings.

Management's Response/Corrective Action Plan: *MEMA concurs with the finding and recommendation.*

We began the process of soliciting Single Audit reports in September 2008 following our last audit. Since then, we have been receiving, reviewing and tracking all entities that received *federal funds from MEMA. We have developed an internal spreadsheet to track those entities that are required to submit a report. We perform due diligence by sending reminders, reviewing Town websites, and following up with phone calls when a report is not received by our agency and we believe we should have one. We have not changed our policy since September 2008 and continue to follow this procedure to the best of our ability.*

Contact: *Ginnie Ricker, Deputy Director, 624-4471*

STATE OF MAINE
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

Agency Legend

DAFS	Department of Administrative and Financial Services
DHHS	Department of Health and Human Services
DECD	Department of Economic and Community Development
DEP	Department of Environmental Protection
DOA	Department of Agriculture
DOE	Department of Education
DOL	Department of Labor
DOT	Department of Transportation
DVEM	Department of Defense, Veterans and Emergency Management

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2009

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
04-55	93.778	DHHS	Unallowable case management claim payments	$7,462	Awaiting final federal interpretation of requirements	Finding was not repeated
05-55	93.775, 93.777, 93.778	DHHS	Inadequate procedures to identify allowable targeted case management services; and non-compliance with allowable cost requirements	$6,528	Awaiting final federal interpretation of requirements	Finding was not repeated
06-07	Various	DAFS	Inadequate controls to ensure compliance with cost allocation principles; and non-compliance with allowable costs requirements	Not determinable	Corrective action not completed in FY09	See 09-1128-01 & 09-1103-01 No further action warranted per OMB A-133 §315(b)(4)
06-08	Various	DAFS	Inadequate controls to ensure compliance with cost allocation principles; and non-compliance with allowable costs requirements	$2,129,301	Corrective action not completed in FY09	See 09-1128-01 & 09-1103-01 No further action warranted per OMB A-133 §315(b)(4)
06-10	Various	DAFS	Inadequate controls to ensure compliance with matching requirements; and non-compliance	Not determinable	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-15	10.558	DHHS	Inadequate controls to ensure sponsoring organizations' compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2009

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
06-16	10.558	DHHS	Inadequate controls to ensure accurate FNS-44 reports; and non-compliance	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-20	20.205	DOT	Inadequate controls to ensure compliance with Davis-Bacon requirements; and non-compliance	None	Corrective action not completed in FY09	See 09-1401-01 No further action warranted per OMB A-133 §315(b)(4)
06-23	Various	DAFS	Inadequate controls to ensure compliance with subrecipient cash management requirements; and non-compliance	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-26	84.126	DOL	Inadequate controls to ensure compliance with allowable costs requirements; and non-compliance	None	Corrective action not completed in FY09	See 09-1308-02 No further action warranted per OMB A-133 §315(b)(4)
06-28	84.126	DOL	Inadequate controls to ensure timely eligibility determinations	None	Corrective action not completed in FY09	See 09-1308-01 No further action warranted per OMB A-133 §315(b)(4)
06-29	84.126	DAFS	Inadequate controls to ensure compliance with program income requirements	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2009

Finding Number	**CFDA Number**	**State Agency**	**Description**	**Questioned Costs**	**FY09 Status (Refer to auditee's complete corrective action plan)**	**FY09 Repeat Finding**
06-33	93.044, 93.045, 93.053	DHHS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-34	93.044, 93.045, 93.053	DHHS	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-40	93.283	DHHS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	Not determinable	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-43	Various	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Management Letter comment issued for FY09	No further action warranted per OMB A-133 §315(b)(4)
06-45	93.558	DAFS	Inadequate controls to ensure accurate reporting of grant expenditures and transfers; and non-compliance	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-46	93.563	DAFS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	None	Corrective action not completed in FY09	See 09-1128-01 & 09-1103-01 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2009

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
06-48	93.563	DHHS	Inadequate controls to ensure timely actions on case records; and non-compliance	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-51	93.658, 93.659	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY09	See 09-1109-07 & 09-1110-03 No further action warranted per OMB A-133 §315(b)(4)
06-52	93.658, 93.659	DHHS	Inadequate controls to ensure compliance with suspension and debarment requirements; and non-compliance	None	Management Letter comment issued for FY09	No further action warranted per OMB A-133 §315(b)(4)
06-53	93.658, 93.659	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	$22,602	Corrective action not completed in FY09	See 09-1109-05 & 09-1110-02 No further action warranted per OMB A-133 §315(b)(4)
06-60	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure case management costs are allowable; and non-compliance	$27,870	Awaiting final federal interpretation of requirements	Finding was not repeated
06-65	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with information system security requirements; and non-compliance	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2009

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
06-66	93.775, 93.777, 93.778, 93.767	DAFS and DHHS	Inadequate controls to ensure compliance with eligibility requirements; and non-compliance	$5,111	Corrective action not completed in FY09	See 09-1106-14 No further action warranted per OMB A-133 §315(b)(4)
06-67	93.775, 93.777, 93.778	DHHS	Cost of Care not deducted from payments to nursing home providers	$117	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-68	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure costs are allowable; and non-compliance	$23	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-73	93.775, 93.777, 93.778	DAFS and DHHS	Inadequate controls to ensure accurate client case counts, which are used for allocating costs	None	Management Letter comment issued for FY09	No further action warranted per OMB A-133 §315(b)(4)
06-77	93.775, 93.777, 93.778	DHHS	HCBS Waiver report data cannot be verified	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-80	93.775, 93.777, 93.778, 93.767	DHHS	Controls do not ensure adequate program integrity, surveillance, and review	None	Corrective action not completed in FY09	See 09-1106-05 No further action warranted per OMB A-133 §315(b)(4)

State of Maine
Summary Schedule of Prior Audit Findings
For Years Prior to Fiscal Year 2009

Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
06-81	93.775, 93.777, 93.778	DAFS and DHHS	Claims processing and information retrieval system deficient	None	Corrective Action not completed in FY09	See 09-1106-04 No further action warranted per OMB A-133 §315(b)(4)
06-82	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with information system security requirements	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-83	93.775, 93.777, 93.778	DHHS	Inadequate controls to ensure compliance with automated data processing requirements; and non-compliance	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-86	93.889	DHHS	Inadequate controls to ensure compliance with allowable costs principles; and non-compliance	Not determinable	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-87	93.889	DAFS	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-88	93.889	DAFS	Inadequate controls to ensure compliance with period of availability requirements; and non-compliance	$1,901,456	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
06-89	93.889	DAFS	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-91	97.004, 97.067	DVEM	Payroll certifications not obtained	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-92	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with cash management requirements; and non-compliance	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-93	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with earmarking requirements; and non-compliance	$671,000	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-94	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with period of availability requirements; and non-compliance	$121,303	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-96	97.004, 97.067	DVEM	Inadequate controls to ensure accurate reporting; and non-compliance	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-97	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
06-98	97.036	DVEM	Inadequate controls to ensure compliance with subrecipient monitoring requirements; and non-compliance	None	Corrective action not completed in FY09	No further action warranted per OMB A-133 §315(b)(4)
06-100	Various	DAFS	Inadequate support for Federal Cash Transaction Report	None	Corrective action taken in FY09	No further action warranted per OMB A-133 §315(b)(4)
07-15	10.558	DAFS	Inadequate internal controls over and non-compliance with cash management requirements	None	Corrective action taken in FY09	Finding was not repeated
07-16	10.558	DHHS	Subrecipient cash management requirements not followed	None	Corrective action not completed in FY09	Finding was not repeated
07-17	17.268	DAFS and DECD	Allowable costs requirements not followed	None	Finding no longer applies	Finding was not repeated
07-18	17.268	DAFS and DECD	Reporting requirements not followed	None	Finding no longer applies	Finding was not repeated
07-19	17.268	DECD	Federal cash management requirements not followed	None	Finding no longer applies	Finding was not repeated
07-20	17.268	DECD	Suspension and debarment requirements not followed	None	Finding no longer applies	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
07-21	17.268	DECD	Subrecipient monitoring requirements not followed	None	Finding no longer applies	Finding was not repeated
07-23	20.205	DOT	Davis-Bacon requirements not followed	None	Corrective action not completed in FY09	09-1401-01
07-27	84.010, 84.027, 84.173	DAFS and DOE	Subrecipient cash management requirements not followed	None	Corrective action not completed in FY09	Finding was not repeated
07-30	84.126	DOL	Client service payments not adequately monitored	None	Corrective action not completed in FY09	09-1308-02
07-31	84.126	DOL	The timeliness of eligibility decisions needs to be improved	None	Corrective action not completed in FY09	09-1308-01
07-32	84.126	DOL	State and federal procurement procedures are not being followed	None	Corrective action taken in FY09	Finding was not repeated
07-38	93.283	DHHS	Payroll costs not adequately supported	Not determinable	Corrective action not completed in FY09	Finding was not repeated
07-39	93.558	DAFS	Excessive computer costs charged	$303,000	Corrective action taken in FY09	Finding was not repeated
07-40	93.558	DAFS	Report revisions not filed	None	Corrective action not completed in FY09	09-1111-04
07-41	93.558	DHHS	Excessive benefits paid to TANF clients	$729	Corrective action not completed in FY09	09-1111-02

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
07-42	93.558	DHHS	Eligibility determinations not adequately supported	None	Corrective action not completed in FY09	09-1111-03
07-45	93.563	DAFS	Child Support Enforcement grant overdrawn	$1,888,000	Corrective action taken in FY09	Finding was not repeated
07-48	93.563	DHHS	Untimely case record establishment	None	Corrective action taken in FY09	Finding was not repeated
07-53	93.658, 93.659	DAFS	Title IV-E cost allocation plan not followed	$270,345	Corrective action taken in FY09	Finding was not repeated
07-54	93.658, 93.659	DAFS	Federal cash management requirements not followed	None	Corrective action not completed in FY09	09-1109-07 09-1110-03
07-55	93.658, 93.659	DAFS	Inadequate matching procedures	None	Corrective action taken in FY09	Finding was not repeated
07-56	93.658, 93.659	DAFS	Inaccurate financial reports	None	Corrective action not completed in FY09	09-1109-05 09-1110-02
07-57	93.658, 93.659	DHHS	Lack of internal controls to ensure payments are not made to suspended or debarred parties	None	Management Letter comment issued for FY09	Finding was not repeated
07-58	93.659	DHHS	Unintentional changes in eligibility status	None	Corrective action taken in FY09	Finding was not repeated
07-61	93.767	DHHS	Budgetary controls involving payments to certified seed providers are not effective	$18,523	Corrective action not completed in FY09	09-1140-01

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
07-62	93.775, 93.777, 93.778	DAFS	Cost of Care payments not credited to federal funds	$146,385	Corrective action not completed in FY09	09-1106-06
07-63	93.775, 93.777, 93.778	DAFS and DHHS	Cost of Care payments for nursing homes not credited to federal funds	$633	Corrective action taken in FY09	Finding was not repeated
07-64	93.775, 93.777, 93.778	DAFS and DHHS	Noncompliance with Automatic Data Processing risk analysis and system security review requirements	None	Corrective action taken in FY09	Finding was not repeated
07-65	93.775, 93.777, 93.778	DAFS and DHHS	Claims processing and information retrieval system deficient	None	Corrective action not completed in FY09	09-1106-04
07-67	93.775, 93.777, 93.778, 93.767	DHHS	Third party liability data incomplete; cost avoidance and recovery not maximized	see 07-69	Corrective action not completed in FY09	09-1106-07
07-68	93.775, 93.777, 93.778, 93.767	DAFS and DHHS	Waiver costs funded by incorrect program	$203,000	Corrective action not completed in FY09	Finding was not repeated
07-69	93.775, 93.777, 93.778, 93.767	DHHS	Eligibility determinations incorrect	$35,238 $98,427	Corrective action not completed in FY09	09-1106-14
07-72	93.775, 93.777, 93.778	DHHS	Rates paid to Medicaid providers not adequately supported	None	Corrective action not completed in FY09	09-1106-10

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
07-73	93.775, 93.777, 93.778	DHHS	Medicaid Eligibility Quality Control procedures not met	None	Corrective action taken in FY09	Finding was not repeated
07-77	93.775, 93.777, 93.778	DHHS	Inadequate surveillance and utilization review of Medicaid services	None	Corrective action not completed in FY09	09-1106-05
07-78	93.775, 93.777, 93.778	DHHS	No verification method for services furnished to recipients	None	Corrective action not completed in FY09	09-1106-03
07-79	93.775, 93.777, 93.778	DHHS	Katie Beckett waiver requirements not met	Not determinable	Corrective action taken in FY09	Finding was not repeated
07-80	93.959	DAFS	Excess cash related to audit settlements	Not determinable	Corrective action not completed in FY09	Finding was not repeated
07-81	93.959	DAFS	Financial reports not submitted	None	Corrective action taken in FY09	Finding was not repeated
07-82	96.001	DHHS	Cost principles related to personal services not followed	None	Corrective action taken in FY09	Finding was not repeated
07-83	96.001	DHHS	Noncompliance with suspension and debarment requirements	None	Corrective action taken in FY09	Finding was not repeated
07-84	97.004, 97.067	DVEM	Payroll costs are not supported in accordance with federal requirements	$57,000	Corrective action taken in FY09	Finding was not repeated
07-85	97.004, 97.067	DVEM	Inadequate controls to ensure compliance with earmarking requirements	Not determinable	Corrective action taken in FY09	Finding was not repeated
07-86	97.004, 97.067	DVEM	Program funds expended beyond period of availability	$33,870	Corrective action taken in FY09	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
07-87	97.004, 97.067	DVEM	Inaccurate financial reporting	None	Corrective action taken in FY09	Finding was not repeated
07-88	97.004, 97.067	DVEM	Subrecipient monitoring requirements not followed	None	Corrective action not completed in FY09	Finding was not repeated
07-89	Various	DOE	Subrecipient monitoring efforts not effective	None	Management Letter comment issued for FY09	Finding was not repeated
07-90	Various	DAFS	Federal cash management requirements not followed	None	Corrective action not completed in FY09	09-1200-03 09-1200-04
07-91	Various	DAFS	Cost allocation plan not followed and allocated costs not properly reported	None	Corrective action not completed in FY09	09-1128-01 09-1103-01
07-92	Various	DAFS	Cash management requirements not consistently followed	None	Management Letter comment issued for FY09	Finding was not repeated
07-94	Various	DAFS	Inadequate support for PSC-272 reports	None	Corrective action taken in FY09	Finding was not repeated
08-05	Various	DHHS	Income and Eligibility Verifications System requirements not followed	None	Corrective action not completed in FY09	09-1111-01
08-06	Various	DAFS	Noncompliance with federal cash management requirements for programs included in the Treasury-State Agreement	None	Corrective action not completed in FY09	09-1200-03

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
08-07	Various	DOE	Subrecipient audit reports not properly reviewed	None	Management Letter comment issued for FY09	Finding was not repeated
08-08	10.557	DHHS	Noncompliance with cash management requirements	None	Corrective action not completed in FY09	09-1113-03
08-09	10.557	DHHS	Grant information not provided to subrecipients	None	Corrective action not completed in FY09	09-1113-02
08-10	10.557	DHHS	Compliance investigations not prioritized by risk	None	Corrective action not completed in FY09	09-1113-04
08-11	10.558	DHHS	Subrecipient cash management requirements not followed	None	Corrective action not completed in FY09	Finding was not repeated
08-12	10.558	DAFS	State level cash management procedures need improvement	None	Corrective action taken in FY09	Finding was not repeated
08-13	14.228	DECD	Procedures over cash management need to be improved	None	Corrective action taken in FY09	Finding was not repeated
08-14	14.228	DECD	Inadequate environmental oversight and review procedures	None	Corrective action taken in FY09	Finding was not repeated
08-15	20.205	DOT	Davis-Bacon requirements not followed	None	Corrective action not completed in FY09	09-1401-01
08-16	66.605	DEP	Subrecipient cash management requirements not followed	None	Corrective action not completed in FY09	09-1520-01

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
08-17	84.010	DOE	Provision of equitable services not ensured	None	Corrective action taken in FY09	Finding was not repeated
08-18	Various	DAFS	Noncompliance with federal cash management requirements for programs not included in the Treasury-State Agreement	None	Corrective action not completed in FY09	09-1200-04
08-19	84.126	DOL	Client service payments not adequately monitored	$264	Corrective action not completed in FY09	09-1308-02
08-20	84.126	DAFS	Cash management procedures need to be improved	None	Finding no longer applies	Finding was not repeated
08-21	84.126	DOL	Eligibility decisions not timely	None	Corrective action not completed in FY09	09-1308-01
08-22	84.126	DOL	State and federal procurement procedures are not being followed	None	Corrective action taken in FY09	Finding was not repeated
08-23	84.126	DOL	Quarterly financial reports not accurate	None	Corrective action not completed in FY09	09-1308-03
08-24	84.010, 84.027, 84.173, 84.367	DAFS	Subrecipient cash management requirements not followed	None	Corrective action not completed in FY09	Finding was not repeated
08-25	93.069	DHHS	Payroll expenditures incorrectly charged to program	Not determinable	Corrective action not completed in FY09	Finding was not repeated
08-26	93.069	DHHS	Noncompliance with earmarking requirements	$474,138	Corrective action not completed in FY09	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
08-27	93.558	DHHS	Unallowable transitional Transportation benefits paid	$290,020	Corrective action not completed in FY09	09-1111-02
08-28	93.558	DHHS	Eligibility determinations are not adequately supported	None	Corrective action not completed in FY09	09-1111-03
08-29	93.558	DAFS	Inaccurate financial reporting	None	Corrective action not completed in FY09	09-1111-04
08-30	Various	DAFS	Cash management requirements not consistently followed	None	Management Letter comment issued for FY09	Finding was not repeated
08-31	Various	DAFS	Inadequate support for Federal Cash Transaction Report	None	Corrective action taken in FY09	Finding was not repeated
08-32	93.563	DAFS	Child Support Enforcement grant overdrawn	None	Corrective action taken in FY09	Finding was not repeated
08-33	93.563	DAFS	Distribution of amount of State and federal share of collections incorrect	None	Corrective action taken in FY09	Finding was not repeated
08-34	93.563	DHHS	Case records not established within required timeframe	None	Corrective action taken in FY09	Finding was not repeated
08-35	Various	DHHS	Subrecipient monitoring procedures not adequate	None	Management Letter comment issued for FY09	Finding was not repeated
08-36	93.658	DHHS	Payments made for unallowable activities	$30,092	Corrective action not completed in FY09	09-1109-04

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
08-37	93.658, 93.659	DAFS	Costs not properly charged or allocated	$200,646	Corrective action not completed in FY09	09-1109-03
08-38	93.658, 93.659	DAFS	Office of Child and Family Services' cost allocation plan contained errors	None	Corrective action not completed in FY09	09-1103-01
08-39	93.658, 93.659	DAFS	Procedures not in place to ensure cash management requirements are met	None	Corrective action not completed in FY09	09-1109-07 09-1110-03
08-40	93.658, 93.659	DAFS	Inadequate matching procedures	$16,619	Corrective action taken in FY09	Finding was not repeated
08-41	93.658	DHHS	Lack of procedures to ensure payments are not made to suspended or debarred parties	None	Management Letter comment issued for FY09	Finding was not repeated
08-42	93.658	DHHS	State and federal procurement procedures not followed	None	Corrective action not completed in FY09	09-1109-01
08-43	93.658, 93.659	DAFS	Inaccurate financial reports	None	Corrective action not completed in FY09	09-1109-05 09-1110-02
08-44	Various	DAFS	Audit cost settlement process is not adequate	None	Management Letter comment issued for FY09	Finding was not repeated
08-45	93.767	DHHS	Waiver costs funded by incorrect program	$295,909	Corrective action not completed in FY09	Finding was not repeated

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
08-46	93.767	DHHS	Maine Claims Management System (MECMS) errors may result in local match (certified seed) not being met	None	Corrective action not completed in FY09	09-1140-01
08-47	Various	DHHS and DOE	Billing service contracts not compliant with regulations	None	Corrective action not completed in FY09	09-1140-02
08-48	93.775, 93.777, 93.778, 93.767	DHHS	Third party liability data incomplete; cost avoidance and recovery not maximized	Not determinable	Corrective action not completed in FY09	09-1106-07
08-49	93.775, 93.777, 93.778, 93.767	DHHS	School Based Rehabilitation services billing and payment policy	$3,976 $13,578	Corrective action not completed in FY09	09-1140-03
08-50	93.775, 93.777, 93.778	DHHS	Cost of care not properly deducted from nursing facility claims	$2,335	Corrective action taken in FY09	Finding was not repeated
08-51	93.775, 93.777, 93.778, 93.767	DHHS	Reimbursement rate not adequately supported; inaccurate reimbursement rate paid to providers	$335,724 $28,607	Corrective action not completed in FY09	09-1106-10
08-52	93.775, 93.777, 93.778	DAFS and DHHS	Unpaid Katie Beckett premiums resulted in unallowable costs	$64,368	Finding no longer applies	Finding was not repeated
08-53	93.775, 93.777, 93.778, 93.767	DHHS	Overpayments for free standing day habilitation services	$46,149 $2,571	Corrective action taken in FY09	Finding was not repeated
08-54	93.775, 93.777, 93.778	DHHS	Cost of care recoupments not credited to federal funds	$79,309	Corrective action not completed in FY09	09-1106-06

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
08-55	93.775, 93.777, 93.778	DAFS	Payroll costs charged to Medicaid are overstated	$80,000	Corrective action not completed in FY09	09-0111-01
08-56	93.775, 93.777, 93.778	DAFS	Payroll costs not properly charged	$619,000	Corrective action not completed in FY09	09-0111-02
08-57	93.775, 93.777, 93.778, 93.767	DHHS	Incorrect client eligibility determinations	$266,342	Corrective action not completed in FY09	09-1106-14
08-58	93.775, 93.777, 93.778	DHHS	Medicaid Eligibility Quality Control procedures not met	None	Corrective action taken in FY09	Finding was not repeated
08-59	93.775, 93.777, 93.778, 93.767	DHHS	Basis for certification of public expenditures (certified seed) not supported	None	Corrective action not completed in FY09	09-1140-04
08-60	93.775, 93.777, 93.778, 93.767	DHHS	Medicaid Management Information System procedures used to determine client counts are not adequate	None	Management Letter comment issued for FY09	Finding was not repeated
08-61	93.775, 93.777, 93.778	DAFS and DHHS	Noncompliance with Automatic Data Processing risk analysis and system security review requirements	None	Corrective action taken in FY09	Finding was not repeated
08-62	93.775, 93.777, 93.778	DAFS and DHHS	Untimely crediting of federal share of audit cost settlements and Program Integrity recoupments; no accounts receivable established for Program Integrity recoupments	None	Corrective action not completed in FY09	09-1106-02

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Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
08-63	93.775, 93.777, 93.778	DHHS	Services furnished to recipients not verified	None	Corrective action not completed in FY09	09-1106-03
08-64	93.775, 93.777, 93.778	DAFS and DHHS	Claims processing and information retrieval system lacking required functionalities	None	Corrective action not completed in FY09	09-1106-04
08-65	93.775, 93.777, 93.778	DAFS and DHHS	Procedures over deposits related to Medicaid recoveries need to be improved	None	Management Letter comment issued for FY09	Finding was not repeated
08-66	93.775, 93.777, 93.778	DHHS	Inadequate surveillance and utilization review of Medicaid services	None	Corrective action not completed in FY09	09-1106-05
08-67	93.775, 93.777, 93.778	DHHS	Drug Utilization Review Board's annual report lacking required information	None	Corrective action taken in FY09	Finding was not repeated
08-68	96.001	DHHS	Cost principles related to personal services not followed	None	Corrective action taken in FY09	Finding was not repeated
08-69	96.001	DHHS	Noncompliance with suspension and debarment requirements	None	Corrective action taken in FY09	Finding was not repeated
08-70	Various	DAFS	Costs not allocated in accordance with plan	\$2,364,580 \$54,760	Corrective action not completed in FY09	09-1103-01 09-1128-01
08-71	97.036	DVEM	Cash management procedures need to be improved	None	Corrective action taken in FY09	Finding was not repeated
08-72	97.036	DVEM	Lack of procedures to ensure compliance with subrecipient monitoring requirements	None	Corrective action not completed in FY09	09-1502-01

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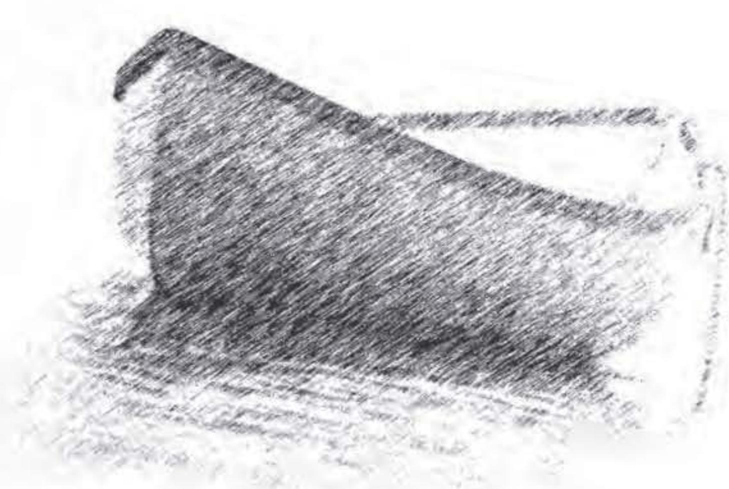
Finding Number	CFDA Number	State Agency	Description	Questioned Costs	FY09 Status (Refer to auditee's complete corrective action plan)	FY09 Repeat Finding
08-73	97.067	DVEM	Payroll costs not supported in accordance with federal regulations	Not determinable	Corrective action taken in FY09	Finding was not repeated
08-74	97.067	DVEM	Lack of procedures to ensure compliance with subrecipient monitoring requirements	None	Corrective action not completed in FY09	Finding was not repeated

Legend of State Agency Abbreviations

DAFS – Department of Administrative and Financial Services
DECD – Department of Economic and Community Development
DEP – Department of Environmental Protection
DHHS – Department of Health and Human Services
DOE – Department of Education
DOL – Department of Labor
DOT – Department of Transportation
DVEM – Defense, Veterans and Emergency Services



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